



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

MAR 13 1972



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Dear Mr. Armstrong:

The General Accounting Office has made a limited review of the administration of the loan program administered by the Bureau of Reclamation, Department of the Interior under the Small Reclamation Projects Act of 1956 (43 U.S.C. 422a), as amended. Our examination was conducted at the Bureau of Reclamation office in Sacramento, California, and the Bureau Headquarters in Washington, D.C.; and included five small reclamation loans approved since 1968.

This was a follow-up review of certain matters discussed in our prior report to the Congress entitled "Savings Available by Improving Administration of the Small Reclamation Projects Loan Program" dated August 27, 1968, B-114885.

We believe that actions taken by the Bureau to adopt the recommendations contained in our 1968 report to establish procedures for (1) allocation of costs between interest and non-interest-bearing project purposes, (2) commencement of the repayment period, and (3) allocation of construction advances to interest-bearing project functions, has resulted in significant improvements in the administration of the Small Reclamation Projects Loan Program.

We found, however, that the Bureau has not adopted our recommendation to establish procedures to ensure that the loan repayment period is adjusted when the actual cost and/or scope of projects prove to differ from that on which the loan approval was based. We continue to believe that such procedures would result in lower interest costs to the Government.

The Bureau's policy for small reclamation project loans has been to establish the shortest practical repayment period justified by the income to be derived from the project. The repayment schedule is based on anticipated income agreed upon by both the Bureau and the applicant.

In our August 1968 report, we pointed out that three loan recipients were allowed repayment periods substantially longer than warranted when the cost and/or scope of the projects varied from original estimates. Our examination showed that the earlier return

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of funds would result in savings of about \$3.2 million in interest costs to the Government. Accordingly, we recommended that procedures be established requiring that the repayment period be adjusted when the actual cost and/or scope of projects prove to differ from earlier estimates on which the loan approval was based.

Two of the five projects included in our current review had contract provisions allowing a decrease in the amount of the annual payment rather than shortening the repayment period when the construction costs are less than originally estimated. For example, the repayment provisions for the Tehachapi-Cummings County Water District states:

"In the event the total loan obligation is less than Six Million Five Hundred Thousand Dollars (\$6,500,000), each annual principal installment shall be reduced to an amount determined by multiplying each installment by the quotient derived by dividing said loan obligation by Six Million Five Hundred Thousand Dollars (\$6,500,000)."

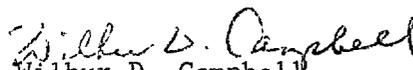
We noted a similar provision in the contract of the Buttonwillow Improvement District. Because the five projects included in our review were not completed, we were unable to determine whether there will be either a cost underrun or a change in the scope of the projects.

In our 1968 report, we discussed several projects where substantial cost underruns had occurred; hence, it is reasonable to expect some future projects to experience similar variances from estimates, and we recommend that the Bureau establish procedures which require a reduction in the repayment period rather than a reduction in the amount of the annual payment when construction costs are less than anticipated.

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We shall appreciate being advised of your views on the matters discussed in this report. If you desire, we will be glad to discuss these matters in greater detail with you or members of your staff.

Sincerely yours,


Wilbur D. Campbell
Assistant Director

The Honorable Ellis L. Armstrong
Commissioner, Bureau of Reclamation
Department of the Interior