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United States General Accounting Office 128845

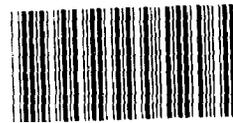
GAO

Report to the Congress

January 1986

FINANCIAL AUDIT

Saint Lawrence Seaway Financial Statements for 1984 & 1983



128845

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**Accounting and Financial
Management Division**

B-125007

January 15, 1986

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our unqualified opinion on the Saint Lawrence Seaway Development Corporation's financial statements for the years ended December 31, 1984 and 1983. Appendix I is our report on the Corporation's system of internal accounting controls, which discloses a material weakness in internal accounting controls in not providing adequate supervision and training to the Corporation's accounting personnel. Appendix II is our report on the Corporation's compliance with laws and regulations, which discloses several issues identified in the Department of Transportation's Office of Inspector General audit and investigative reports. These issues relate to inadequate justification for expenditures, exceeding statutory limitations for expenditures, and inadequate attention to contract term requirements. We made our examination pursuant to the provisions of 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

The Saint Lawrence Seaway Development Corporation is a wholly owned government corporation in the U.S. Department of Transportation. It was created to develop, operate, and maintain with Canada a seaway between Montreal and Lake Erie, chiefly by operating two locks on the Saint Lawrence River.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of Transportation, the Secretary of the Treasury, the Administrator of the Saint Lawrence Seaway Development Corporation, and the Auditor General of Canada.



Charles A. Bowsher
Comptroller General
of the United States

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Comptroller General
of the United States

B-125007

January 15, 1986

To the Administrator
Saint Lawrence Seaway Development Corporation
U.S. Department of Transportation

We have examined the statements of financial position of the Saint Lawrence Seaway Development Corporation as of December 31, 1984 and 1983, and the related statements of operations and changes in cumulative results of operations and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Saint Lawrence Seaway Development Corporation as of December 31, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



Charles A. Bowsher
Comptroller General
of the United States

August 30, 1985

Report on Internal Accounting Controls

We have examined the financial statements of the Saint Lawrence Seaway Development Corporation for the years ended December 31, 1984 and 1983. As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. That study and evaluation was limited to a preliminary review of the system to obtain an understanding of the control environment and the flow of transactions through the accounting system. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended December 31, 1984. (Our report on the system of internal accounting controls for the year ended December 31, 1983, is presented in GAO/AFMD-84-67, June 14, 1984.) For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- expenditures,
- financial reporting,
- fixed assets,
- payroll,
- revenue, and
- treasury.

Our study and evaluation was limited to a preliminary review of the system of internal accounting controls to obtain an understanding of the control environment and the flow of transactions through the accounting system. Because it was more efficient to expand substantive audit tests, our study and evaluation of the internal accounting controls did not extend beyond this preliminary review phase.

The management of the Saint Lawrence Seaway Development Corporation is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to

future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made in accordance with the standards mentioned in the first paragraph would not necessarily disclose material weaknesses in the system of internal accounting controls. Accordingly, we do not express an opinion on the system of internal accounting controls of the Saint Lawrence Seaway Development Corporation taken as a whole or on any of the categories of controls identified in the first paragraph. However, our examination disclosed the following condition that we believe to be a material weakness.

We found that adequate supervision and training were not provided to the Saint Lawrence Seaway Development Corporation's accounting personnel to ensure that transactions were properly authorized and recorded. As a result, entries were made in the general ledger without proper journal entries being prepared and authorized, journal entries were prepared without proper supporting documentation, and many adjustments were combined into single journal entries without any documentation. Also, the need for adjustments was not recognized promptly, and thus errors remained uncorrected for several months; however, they were corrected as of December 31, 1984. We found that inadequate supervision and training still exists. The Corporation agreed with this finding in August 1985.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the 1984 financial statements. We extended our audit tests sufficiently to conclude that we could express our unqualified opinion on the Corporation's 1984 financial statements.

Report on Compliance With Laws and Regulations

We have examined the financial statements of the Saint Lawrence Seaway Development Corporation for the years ended December 31, 1984 and 1983. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended December 31, 1984. (Our report on compliance with laws and regulations for the year ended December 31, 1983 is presented in GAO/AFMD-84-67, June 14, 1984.)

In our opinion, the Saint Lawrence Seaway Development Corporation complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the Corporation's financial statements.

Except for several issues identified in the Department of Transportation's Office of Inspector General audit and investigation reports, nothing came to our attention in connection with our examination that caused us to believe that the Corporation was not in compliance with the terms and provisions of laws and regulations for those transactions not tested. The issues in the Inspector General's report relate to inadequate justification for expenditures, exceeding statutory limitations for expenditures, and inadequate attention to contract term requirements. Although not material to the Corporation's 1984 financial statements, the issues reported by the Inspector General indicate that the Corporation needs to more prudently manage its resources and comply with applicable laws and regulations.

Statements of the Saint Lawrence Seaway Development Corporation

Statement of Financial Position As of December 31, 1984 and 1983

	1984	1983
ASSETS		
CURRENT ASSETS:		
Cash	\$ 2,399,624	\$ 5,882,944
Time deposits in minority banks (Note 3)	11,000,000	5,000,000
Tolls and other receivables (Note 4)	1,568,659	1,309,986
Inventories, at cost	<u>575,281</u>	<u>435,463</u>
Total current assets	<u>15,543,564</u>	<u>12,628,393</u>
PLANT, PROPERTY, AND EQUIPMENT:		
Plant in service (Note 5)	135,822,088	135,153,219
Less accumulated depreciation	<u>39,601,561</u>	<u>37,683,682</u>
Net plant in service	96,220,527	97,469,537
Work in progress	<u>126,764</u>	<u>209,318</u>
Total plant, property, and equipment	<u>96,347,291</u>	<u>97,678,855</u>
OTHER ASSETS:		
Investment in Seaway International Bridge Corporation, Ltd. (Note 6)	<u>7,440</u>	<u>7,440</u>
Total assets	<u>\$111,898,295</u>	<u>\$110,314,688</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accrued liabilities and deferred revenue (Note 7)	\$ 1,278,465	\$ 1,133,919
Total current liabilities	<u>1,278,465</u>	<u>1,133,919</u>
EQUITY OF THE U.S. GOVERNMENT		
Invested Capital (Note 8)	109,976,000	109,976,000
Cumulative results of operations	<u>643,830</u>	<u>- 795,231</u>
Total equity	<u>110,619,830</u>	<u>109,180,769</u>
Total liabilities and equity	<u>\$111,898,295</u>	<u>\$110,314,688</u>
The accompanying notes are an integral part of the statements.		

**Appendix III
Statements of the Saint Lawrence Seaway
Development Corporation**

Statement of Operations and Changes in Cumulative Results of Operations for the Calendar Years 1984 and 1983

	1984	1983
REVENUES		
Seaway tolls	\$11,922,456	\$10,939,235
Other (Net) (Note 9)	<u>916,257</u>	<u>600,417</u>
Total revenues	<u>12,838,713</u>	<u>11,539,652</u>
EXPENSES		
Operating expenses (Note 10)	9,424,544	8,589,014
Depreciation	<u>1,975,108</u>	<u>1,932,331</u>
Total expenses	<u>11,399,652</u>	<u>10,521,345</u>
Net income	1,439,061	1,018,307
Cumulative results of operations at the beginning of the year	<u>- 795,231</u>	<u>-1,813,538</u>
Cumulative results of operations at the end of the year (Note 8)	<u>\$ 643,830</u>	<u>\$ - 795,231</u>

**Appendix III
Statements of the Saint Lawrence Seaway
Development Corporation**

Statement of Changes in Financial Position for the Calendar Years 1984 and 1983

	1984	1983
CURRENT ASSETS		
Cash	\$-3,483,320	\$- 569,377
Time deposits in minority banks	6,000,000	2,680,000
Tolls and other receivables	258,673	207,842
Inventories	<u>139,818</u>	<u>30,189</u>
Total	<u>2,915,171</u>	<u>2,348,654</u>
CURRENT LIABILITIES		
Accrued liabilities and deferred revenue	<u>144,546</u>	<u>85,602</u>
Total	<u>144,546</u>	<u>85,602</u>
Increase in working capital	<u>\$2,770,625</u>	<u>\$2,263,052</u>
	1984	1983
SOURCES OF FUNDS		
Operations		
Net income for the year	\$ 1,439,061	\$ 1,018,307
Depreciation not requiring an outlay of funds	<u>1,975,108</u>	<u>1,932,331</u>
	<u>3,414,169</u>	<u>2,950,638</u>
Proceeds from property disposals	<u>18,512</u>	<u>17,114</u>
	<u>3,432,681</u>	<u>2,967,752</u>
APPLICATION OF FUNDS		
Acquisition of fixed assets	<u>662,056</u>	<u>704,700</u>
Increase in working capital	<u>\$ 2,770,625</u>	<u>\$ 2,263,052</u>
The accompanying notes are an integral part of the statements.		

**Appendix III
Statements of the Saint Lawrence Seaway
Development Corporation**

...Notes to Financial Statements

1. The Corporation — The Saint Lawrence Seaway Development Corporation is a wholly-owned government corporation within the Department of Transportation, and was created by the Wiley-Dondero Act of May 13, 1954 (68 Stat. 92, 33 U.S.C. 981) as amended. It is responsible for the development, operation (seasonal) and maintenance of the Seaway between Montreal and Lake Erie which is within the territorial limits of the United States.

2. Summary of Significant Accounting Policies

Basis of Accounting — Assets, liabilities, equity, revenues and expenses are recognized on the accrual basis of accounting following generally accepted accounting principles as applied to regulated enterprises.

Inventories — The weighted average cost method is used to determine inventory value.

Plant, Property and Equipment are stated at cost of acquisition or construction. Indirect costs incurred prior to the opening of the Seaway on April 25, 1959, have been allocated to the related permanent features of the Seaway. Assets with useful lives over one year and improvements or betterments are capitalized. Repairs and maintenance costs are expensed. The straightline method of depreciation is used and is computed on balances in plant in service. Accumulated depreciation is accounted for on a composite basis by groups of assets. The cost of plant retired, including the cost of removal, less salvage is charged against the accumulated depreciation.

Cash — To insure the Seaway Corporation's liquidity, cash has been retained to provide working capital during the non-navigation season and to meet needed expenditures, particularly large capital outlays for replacements or for maintenance which cannot be funded out of one-year revenues.

Pensions — The Seaway Corporation's employees are covered by the Civil Service Retirement and Disability Fund. Employees newly hired after January 1, 1984, are covered by both Civil Service Retirement and Social Security. Matching funds for the Retirement Fund provided by the Corporation are \$342,087 in 1984 and \$310,977 in 1983.

3. Time Deposits in Minority Banks — The Seaway Corporation maintains insured deposits in a number of minority banks throughout the United States to help expand opportunities for minority business enterprises.

4. Tolls and Other Receivables — The Seaway Corporation has not provided for an allowance on uncollectible receivables because prior losses have been insignificant and a large percent of receivables are guaranteed by a security deposit.

continued...

**Appendix III
Statements of the Saint Lawrence Seaway
Development Corporation**

5. Plant, Property and Equipment — Plant, property and equipment as of December 31, 1984 and 1983 is as follows:

Plant in Service	Estimated Service Life	1984		1983	
		Accumulated Cost	Depreciation	Accumulated Cost	Depreciation
Land in fee	—	\$ 911,026	—	\$ 911,026	—
Land rights & relocations	95 yrs.	5,639,064	\$ 1,243,296	5,639,064	\$ 1,184,086
Locks & guidewalls	40-100 yrs.	69,509,222	19,920,508	69,222,766	19,047,523
Roads & bridges	50 yrs.	8,664,801	4,426,257	8,664,801	4,252,961
Channels & canals	95 yrs.	36,534,747	7,995,301	36,534,747	7,611,686
Public use facilities	50 yrs.	670,568	272,172	670,568	258,760
Navigation aids	10-40 yrs.	2,160,134	779,477	2,087,011	716,873
Buildings, grounds & utilities	50 yrs.	5,945,029	1,458,803	5,846,781	1,339,903
Permanent operating equipment	7-40 yrs.	5,787,497	3,505,747	5,576,455	3,271,690
Total		\$135,822,088	\$39,601,561	\$135,153,219	\$37,683,682

The above plant in service includes costs of certain features of the Seaway International Bridge discussed in Note 6. These features include Land Rights and relocation costs incurred in removing the old bridges which were a hindrance to navigation and costs incurred in building the superstructure of the South Channel Bridge. The gross amounts \$3,897,379 in land rights and relocations, and \$4,853,320 in roads and bridges, have been depreciated accordingly.

6. Other Assets — Other assets consist of an investment in debenture bonds of the Seaway International Bridge Corporation, Ltd., a wholly-owned subsidiary of the St. Lawrence Seaway Authority of Canada. The annual income from the Bridge Corporation after all operating expenses, is distributed as a bridge user charge, first to the St. Lawrence Seaway Authority to offset the amortization of the cost of the North Channel Bridge together with interest, then to the Saint Lawrence Seaway Development Corporation to offset the amortization of the Racquette River Bridge, and the balance, if any, is then divided equally between both parties. Any revenues received by the U.S. Seaway Corporation is returned to the U.S. Treasury as miscellaneous receipts. No revenue from the Bridge Corporation has been received since 1961.

7. Accrued Liabilities and Deferred Revenue

Accrued liabilities and deferred revenue consisted of the following as of December 31, 1984 and 1983, respectively:

	1984	1983
Annual leave	\$ 431,736	\$ 391,644
Accounts payable	674,880	614,318
Accrued payroll	171,289	107,775
Other	560	20,182
Total	\$1,278,465	\$1,133,919

8. Equity of the U.S. Government — On December 18, 1982, Congress cancelled the outstanding revenue bonds of \$109,976,000 (P.L. 97-369,96 Stat. 1782). Prior to that date, the Seaway Corporation was required to repay the bonds to the U.S. Treasury. Other significant changes to the equity of the U.S. Government in the Seaway Corporation were as follows: The 1954 Act creating the Seaway Corporation, as amended in 1957 authorized borrowing authority of \$140,000,000 (33 U.S.C. 985). On October 21, 1970, P.L. 91-469 (84 Stat. 1038) amended 33 U.S.C. 985 by cancelling interest payments. Prior to the cancellation of the debt, it was necessary to restructure debt payment to decrease the amount scheduled for redemption 1978 through 1982 and again for 1981 through 1985.

9. Other Revenues

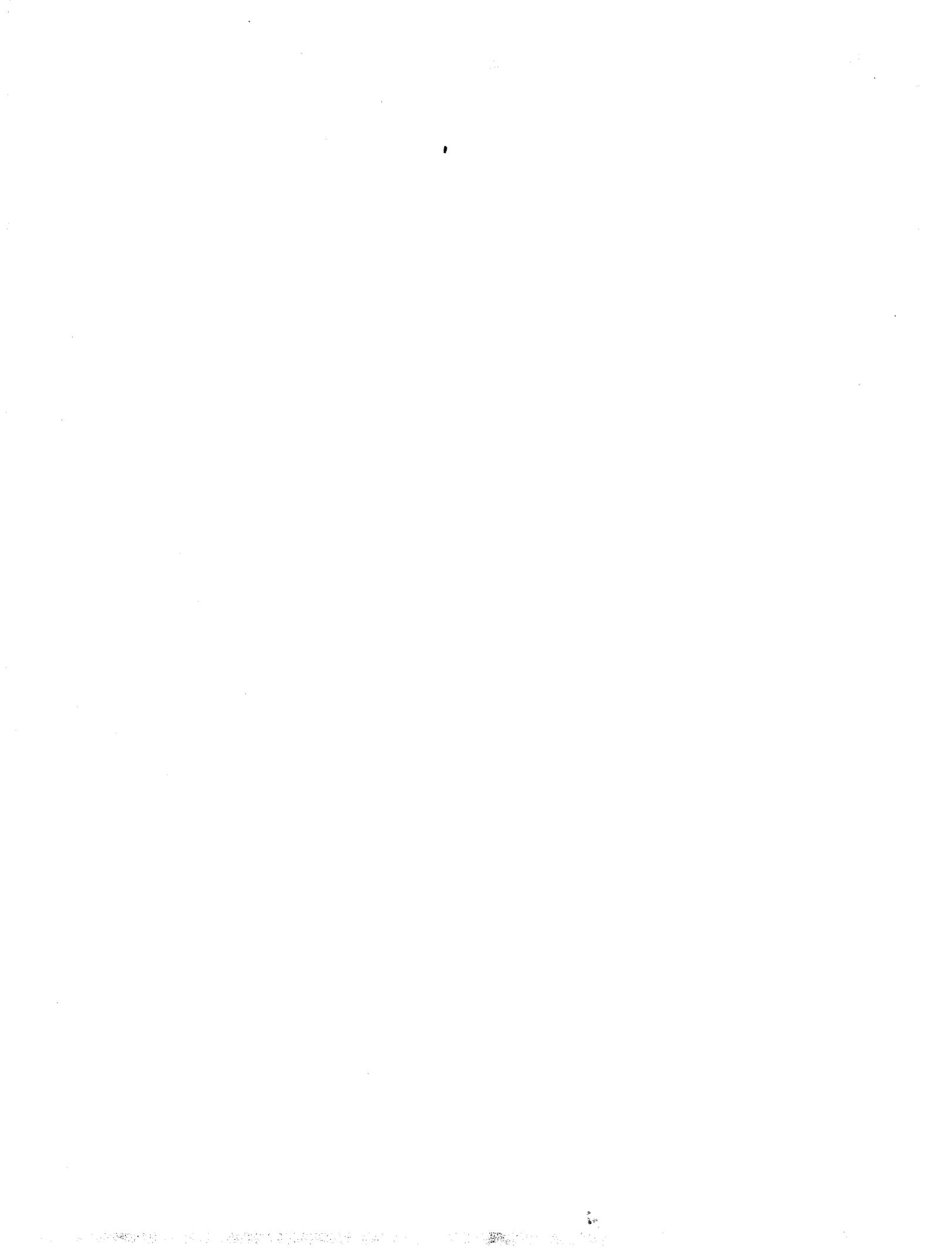
	1984	1983
Interest on deposits in minority banks	\$722,376	\$346,277
Concession operation	148,317	146,069
Miscellaneous* (Net)	45,564	108,071
	<u>\$916,257</u>	<u>\$600,417</u>

*includes shippers' payments for damages which are reported net of direct materials and direct labor costs, which in 1984 and 1983 amounted to \$11,844 and \$18,367 respectively.

10. Operating Expenses — The operating expenses of the Corporation in 1984 and 1983 were as follows:

TYPES OF EXPENSES	1984	1983
Administrative expenses	\$1,774,808	\$1,382,600
Operations		
Locks and marine	2,831,806	2,583,907
Maintenance and engineering	3,154,670	2,868,960
Operational support services	200,945	196,716
General expenses and development	1,462,315	1,556,831
	<u>\$9,424,544</u>	<u>\$8,589,014</u>

11. Contingencies and Commitments — As of December 31, 1984, there were no claims pending against the Seaway Corporation. In addition to the current liabilities at December 31, 1984 and 1983, there were undelivered orders and contracts amounting to \$594,385 and \$1,003,941 respectively. ■



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