



OFFICE OF  
**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR

# **GARRISON DIVERSION UNIT'S INTERIM COST ALLOCATION**

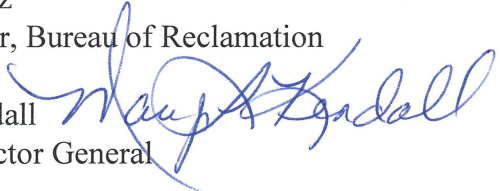


OFFICE OF  
**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR

SEP 30 2015

Memorandum

To: Estevan López  
Commissioner, Bureau of Reclamation

From: Mary L. Kendall   
Deputy Inspector General

Subject: Final Evaluation Report – Garrison Diversion Unit's Interim Cost Allocation  
Report No. WR-EV-BOR-0006-2014

This memorandum transmits our final report detailing the results of our evaluation of the U.S. Department of the Interior Bureau of Reclamation's (USBR) Garrison Diversion Unit (GDU) water project's interim cost allocation. Our objective was to determine whether project construction costs allocated to the various purposes accurately characterized current project operations. We found that the GDU's interim cost allocation was recently updated and generally reflects current use and operations, but the cost allocation does not represent the Government's share of costs to construct the project. Our report recommends USBR reevaluate the GDU and take the steps necessary to complete the project as-is. The completed project would allow for reallocation of costs and an accurate representation of the project's costs to the Government and taxpayers.

After reviewing our draft report, USBR responded to our recommendation. In its September 4, 2015 response, USBR stated that it partially concurred with our recommendation. We concluded that USBR's current actions satisfy the requisites of our recommendation. We therefore, consider our recommendation resolved but not implemented. We are referring our recommendation to the Assistant Secretary for Policy, Management and Budget to track its implementation.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.

If you have any questions regarding this memorandum or the subject report, please contact me at 202-208-5745.

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# Table of Contents

Results in Brief .....	1
Introduction.....	2
Objective .....	2
Background .....	2
Federal Government Water Projects.....	2
Allocating Multipurpose Project Costs to Beneficiaries .....	2
Repayment .....	2
The GDU Water Project .....	3
Finding .....	5
Conclusion and Recommendation .....	8
Conclusion.....	8
Recommendation and Summary of USBR's Response .....	8
Appendix 1: Scope and Methodology.....	9
Scope .....	9
Methodology .....	9
Appendix 2: Principal Facilities of the Garrison Diversion Unit .....	10
Appendix 3: Bureau Response.....	11
Appendix 4: Status of Recommendation .....	15

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## Results in Brief

The Bureau of Reclamation's (USBR) Garrison Diversion Unit (GDU) is a multipurpose water project in North Dakota that was authorized for development in 1965. The GDU was primarily authorized for irrigation, municipal and industrial water supply, fish and wildlife enhancement, recreation, and flood control. When a multipurpose water project is planned, USBR creates an initial cost allocation by estimating the total cost of the project and then allocating the estimated costs to each project purpose. For a project constructed over a longer period of time, an interim cost allocation is often created to address major changes to the project which impact the allocation of costs. A final cost allocation is created when the project is determined to be substantially complete and is the basis for assignment of costs to beneficiaries for repayment. At the outset of the GDU project, 250,000 acres were authorized for irrigation development, with the anticipation that water users would repay associated construction costs. By 2000, that acreage had been reduced to 75,480 acres.

We evaluated the GDU's May 2012 interim cost allocation to determine whether it was up-to-date and consistent with current use and found that the allocation was recently updated and generally reflects current use. It does not, however, fully represent the U.S. Government's share of construction costs because the project was not developed as originally planned. Instead, the cost allocation indicates that the Government will eventually recover more construction costs from project beneficiaries than is likely, thus understating the cost to the Government. Specifically, the water users' obligation to repay the construction costs has been reduced due to a reduction in irrigation land for development, deauthorized project features that resulted in a water supply that is not fully operational, and 61,780 acres authorized for irrigation that will likely not be developed.

The interim May 2012 cost allocation is based on the 75,480 acres authorized for irrigation development, with \$403.4 million in construction costs to be repaid by water users, leaving the Government responsible for 59 percent (\$1.2 billion) of the total project construction cost. Because the 61,780 acres will likely not be developed, \$305.3 million of \$403.4 million will not be repaid by the water users, making the Government's actual share of total project construction costs about 75 percent (\$1.5 billion) based on project completion to date.

We recommend that USBR reevaluate the project and take the steps necessary to complete the project as-is—primarily, to seek congressional deauthorization of the 61,780 acres of the undeveloped irrigation land. If implemented, this recommendation would allow for project completion as-is, a final cost allocation, and an accurate representation of the project's costs borne by the Government, and therefore, taxpayers.

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# Introduction

## Objective

The objective of our evaluation was to determine whether the Bureau of Reclamation's (USBR) Garrison Diversion Unit's (GDU) interim cost allocation accurately characterizes current project operations. See Appendix 1 for the scope and methodology of this report.

## Background

### Federal Government Water Projects

Since 1902, the U.S. Government has been involved in financing and building water projects in the West. Initially, these projects were generally small and built almost solely to provide irrigation water. The Reclamation Project Act of 1939 significantly changed the nature of water projects by allowing projects to have multiple purposes and for construction costs to be allocated to each purpose. Such purposes may include irrigation, municipal and industrial water supply, hydroelectric power generation, flood control, navigation, and other miscellaneous purposes.

### Allocating Multipurpose Project Costs to Beneficiaries

Multipurpose water projects evolved with the expectation that they would be more economically viable because USBR would use appropriated funds to construct projects and then recover some of the costs from certain project beneficiaries. When a project is authorized and designed, USBR establishes the entity responsible for repayment—either a project beneficiary or the Government—by estimating the total construction costs and allocating those costs among the project purposes based on the expected future benefits to each entity. This is referred to as an initial or interim cost allocation. Once project construction is complete and actual construction costs are determined, USBR performs a final cost allocation.

### Repayment

Hydroelectric power and municipal and industrial water users are responsible for repaying their allocated share of construction costs plus interest, whereas irrigation water users are responsible for repaying their allocated share of construction costs without interest. Irrigation water users may receive a reduction in their construction repayment obligation through financial assistance provided by power users. Construction costs allocated to other project purposes are generally paid by the Government. USBR enters into either a repayment or water service contract with the water user prior to water delivery to establish the water schedule and payment terms. Repayment contracts are permanent contracts for water delivery that establish repayment of project costs in annual fixed-dollar amounts over a period of up to 40 years. Water service contracts, however, are temporary contracts that furnish water for up a 40-year period and are generally

used when construction of the water project is incomplete, final construction costs are uncertain, or the water user does not want a permanent contract.

To illustrate the GDU project, in 1966, USBR awarded five 40-year repayment contracts to various irrigation water districts, but they were not executed, nor has repayment commenced under them, because there was no declaration of water availability for the project. According to Bureau officials, no such declaration was made because the project is incomplete and not able to deliver water as planned. Because the project is incomplete, USBR uses water service contracts (rather than repayment contracts) to collect annual water service and operation and maintenance charges for the small amount of irrigation acreage that has been developed.

### **The GDU Water Project**

In 1965, the GDU water project, located in North Dakota, was primarily authorized for irrigation, municipal and industrial water delivery, recreation, fish and wildlife enhancement, and flood control. The project is part of the Pick-Sloan Missouri Basin Program authorized by the Flood Control Act of 1944 to construct dams and reservoirs across several States. The GDU construction began in 1968. Since its authorization, the project has been the subject of significant economic, environmental, and international controversy, which delayed its development. Despite these issues, Congress continued funding the project to compensate the State for land given to the Government in development of the Pick-Sloan Missouri Basin Program. Over the years, land authorized for irrigation development (originally 250,000 acres) was reduced for various reasons such as water flow restrictions, wildlife mitigation and enhancement, environmental compliance, land acquisition, and project economics. This reduction is shown in Figure 1.

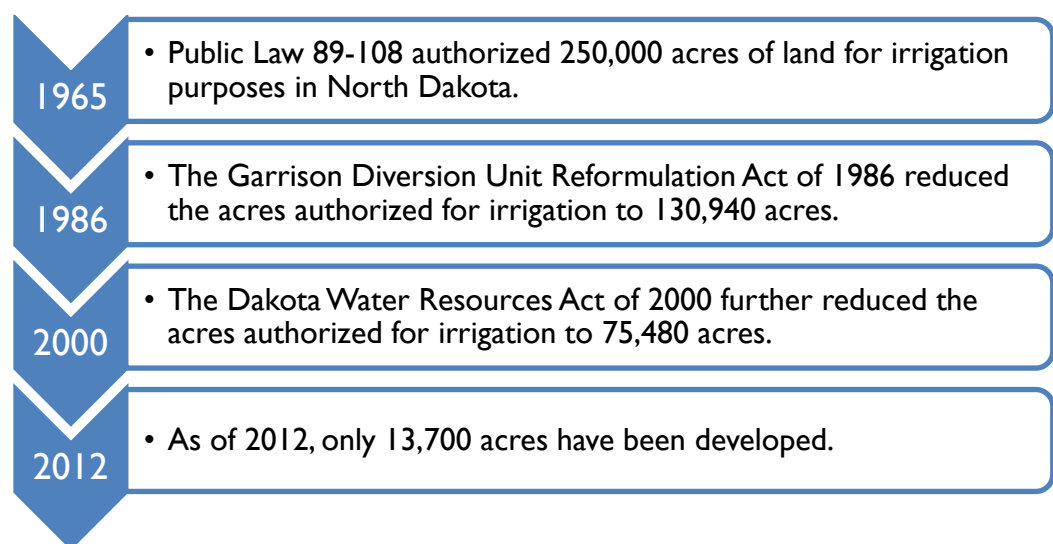


Figure 1. Timeline showing reduction of irrigation acres.

Furthermore, as of 2000, these project features were deauthorized:

- The Lonetree Dam and Reservoir expected to connect the McClusky and New Rockford Canals was deauthorized and designated a wildlife conservation area instead.
- The Sykeston Canal meant to replace the Lonetree Dam and Reservoir was subsequently deauthorized.
- The Taayer Reservoir expected to serve the Oakes Test Area was deauthorized. Instead, USBR was directed to acquire 5,000 acres in the Kraft and Pickell Slough areas for wildlife purposes.

USBR categorizes a majority of the GDU's financial status as "construction in abeyance." The Bureau's justification for doing so is the suspension of construction on the principal project features, the unlikelihood that project features will deliver benefits to all purposes within 3 years, and the uncertainty remaining regarding the repayment of costs. The "construction in abeyance" account is used to report costs associated with projects or project features that have been indefinitely suspended or terminated, but have not been deauthorized by Congress. If and when projects or project features are deauthorized by Congress, the associated costs are removed from "construction in abeyance" and written off in accordance with USBR policy.<sup>1</sup>

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<sup>1</sup> Reclamation Manual, Directives and Standards, titled "Plant Accounting – Construction in Abeyance" (FIN 07-26).

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## Finding

USBR's interim cost allocation for the GDU, while updated in May 2012 and generally reflective of current project use, does not fully represent the Government's share of costs to construct the project. Instead, the cost allocation indicates that the Government will eventually recover more construction costs from project beneficiaries than is likely, thus understating the cost to the Government. The cost allocation shows that the Government's share of total project construction costs is about 59 percent (\$1.2 billion) based on project completion. Because no further project development is planned, however, the Government's actual share of total project construction costs is about 75 percent (or \$1.5 billion). The cost allocation is not fully representative of the Government's total share of costs because the project, incomplete 50 years after its inception, was not developed as originally planned:

- The amount of land to be developed for irrigation has been greatly reduced, reducing the water users' repayment obligation;
- Specific project features have been deauthorized, resulting in a water project that is not fully operational; and
- The remaining irrigation lands authorized for development will not likely be developed, resulting in an unclear representation as to who is responsible for those costs allocated to them.

Congress deauthorized project lands available for irrigation development and specific project features due to various economic and environmental issues that plagued the project over the years, leaving the project with substantially less irrigation development than originally intended. By 2000, Congress had reduced the initial 250,000 acres authorized in 1965 to 75,480 acres. As of 2012, only 13,700 acres of the 75,480 acres had been developed for irrigation purposes. The result of this is that of the \$1.95 billion in total project construction costs since 1965, the irrigation water users' current allocated share is about \$403.4 million, of which they have paid about \$2.8 million, resulting in a project that is not economically viable and leaving the Government with a significant amount of project costs.

In addition, the deauthorization of specific project features has resulted in a disconnected water project that is not fully operational. For example, the Lonetree Dam and Reservoir was supposed to transport water between the 74-mile McClusky Canal and 41-mile New Rockford Canal to provide water to the eastern portion of the project. The Lonetree Dam and Reservoir, however, was deauthorized and became a wildlife conservation area instead. Because of this deauthorization, the New Rockford Canal is now unable to transport water and is commonly referred to by some USBR officials as the canal that "begins nowhere and ends nowhere." Today, the project primarily consists of a dam and reservoir, pumping plant, and two canals, as shown in Figure 2. See Appendix 2 for a brief



description of these facilities. According to Bureau officials, as of 2012, a total amount of about \$223.5 million in project construction costs had been written off as a loss due to deauthorization.<sup>2</sup>

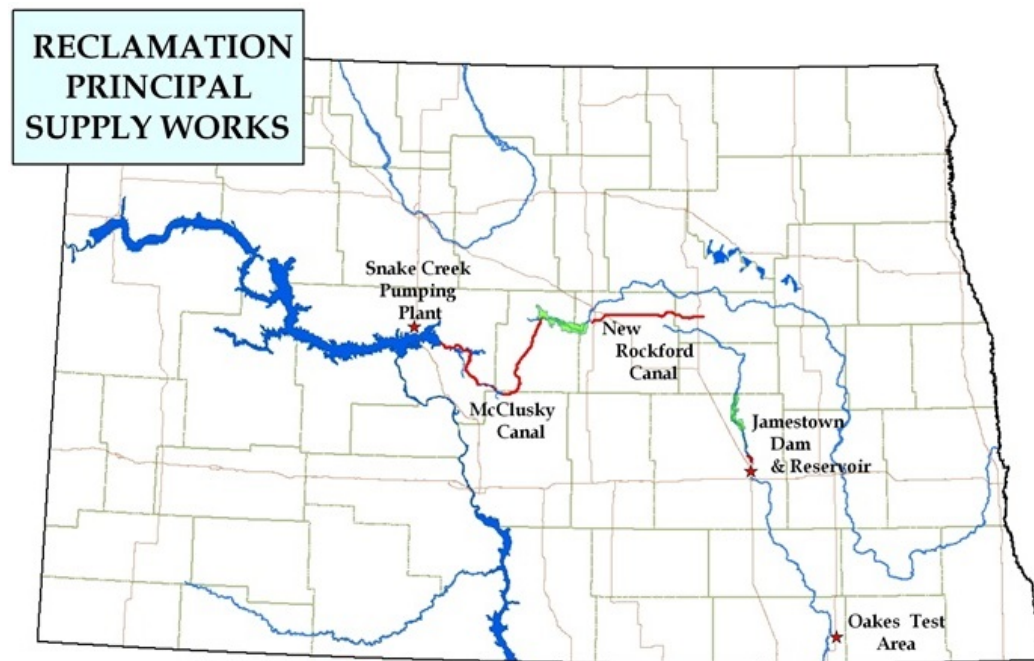


Figure 2. Map showing the GDU's principal supply facilities. The unlabeled green marker between the McClusky Canal and New Rockford Canal shows where the Lonetree Dam and Reservoir was supposed to connect them. Source: USBR.

In addition to the GDU losing certain irrigation lands due to deauthorization, about 82 percent of authorized irrigation lands are undeveloped (61,780 acres) and will likely remain so. The interim cost allocation, dated May 2012, assigns at least \$305.3 million in project construction costs to the undeveloped irrigation acreage, indicating these costs will be repaid by irrigation water users in the future when the land is developed and they are using the water, rather than remain the responsibility of the Government. The water users are unlikely to be responsible for these construction costs, however, as no further irrigation development is anticipated for this project. The assigned share of construction costs (\$305.3 million) is part of the \$403.4 million that the current cost allocation assigns to irrigation water users for repayment.

As a result, the current cost allocation and accounting records do not depict the Government's share of costs to construct this project. For USBR to take the steps necessary to complete the project as-is and accurately portray the costs to the Government, Congress needs to deauthorize the undeveloped irrigation acreage. Once the acreage is deauthorized, USBR could follow its policy to remove the

<sup>2</sup> The cost allocation categorizes these costs as deauthorized irrigation acreage (\$26.4 million), deauthorized project features (\$71.6 million), unused completed project features (\$112.3 million), and interest during construction (\$13.2 million).

associated costs from “construction in abeyance” and write them off as a loss. In doing so, the cost allocation and accounting records would accurately reflect that the Government’s share of total project construction costs is about 75 percent (\$1.5 billion) if there is no further project development.

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# Conclusion and Recommendation

## Conclusion

Although the GDU's cost allocation was recently updated and generally reflects current use, we found that it does not fully represent the Government's share of costs to construct the project. The allocation does not reflect the Government's share because it is based on a plan to develop 61,780 acres for irrigation with at least \$305.3 million in assigned project construction costs to be repaid by water users. Based on this plan, the current allocation indicates that the Government's share of the total construction costs is 59 percent (\$1.2 billion). With no current plans to develop the remaining acreage, the Government's actual share is 75 percent (\$1.5 billion).

USBR cannot update and finalize the cost allocation until Congress deauthorizes the undeveloped land. When USBR takes the steps necessary to consider the GDU complete and Congress deauthorizes the undeveloped irrigation land, responsibility for costs would be made clear, creating a more accurate account of what this project has cost the Government.

## Recommendation and Summary of USBR's Response

We recommend that USBR reevaluate the project and take the steps necessary to consider the project complete as-is, which include:

- Seeking deauthorization of the undeveloped irrigation acreage from Congress; and
- Adjusting the Government's investment to recognize a loss of the estimated \$305.3 million shown in the 2012 cost allocation.

In its September 4, 2015, response to our draft report, USBR stated that they partially concurred with our recommendation (see Appendix 3). We concluded that USBR's current actions satisfy the requisites of our recommendation. We therefore, consider this recommendation resolved, but not implemented and will refer it to the Assistant Secretary for Policy, Management and Budget for implementation tracking. See Appendix 4 for a current status of the recommendation.

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# Appendix I: Scope and Methodology

## Scope

We evaluated the accuracy of the Garrison Diversion Unit's (GDU) interim cost allocation. Specifically, we reviewed project construction costs allocated to the various purposes, focusing on whether they accurately characterized current project operations and whether they were reasonable regarding how costs were identified and assigned to the various project purposes. We did not verify the costs used or assigned to each of the authorized purposes of the project based on benefits derived in the allocation. We conducted our evaluation from July 23, 2014, to January 27, 2015.

We conducted our evaluation in accordance with the Quality Standards for Inspection and Evaluation as put forth by the Council of the Inspectors General on Integrity and Efficiency. We believe that the work performed provides a reasonable basis for our conclusion and recommendations. Our scope did not include a review of internal controls or information system controls as they relate to our evaluation objective.

## Methodology

To accomplish the evaluation, we—

- reviewed laws, policies, procedures, and other background information related to Bureau of Reclamation (USBR) water projects in general;
- reviewed laws specific to the GDU project;
- reviewed previous Office of Inspector General and U.S. Government Accountability Office reports;
- created a list of USBR multipurpose water projects using Statements of Project Construction Costs and Repayment;
- reviewed the GDU interim cost allocation report, dated May 2012;
- interviewed USBR officials from the Denver Federal Center, CO; Great Plains Regional Office, MT; and Dakotas Area Office, ND; and
- conducted site visits at USBR's Denver Federal Center and Great Plains Regional Office.

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## Appendix 2: Principal Facilities of the Garrison Diversion Unit

- **Snake Creek Pumping Plant:** This plant lifts water from Lake Sakakawea to Audubon Lake, both of which are U.S. Army Corps of Engineers facilities. The water is then released into the McClusky Canal.
- **McClusky Canal:** This 74-mile-long canal carries project water, but is stopped at mile markers 58 and 59 due to water flow restrictions in the Hudson Bay drainage system. The end of the canal does not connect to anything.
- **New Rockford Canal:** This 41-mile-long canal is described by some Bureau of Reclamation staff as the canal that “begins nowhere and ends nowhere.” It was originally constructed to transport water from McClusky Canal, via Lonetree Dam and Reservoir, to the eastern portion of the project. This reservoir, however, was deauthorized and became a wildlife conservation area instead.
- **Jamestown Dam and Reservoir:** This facility was built as an advance feature of the project to provide flood control benefits and serve as a reregulating reservoir for the southern section of the project. There is no Missouri River connection, however, so irrigation water service is far less than originally envisioned.
- **Oakes Test Area:** This facility was developed as a model irrigation test area to evaluate project impacts. This area has no permanent, reliable water supply. Existing facilities can irrigate up to 7,143 acres. Due to limited water supplies, however, up to 4,400 acres have been served to date.

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## **Appendix 3: Bureau Response**

The Bureau of Reclamation's response follows on page 12.



# United States Department of the Interior

BUREAU OF RECLAMATION  
Washington, DC 20240

IN REPLY REFER TO:

84-27410  
ADM-8.00

## MEMORANDUM

To: Office of Inspector General  
Attn: Assistant Inspector General for Audits, Inspections, and Evaluations

Through: Jennifer Gimbel *Jennifer Gimbel* SEP - 4 2015  
Assistant Secretary – Water and Science

From: Estevan López  
**Acting For** Commissioner

*E. López* AUG 31 2015

Subject: The Bureau of Reclamation's Response to the Office of Inspector General (OIG) Draft Report, *Garrison Division Unit's Interim Cost Allocation*, Report No. WR-EV-BOR-0006-2014

The OIG in its July 21, 2015, draft report, *Garrison Diversion Unit's Cost Allocation*, requested that Reclamation inform the OIG of the planned course of action to address and implement the recommendations in the subject report. The requested information is attached.

If you have any questions or require additional information, please contact Elizabeth Cordova-Harrison, Director, Management Services Office, at 303-445-2783.

Attachment

The Bureau of Reclamation's Response to the  
Office of Inspector General (OIG) Draft Evaluation Report  
U.S. Department of the Interior's Garrison Diversion Unit's Interim Cost Allocation  
Report No. WR-EV-BOR-0006-2014

August 2015

General Comments: The Tribes and the State are proceeding with plans to develop the full authorized acres as provided for under Dakota Water Resources Act. Reclamation will continue to work with the Tribes and the State to develop these acres. Proceeding with Recommendation 1 would foreclose the possibility of future repayment and decreased Federal cost share of annual Operations & Maintenance (O&M) costs. Further, Reclamation anticipates a strong negative reaction from affected Tribal communities, North Dakota's Congressional Delegation, the public, and media to this recommendation that eliminates potential future benefits of the project.

Response to OIG Recommendations

Recommendation 1: Seek deauthorization of the undeveloped irrigation acreage from Congress.

Reclamation's Response: *Partially Concur* - Reclamation will continue to work with the State of North Dakota and our partners to determine potential features of the Garrison Diversion Unit that may be appropriate for deauthorization and title transfer, such as the New Rockford Canal and the Oakes Test Area. When agreement is reached by Reclamation and our stakeholders, Reclamation will pursue legislation, if appropriate. Based on the outcome of any legislation, Reclamation will reallocate costs to accurately represent the project's costs to the Government and the taxpayers. This collaborative approach has the potential to reduce future federal expenditures and provide our stakeholders with continuing benefits.

Responsible Official: Regional Director Michael J. Ryan and Policy & Administration Director Roseann Gonzales

Target Implementation Date: Reclamation, in collaboration with the State and other stakeholders, will develop a determination of the future disposition of the Oakes Test Area and New Rockford Canal by September 30, 2017.

Recommendation 2: Adjust the Government's investment to recognize a loss of the estimated \$305.3 million shown in the 2012 cost allocation.

Reclamation's Response: *Partially Concur* - Dependent on the outcome of Reclamation's response to Recommendation 1. Reclamation will continue to work with the Tribes and the State to put into place any future water service contracts that would reduce the Federal share of O&M and implement any enacted legislation concerning the Garrison Diversion Unit facilities, for example deauthorization or title transfer.



Responsible Official: Regional Director Michael J. Ryan and Policy & Administration  
Director Roseann Gonzales

Target Implementation Date: The implementation date for this recommendation is dependent on the outcome of Recommendation 1 and has yet to be determined. Any accounting actions as a result of the outcome of future actions with our partners and Congress will be taken within the fiscal year that the action occurred.

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# Appendix 4: Status of Recommendation

In response to our draft report, the Bureau of Reclamation (USBR) partially concurred with our recommendation and identified actions it will take to implement the recommendation, including working with the State of North Dakota and its partners to determine potential features of the Garrison Diversion Unit that may be appropriate for deauthorization and title transfer. The response included a target date and officials responsible for the recommendation (see Appendix 3). We consider the recommendation resolved but not implemented.

Recommendation	Status	Action Required
We recommend that USBR reevaluate the project and take the steps necessary to consider the project complete as-is.	Open - resolved but not implemented	The recommendation will be referred to the Assistant Secretary, Policy, Management and Budget for tracking of implementation.

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