



# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20240

June 8, 2001

### Memorandum

To: Commissioner, Bureau of Reclamation

Subject: Independent Auditors Report on Bureau of Reclamation Financial Statements for Fiscal Year 2000 (No. 01-I-408)

As discussed in the attached independent auditors report on the Bureau of Reclamation's financial statements for fiscal year 2000, we found that Reclamation's principal financial statements were fairly presented in all material respects. The statements consist of the Consolidated Balance Sheet as of September 30, 2000; the Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position for the fiscal year ended September 30, 2000; and the Consolidated Statement of Budgetary Resources for the fiscal year ended September 30, 2000. Our tests of Reclamation's internal controls, however, identified material weaknesses and reportable conditions.

### Internal Controls

**Material Weaknesses.** We found internal control weaknesses in the land inventory and construction-in-progress account.

- **Land Inventory.** Reclamation did not have a complete and accurate inventory system to support the lands and land rights reported as \$1.9 billion in the footnotes to the financial statements as a component of general property, plant, and equipment. The weakness occurred because Reclamation had not established adequate procedures for maintaining an accurate inventory of lands and land rights and for reconciling its subsidiary records with its financial accounting system. Reclamation recognized the need for supporting records and issued a 5-year action plan to develop a complete and accurate land inventory that supported the financial accounting system, issued interim guidelines and procedures for reconciling land records, and developed a schedule for completing the reconciliation within the 5-year plan period.
- **Construction-in-Progress Account.** Reclamation's construction-in-progress account included costs for completed projects, costs that should have been expensed when incurred, inappropriate costs for land, inappropriate costs for grants, and costs for projects whose construction had been placed in abeyance. We determined that the account was overstated by approximately \$1.1 billion.

**Reportable Conditions.** In addition to the material weaknesses, we identified reportable conditions in the following areas:

- **Inconsistent Accounting Treatment.** Reclamation had not established or enforced the management controls necessary to ensure that financial data are processed and accounted for consistently within Reclamation. As a result, Reclamation's accounts required adjustments totaling in excess of \$1.7 billion, which includes the \$1 billion discussed in the section on the construction-in-progress weakness.
- **Prior Year Adjustments for Line Description PY ADJ.\*** Reclamation improperly included \$12.6 million of prior period activity identified as PY ADJ\* in fiscal year 2000 activity.
- **Undelivered Orders.** Reclamation did not fully implement the controls identified in the Reclamation Manual Supplement Fin 03-20-20-100-B, "Reconciliation of SGL Accounts," and the Financial Accounting Services year-end memorandum to ensure adequate oversight on undelivered orders by program managers.
- **Prior Year Revenue Recognition.** Reclamation did not always record revenue in the accounting records in the appropriate fiscal periods.

## **Compliance With Laws and Regulations**

The results of our tests of compliance with certain laws and regulations disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards" and Office of Management and Budget (OMB) Bulletin 01-02.

## **Consistency of Other Information**

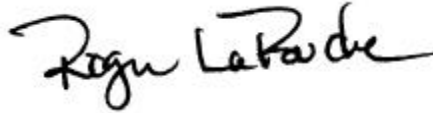
We found that the information presented in the Management Discussion and Analysis and the supplementary information sections of Reclamation's Annual Report for fiscal year 2000 were consistent with the principal financial statements.

As detailed in the attached report, we made 12 recommendations to correct the identified internal control weaknesses. Based on Reclamation's April 10, 2001 response (see Appendix 3 of the Attachment) to the draft report, we consider 2 recommendations resolved and implemented and 10 recommendations resolved but not implemented (see Appendix 4 of the Attachment).

Since all of the recommendations are resolved, no further response to the Office of Inspector General is required (see Appendix 4 of the Attachment).

Section 5(a) of the Inspector General Act (5 U.S.C. app.3) requires the Office of Inspector General to list this report in its semiannual report to the Congress.

The independent auditors report is intended for the information of management of the Department of the Interior, the OMB, and the Congress. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink, reading "Roger LaRouche". The signature is fluid and cursive, with the first name "Roger" and last name "LaRouche" clearly distinguishable.

Roger La Rouché  
Assistant Inspector General  
for Audits

Attachment

*[CONTACT THE BUREAU OF RECLAMATION FOR INFORMATION ON ITS FINANCIAL STATEMENTS FOR FISCAL YEAR 2000, WHICH ARE NOT INCLUDED.]*

# **Independent Auditors Report**

## **Bureau of Reclamation**

### **Financial Statements**

### **Fiscal Year 2000**

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We have audited the Bureau of Reclamation's (Reclamation) principal financial statements for the fiscal year ended September 30, 2000. Reclamation's principal financial statements consist of the Consolidated Balance Sheet as of September 30, 2000; the Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position for the fiscal year ended September 30, 2000; and the Consolidated Statement of Budgetary Resources for the fiscal year ended September 30, 2000. These financial statements are the responsibility of Reclamation, and our responsibility is to express an opinion, based on our audit, on these principal financial statements.

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements." These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the principal financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the principal financial statements and the accompanying notes. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit work provides a reasonable basis for our opinion. The objective, scope, and methodology of our work are discussed in Appendix 1.

### **Opinion on Principal Financial Statements**

In our opinion, the principal financial statements referred to above present fairly, in all material respects, the financial position of Reclamation as of September 30, 2000 and its consolidated net cost, changes in net position, and budgetary resources for the fiscal year ended September 30, 2000 in conformity with generally accepted accounting principles.

Our audit was conducted to form an opinion on the principal financial statements taken as a whole, and our opinion relates only to the principal financial statements. The supplemental financial and management information contained in Reclamation's Annual Report and footnotes 13 and 15 is presented for additional analysis and is not a required part of the principal financial statements. We applied certain limited procedures, including discussions with management on the methods of measurement and presentation of this information, to ensure compliance with OMB guidance and consistency with the financial statements. This information, however, has not been subjected to the auditing procedures applied in our audit of the principal financial statements, and accordingly, we express no opinion on it.

As discussed in Note 5 to the financial statements, Reclamation changed its method of treating certain investigations and development costs in fiscal year 2000.

As discussed in Note 1E, the Department changed its accounting for appropriations of trust and special receipt revenues in accordance with new guidance from the Department of the Treasury. The change also resulted in a significant decrease to appropriations used and a significant change to transfers, net.

## **Report on Internal Controls**

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In planning and performing our audit, we considered Reclamation's internal controls over financial reporting by obtaining an understanding of the internal controls, determining whether the internal controls had been placed in operation, assessing control risks, and performing tests of the controls to determine our auditing procedures for the purpose of expressing an opinion on the principal financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in Bulletin 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls, and accordingly, we do not provide an opinion on the internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public

Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect Reclamation's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may occur and not be detected.

We noted certain matters involving the internal controls and their operation that we considered to be material weaknesses or reportable conditions.

## **Material Weaknesses**

Our review identified two conditions that we believe to be material weaknesses, as follows:

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### **A. BOR Needs Improved Controls Over Land Inventory**

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Reclamation did not have a complete and accurate inventory system to support the lands and land rights reported as \$1.9 billion in the footnotes to the financial statements as a component of general property, plant, and equipment. The weakness occurred because Reclamation had not established adequate procedures for maintaining an accurate inventory of land and land rights and for reconciling its subsidiary records with its financial accounting system.

Reclamation's financial accounting system support for lands and land rights costs is detailed in a cost summary report that had not been reconciled with subsidiary records, including individual project plat book maps (along with individual land purchase contracts).

After we informed Reclamation that the subsidiary records did not support the land costs, Reclamation initiated an effort to reconcile the financial accounting system with its project plat book maps and acquisition records. Our subsequent tests of Reclamation's reconciliation efforts disclosed that additional efforts were needed to ensure that the subsidiary records for land supported Reclamation's financial accounting system. Reclamation recognized the need for supporting records and issued a 5-year action plan to develop a complete and accurate land inventory that supported the financial accounting system, issued interim guidelines and

procedures for reconciling land records, and developed a schedule for completing the reconciliation within the 5-year plan period.

## **Recommendations**

### **We recommend that the Commissioner, Bureau of Reclamation:**

1. Develop a complete and accurate inventory system that identifies, by project, all lands and land rights.
2. Develop policies and procedures that require the inventory for lands and land rights to be adequately maintained and reconciled on a periodic basis with the land acquisition records and with amounts reported in the general ledger accounts for lands and land rights
3. Include a material land inventory system internal control weakness in Reclamation's Federal Managers' Financial Integrity Act report to the Department of the Interior.

**Reclamation Response.** Reclamation concurred with our recommendations. In response to our recommendations, Reclamation issued a 5-year action plan for the development of a complete and accurate inventory system, issued interim guidance for maintaining the land inventory and reconciling the inventory with the general ledger, and has included the weakness in its FMFIA report.

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#### **B. Reclamation Needs Improved Controls Over Construction-in-Progress Account**

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Reclamation did not have sufficient internal controls to ensure that the general ledger control account for construction-in-progress was accurate. The account included costs for completed projects, costs that should have been expensed when incurred, costs for land that should have been recorded in the standard general ledger for land, costs for grants that should have been expensed, and costs for projects where the construction had been placed in abeyance. As such, the account was overstated by approximately \$1.1 billion. The overstatement impacts several accounts including land; other property, plant, and equipment; accumulated depreciation; and depreciation expense. When informed of these deficiencies, Reclamation reviewed the account balances and transactions and made the necessary adjustments.

## **Recommendations**

We recommend that the Commissioner, Bureau of Reclamation:

1. Implement management oversight procedures to ensure that the construction-in-progress account only includes costs for items meeting the definition of property, plant, and equipment and that completed projects are transferred in a timely manner.
2. For construction projects placed in abeyance, disclose the current status of the projects in a footnote to the financial statements.
3. For lands and land rights, record all land costs in the standard general ledger for lands and land rights.
4. For grant costs, develop and implement specific policies and internal controls to ensure that proper accounting treatment is established when the agreement is entered into with the grantee and is followed through project completion.

**Reclamation Response.** Reclamation concurred with the recommendations. Reclamation issued a Preliminary Draft Reclamation Manual Supplement on plant accounting that addressed oversight responsibilities for properly reporting property, plant, and equipment costs. Reclamation agreed to record all land and land rights costs in the standard general ledger account for land. As relates to grant costs, Reclamation will issue guidance and implement controls to ensure proper treatment. In addition, Reclamation will disclose in its financial statements the current status of construction projects placed in abeyance.

## Reportable Conditions

We identified reportable conditions as follows:

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**C. Inconsistent  
Accounting Treatment**

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Reclamation has not established or enforced the management controls necessary to ensure that financial data are processed and accounted for consistently within Reclamation. For example, land costs were recorded in three standard general ledger accounts including land; construction-in-progress; and other property, plant, and equipment. In another example, Reclamation transferred costs from the construction-in-progress account for some completed project features in a timely manner, while for other project features Reclamation did not transfer the costs until several years after completion. As a result, Reclamation's accounts required adjustments totaling in excess of \$1.7 billion which includes the \$1.1 billion described in Finding B above.

### Recommendations

We recommend that the Commissioner, Bureau of Reclamation:

1. Develop management controls requiring the standardization of accounting for similar costs, including management oversight of the regions to ensure the regions are applying the policies and procedures consistently.
2. Review the application of accounting posting models to ensure that similar transactions are treated the same.

**Reclamation Response.** Reclamation concurred with the recommendations. Reclamation has established a CFO Audits Project Team to identify opportunities for improving management controls and oversight. Additionally, Reclamation will issue guidance, when necessary, and establish controls to ensure that consistent accounting treatment is achieved Reclamation-wide.

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**D. Reclamation Needs  
Improved Controls Over  
Prior Period Activity**

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Reclamation improperly included prior period activity in fiscal year 2000 activity. These transactions were identified by "PY ADJ\*" in the line description. The "PY ADJ\*" description occurred on 20,380 transaction lines and affected standard general ledger accounts in the current and prior year.

When informed of this deficiency, Reclamation reviewed the transactions and made the necessary adjustments totaling \$12.6 million.

## **Recommendation**

We recommend that the Commissioner, Bureau of Reclamation, develop written guidance regarding proper treatment of line description “PY ADJ\*” transactions and proper recording of prior year adjustments.

**Reclamation Response.** Reclamation concurred with the recommendation and will issue written guidance which addresses the proper treatment of “PY ADJ\*” transactions and prior period adjustments.

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### **E. Reclamation Needs Improved Controls Over Undelivered Orders**

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Reclamation did not fully implement the controls identified in the Reclamation Manual Supplement Fin 03-20-20-100-B, Reconciliation of SGL Accounts, and the FAS year-end memorandum to ensure adequate oversight on undelivered orders by program managers. We reviewed a sample of the undelivered orders account at year-end and determined that Reclamation was not always deobligating balances promptly.

When informed of the need to review the undelivered orders account to identify the appropriate balance, Reclamation reviewed the sampled transactions and made adjustments.

## **Recommendation**

We recommend that the Commissioner, Bureau of Reclamation, implement the controls identified in Reclamation’s Manual Supplement and year-end memorandum to ensure adequate monitoring of undelivered orders by program managers.

**Reclamation Response.** Reclamation concurred with the recommendation. Reclamation will emphasize the need for monitoring and reviewing undelivered orders in the year-end memorandum.

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### **F. Reclamation Needs Improved Controls Over Prior Year Revenue Recognition**

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Reclamation’s internal control procedures were not sufficient to identify and record revenue in the appropriate fiscal periods. Reclamation included in its fiscal year 2000 general ledger revenue accounts an estimated \$113 million earned in fiscal year 1999.

- A majority (\$77 million) of the dollar value was Reclamation’s share of rents and royalties collected from lessees of Federal onshore oil and gas leases. Reclamation received the amount in fiscal year 2000 although the funds were earned for oil and gas produced in fiscal year 1999.

- Another large portion (\$15 million) of the dollar value represented Reclamation's share of revenues from land and timber sales. Reclamation received the amount in fiscal year 2000 although the funds were earned from sales in fiscal year 1999.

When informed of the need to review these transactions to identify the appropriate fiscal periods for the revenue to be accrued, Reclamation reviewed the transactions and made adjustments.

### **Recommendation**

We recommend that the Commissioner, Bureau of Reclamation, implement procedures to accrue revenue in the fiscal period in which it is earned.

**Reclamation Response.** Reclamation concurred with the recommendation and will develop and implement procedures to ensure recognition of revenue in the proper fiscal periods.

### **Stewardship and Performance Measures**

In addition, we considered Reclamation's internal controls over Required Supplementary Stewardship Information by obtaining an understanding of Reclamation's internal controls, determining whether these internal controls had been placed in operation, assessing control risks, and performing tests of controls as required by Bulletin 01-02. Our review was not of sufficient scope to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

With respect to internal controls related to performance measures reported in the Management Discussion and Analysis section of the Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions as required by Bulletin 01-02. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and accordingly, we do not provide an opinion on such controls.

## **Report on Compliance With Laws and Regulations**

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Management of Reclamation is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance as to whether Reclamation's financial statements are free of material misstatement, we performed tests of Reclamation's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in Bulletin 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to Reclamation.

Under the FFMIA, we are required to report whether Reclamation's financial management systems substantially comply with (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level. To meet our reporting requirement, we performed tests of compliance with the FFMIA section 803(a) requirements. The results of our tests disclosed no instances in which Reclamation's financial management systems did not substantially comply with these three requirements.

The results of our tests of compliance with certain laws and regulations, exclusive of the FFMIA, disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards" and Bulletin 01-02.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

## Prior Audit Coverage

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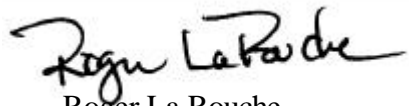
We reviewed prior Office of Inspector General and General Accounting Office audit reports related to Reclamation's financial statements to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to Reclamation's financial statements or internal controls. The results of this review are in Appendix 2.

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We made 12 recommendations addressing the material weaknesses and reportable conditions that we identified in our tests of Reclamation's internal controls. Based on Reclamation's April 10, 2001 response (see Appendix 3), we consider 2 of the recommendations resolved and implemented and 10 of the recommendations resolved but not implemented. The recommendations that have not been implemented will be forwarded to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. Since all the recommendations are considered resolved, no further response to the Office of Inspector General is required (see Appendix 4).

Section 5(a) of the Inspector General Act (5 U.S.C. app.3) requires the Office of Inspector General to list this report in its semiannual report to the Congress.

This report is intended for the information of management of the Department of the Interior, the Office of Management and Budget, and the Congress. However, this report is a matter of public record, and its distribution is not limited.

  
Roger La Rouche  
Assistant Inspector General  
for Audits

## Objective, Scope, and Methodology

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Management of Reclamation is responsible for the following:

- Preparing the principal financial statements and the required supplementary information in conformity with generally accepted accounting principles and for preparing the other information contained in the Annual Report for fiscal year 2000.
- Establishing and maintaining an internal control structure over financial reporting. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control structure policies and procedures.
- Complying with applicable laws and regulations.

We are responsible for the following:

- Expressing an opinion on Reclamation's principal financial statements.
- Obtaining an understanding of the internal controls based on the internal control objectives in Bulletin 01-02, which require that (1) transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplementary information in accordance with Federal accounting standards; (2) assets be safeguarded against loss from unauthorized acquisition, use, or disposal; and (3) transactions and other data supporting reported performance measures be properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
- Testing Reclamation compliance with selected provisions of laws and regulations that could materially affect the principal financial statements or the required supplementary information.

To fulfill these responsibilities, we took the following actions:

- Examined, on a test basis, evidence supporting the amounts disclosed in the principal financial statements.
- Assessed the accounting principles used and the significant estimates made by management.
- Evaluated the overall presentation of the principal financial statements.

- Obtained an understanding of the internal control structure related to safeguarding assets; compliance with laws and regulations, including the execution of transactions in accordance with budget authority; financial reporting; and certain performance measure information reported in the annual report.
- Tested relevant internal controls over the safeguarding of assets; compliance with laws and regulations, including the execution of transactions in accordance with budget authority; and financial reporting.
- Tested compliance with selected provisions of laws and regulations.

We did not evaluate all of the internal controls related to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as the controls related to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls needed to achieve the objectives outlined in our report on internal controls.

## Prior Audit Coverage

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Our review of prior Office of Inspector General and General Accounting Office audit reports related to Reclamation financial statements was conducted to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to Reclamation's financial statements or internal controls. Our review disclosed that there were no General Accounting Office reports that contained significant unresolved or unimplemented recommendations related to Reclamation's principal financial statements. The Office of Inspector General, however, had three reports that had significant unresolved or unimplemented recommendations which were considered to be reportable weaknesses as follows:

➤ “Development Status of the Dolores and the Animas-LaPlata Projects, Bureau of Reclamation” (No. 94-I-884), dated July 1994, stated that the economic justification and the financial feasibility of the Dolores and the Animas-LaPlata Projects have declined because of changes in both Reclamation's criteria for computing project benefits and the local farmers' ability to afford the costs of irrigated agriculture. Two of the report's three recommendations have been implemented, but the remaining recommendation, to finalize a cost allocation that reallocated costs based on the use of facilities rather than on benefits, has not been implemented. The revision to the cost allocation is cited in the 1988 Supplement to the Definite Plan Report and is expected to be finalized pending completion of a significant portion of the Dolores Project construction. Reclamation approved the final cost allocation on January 25, 2001. By memorandum dated March 1, 2001, the Department of the Interior's Office of Financial Management informed the Office of Inspector General that Reclamation had completed the action required to implement the report's three recommendations.

➤ “Follow-up of Recovery of Irrigation Investment Costs, Bureau of Reclamation” (No. 98-I-250), dated February 1998, stated that Reclamation had not taken actions necessary to accelerate recovery of interest-free irrigation assistance costs concurrent with the interest-bearing power investment costs. Reclamation, in accordance with applicable legislation, assigns to power users the repayment of that portion of project irrigation investment which exceeds the irrigation water user's ability to pay, referred to as irrigation assistance. It is the policy of Reclamation and the Power Marketing Administrations to provide for the repayment of this assistance near the end of a project's irrigation repayment period. In 1989, the Office of Inspector General concluded that, as a result of this policy, additional revenues estimated at \$2.1 billion (with a value of \$415 million in 1989) would not be collected over the repayment periods of the respective projects. In 1990, Reclamation requested and received advice from the Office of the Solicitor that stated that concurrent repayment of irrigation assistance is allowed for certain projects. Reclamation, however, had not revised its policy for repayment of irrigation assistance based on the advice received. Reclamation did support legislation proposed by the Department of Energy that intended to place all power repayment obligations, including irrigation assistance, on a straight-line amortization basis with interest. However, no such legislation had been enacted. As a result of the delayed repayment, the value of the irrigation assistance investment recovered by Reclamation will be substantially reduced, and

taxpayers will unnecessarily bear the costs of subsidizing the project beneficiaries. Based on the response from the Assistant Secretary for Water and Science to our report, we considered the report's three recommendations unresolved and have referred the recommendations to the Assistant Secretary for Policy, Management and Budget for resolution. In an August 21, 2000 memorandum, the Assistant Secretary for Policy, Management and Budget detailed four steps to be taken by Reclamation to resolve the recommendations. The required actions had not been completed by September 30, 2000. The estimated completion dates for steps 1 and 3 are June 1, 2001 and September 21, 2001, respectively. The estimated completion date for step 2 has not been determined. No completion date is applicable to step 4.

➤ “Irrigation of Ineligible Lands, Bureau of Reclamation” (No. 94-I-930), dated July 1994, stated that Reclamation had not taken actions necessary to ensure that Federal project water was used to irrigate only lands determined to be suitable for irrigation and eligible to receive water under Federal law. As a result, lands Reclamation identified as ineligible to receive Federal water were being irrigated from at least 24 projects in eight states despite the existence of other competing needs for water. Because of a pending lawsuit against Reclamation and other agencies regarding flows in the Snake and Columbia Rivers, Reclamation has been advised by counsel to not proceed with development of any plans addressing unauthorized water use that might affect Reclamation's Pacific Northwest Region. Reclamation, therefore, has submitted to the Office of Inspector General separate plans that address unauthorized water use in Reclamation's other four regions.



IN REPLY REFER TO:

D-5010

## United States Department of the Interior

BUREAU OF RECLAMATION

Washington, D.C. 20240

APR 10 2001

### MEMORANDUM

To: Office of Inspector General  
Attention: Assistant Inspector General for Audits

From: J. William McDonald  
Regional Director  
Pacific Northwest Region  
(Exercising the Commissioner's authority)

Subject: Draft Audit Report on "Independent Auditor Report on Bureau of Reclamation Financial Statements for Fiscal Year 2000"

The Bureau of Reclamation offers the following comments in response to the recommendations issued in the subject report:

We recommend that the Commissioner, Bureau of Reclamation:

#### Recommendation A.1

Develop a complete and accurate inventory system that identifies, by project, all lands and land rights.

#### Response

Concur. Reclamation's new real property inventory system, Foundation Information Resources Management (FIRM), which has been implemented, provides a centralized electronic database of Reclamation's real property, including lands and land rights. Reclamation will complete data entry and reconcile the data in the FIRM system with either summary records or acquisition contracts. In projects where land records do not exist or cannot be readily obtained, general estimates of lands and land rights will be used. Upon completion, the FIRM system will serve as a support system providing a database of Reclamation's land holdings, including location, acreage, and cost.

The responsible official is the Director, Operations. The target date for completing data entry and reconciling data in the FIRM system is September 30, 2005, contingent upon receipt of adequate funding.

### Recommendation A.2

Develop policies and procedures that require the inventory for lands and land rights to be adequately maintained and reconciled on a periodic basis with the land acquisition records and with amounts reported in the general ledger accounts for land and land rights.

#### Response:

Concur. On December 29, 2000, Reclamation issued interim guidance that requires the inventory for lands and land rights to be adequately maintained and reconciled on a periodic basis with the land acquisition records and with amounts reported in the general ledger accounts for land and land rights. This guidance will be finalized and transmitted to the regions for implementation.

The responsible officials are the Director, Management Services, and the Director, Office of Policy. The target date for finalizing the guidance is September 30, 2001.

### Recommendation A.3

Include a material land inventory system internal control weakness in Reclamation's Federal Managers' Financial Integrity Act report to the Department of the Interior.

#### Response

Complied. Reclamation included the land inventory material weakness in the Commissioner's Fiscal Year 2000 Annual Assurance Statement, dated October 13, 2000, and will continue to report this weakness until corrective actions are implemented.

The responsible official is the Director, Management Services. The target date for reporting this weakness is October 15 of each year until resolved.

### Recommendation B.1

Implement management oversight procedures to ensure that the construction-in-progress account only includes costs for items meeting the definition of property, plant, and equipment and that completed projects are transferred in a timely manner.

#### Response

Concur. Reclamation issued a preliminary draft Reclamation Manual supplement on plant accounting that includes oversight responsibilities to ensure the proper reporting of property, plant, and equipment costs. Reclamation has also established a multidisciplinary team to review business practices, controls, oversight, and organizational alignment. The recommendations of this review team and additional guidance will be incorporated into the final Reclamation Manual supplement.

The responsible officials are the Director, Management Services, and the Director, Operations. Reclamation's Finance and Accounting Services will issue and implement the final Reclamation Manual supplement on plant accounting by September 30, 2001.

#### Recommendation B.2

For construction projects placed in abeyance, disclose the current status of the projects in a footnote to the financial statements.

##### Response

Complied. The current status of construction projects in abeyance was disclosed in the notes to the fiscal year 2000 financial statements. The status of these projects will continue to be disclosed in the notes to subsequent financial statements.

The responsible official is the Director, Management Services.

#### Recommendation B.3

For lands and land rights, record all land costs in the standard general ledger for lands and land rights.

##### Response

Complied. Reclamation made the necessary adjustments to record all land costs into the standard general ledger for land and land rights during the fiscal year 2000 financial statement audit and will in subsequent years record land costs into this standard general ledger.

The responsible officials are the Director, Management Services, and the Director, Operations.

#### Recommendation B.4

For grant costs, develop and implement specific policies and internal controls to ensure that proper accounting treatment is established when the agreement is entered into with the grantee and is followed through project completion.

##### Response

Concur. Reclamation will issue appropriate guidance and implement controls to ensure the proper treatment of grant costs.

The responsible official is the Director, Management Services. Reclamation's Finance and Accounting Services will issue a draft policy and procedures, which will include internal control and oversight responsibilities, by June 30, 2001, with final guidance issued by September 30, 2001.

The procedures and internal controls addressed in the guidance will be implemented by September 30, 2001

#### Recommendation C.1

Develop management controls requiring the standardization of accounting for similar costs, including management oversight of regions to ensure the regions are applying the policies and procedures consistently.

##### Response

Concur. Reclamation has established a Chief Financial Officer Audits Project Team to identify opportunities for improving management controls and oversight. Additionally, Reclamation will issue guidance, when necessary, and establish controls to ensure that consistent accounting treatment is achieved Reclamation-wide.

The responsible official is the Director, Management Services. The target date for completion of this recommendation is September 30, 2001.

#### Recommendation C.2

Review the application of accounting posting models to ensure that similar transactions are treated the same.

##### Response

Concur. As discussed under Recommendation C.1, Reclamation will establish controls to ensure the consistent treatment of similar accounting transactions.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for completing this recommendation is September 30, 2001.

#### Recommendation D.1

Develop written guidance regarding proper treatment of line description "PY ADJ\*" transactions and proper recording of prior year adjustments.

##### Response

Concur. Reclamation will issue written guidance which addresses the proper treatment of "PY ADJ\*" transactions and prior period adjustments.

The responsible official is the Director, Management Services. The target date for Reclamation's Finance and Accounting Services to issue written guidance is June 30, 2001.

Recommendation E.1

Implement the controls identified in its Manual Supplement and year-end memorandum to ensure adequate monitoring of undelivered orders by Program Managers.

Response

Concur. Reclamation will emphasize the need for monitoring and reviewing undelivered orders in the year-end closing memorandum. In addition, the interbureau Operations Advisory Group (OAG) has been tasked with improving the validation of undelivered orders. Among the recommendations that have been proposed are enforcement of quarterly reviews and the issuance of updated Departmental and bureau guidance.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for issuing the year-end memorandum is July 15, 2001, and the target date for implementing the OAG recommendations is September 30, 2001.

Recommendation F.1

Implement procedures to accrue revenue in the fiscal period in which it is earned.

Response

Concur. Reclamation will develop and implement procedures to ensure recognition of revenue in the proper fiscal period. Of the estimated \$113 million in overstated fiscal year 2000 revenues, a \$92 million adjustment was made. An adjustment could not be made for the remaining \$21 million since this amount was based on a statistical projection.

The responsible official is the Director, Management Services. Finance and Accounting Services will issue draft written guidance by May 30, 2001, with final procedures issued by July 30, 2001. The final procedures will be implemented by September 30, 2001.

cc: Assistant Secretary - Water and Science, Attention: Kathleen Wheeler  
Director, Office of Financial Management, Attention: Wayne Howard

## STATUS OF AUDIT REPORT RECOMMENDATIONS

<b>Finding/Recommendation Reference</b>	<b>Status</b>	<b>Action Required</b>
A.1, A.2, B.1, B.3, B.4, C.1, C.2, D.1, E.1, and F.1	Resolved; not Implemented.	No further response to the Office of Inspector General is required. The recommendations will be forwarded to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
A.3 and B.2	Implemented.	No further action is required.