



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

December 19, 2003

Memorandum

To: Commissioner, Bureau of Reclamation

From: Roger La Rouché *Roger LaRouché*
Assistant Inspector General for Audits

Subject: Management Issues Identified During the Audit of the Bureau of Reclamation's Fiscal Year 2002 Financial Statements
(Report No. C-IN-BOR-0022-2004)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the Bureau of Reclamation's (BOR) financial statements as of September 30, 2003 and for the year then ended. In conjunction with its audit, KPMG noted certain matters involving internal control and other operational matters that should be brought to management's attention. These matters, which are discussed in the attached letter, are in addition to those reported in KPMG's audit report on BOR's financial statements (Report No. C-IN-BOR-0077-2003) and do not constitute reportable conditions as defined by the American Institute of Certified Public Accountants.

The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. If you have any questions regarding KPMG's letter, please contact me at (202) 208-5512.

The legislation, as amended, creating the Office of Inspector General, (5 U.S.C.A. App. 3) requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report.

Attachment

cc: Assistant Secretary for Water and Science
Chief Financial Officer, Bureau of Reclamation
Director, Office of Financial Management
Audit Liaison Officer, Water and Science
Audit Liaison Officer, Bureau of Reclamation
Focus Leader for Management Control and Audit Followup,
Office of Financial Management



15 West South Temple
Suite 1500
Salt Lake City, UT 84101

November 3, 2003

The Commissioner of the United States Bureau of Reclamation and the Inspector General
United States Department of the Interior
Washington, D.C.

Ladies and Gentlemen:

We have audited the financial statements of the Bureau of Reclamation (Reclamation) as of and for the year ended September 30, 2003 and have issued our report thereon, dated November 3, 2003. In planning and performing our audit of the financial statements of Reclamation, we considered internal controls over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal controls over financial reporting. We have not considered internal controls over financial reporting since the date of our report. Our consideration of internal controls over financial reporting identified the following reportable conditions:

Reportable Condition That Is Considered to be a Material Weakness

- A. Controls over land inventory.

Other Reportable Conditions

- B. Application and general controls over financial management systems;
- C. Controls over construction-in-progress and structures and facilities accounts;
- D. Controls over accrued liabilities;
- E. Controls over revenue recognition on prepayment of repayment contracts; and
- F. Controls over accounting for intradepartmental transactions.

During our audit, we noted certain matters involving internal controls over financial reporting and other operational matters, not included in our above referenced report as material weaknesses or reportable conditions, that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal controls over financial reporting, or result in other operating efficiencies.





1. Leases

During our audit, we noted that Reclamation had improperly classified two of its capital leases as operating leases. The lease agreements contained a bargain purchase option, which requires treatment as a capital lease. We also noted that Reclamation has not established a process or posting routines for recording and tracking capital leases. Furthermore, the schedule of Reclamation leases received in the current year included several leases that were initiated in prior years, but excluded from the population of leases received in the prior year.

Recommendation

We recommend that Reclamation improve their process for tracking operating and capital leases. Reclamation should also implement procedures to ensure that leases meeting the capitalization criteria are recorded as capital leases in accordance with Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, and track the lease activity using proper posting routines.

2. Suspense Treasury Symbols

During our audit, we noted that Reclamation does not consistently reconcile certain suspense accounts, or investigate and resolve the contents of these suspense accounts in a timely manner. Within the budget clearing accounts, 10% of the line items were transactions from FY89 to FY00 that had not been cleared. In addition, some of the balances within the accounts were unidentified and supporting documentation could not be provided.

Recommendation

We recommend that Reclamation reconcile the budget clearing accounts, and investigate and resolve the contents of suspense accounts in a timely manner. Reclamation should ensure that entries to resolve suspense accounts are properly supported.

3. Supporting Documentation from Finance Offices

During our audit, we noted that although many of our sampled items were properly supported and in accordance with accounting principles generally accepted in the United States of America, there were some cases where Reclamation finance offices were not providing adequate documentation when the auditors requested support for their sampled transactions. As a result, the documentation provided does not support that the transactions are reported in accordance with accounting standards or in accordance with the standard general ledger, and in some cases does not support the adequacy of internal controls tested. In general, two types of problems exist:

- a. Documentation lacks third-party support. Internally generated documents are provided as support, which is insufficient. More detailed explanation and background information is needed supporting the transaction.
- b. Documentation is not clearly traceable to support that the transaction was recorded to proper standard general ledger accounts and in accordance with Reclamation, Department of the Interior, or Federal Accounting Standards Advisory Board (FASAB) guidance.



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Recommendation

We recommend that Reclamation improve quality controls to ensure that all transactions are properly documented in accordance with proper standards. We also recommend that Reclamation require each finance office to review documentation before it is supplied to the auditors to confirm its adequacy and relevance.

A summary of the status of prior year management letter comments is included as Exhibit I.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies and procedures that may exist. We aim, however, to use our knowledge of Reclamation's organization gained during our work to make comments and suggestions that we hope will be useful to you. Should you have any questions concerning the matters presented herein, we would be pleased to discuss them with you at any time.

This report is intended for the information and use of Reclamation and the Department of the Interior's management, the Department of the Interior's Office of the Inspector General, the Office of Management and Budget, the General Accounting Office, and the U.S. Congress. However, this report is a matter of public record, and its distribution is not limited.

Very truly yours,

KPMG LLP

Exhibit I

**Bureau of Reclamation
Summary of the Status of Prior Year Management Letter Comments
September 30, 2003**

Ref	Condition	Status
1	Reclamation has a significant amount of multiyear repayment contracts where payment is received annually or semiannually. By booking repayment contract revenue at the time of billing, there is a revenue recognition issue for quarterly reporting since the revenue is earned over the year.	Reclamation disagreed with this finding, as there is no financial impact to the annual financial statements. If quarterly financial statements become required, we recommend this topic be revisited.
2	Reclamation was not able to ensure that the Water Authorities accurately and consistently measure the water deliveries and, therefore, the revenues for the Central Valley Project.	This condition has been corrected.
3	Reclamation had excluded certain overdue receivables from the allowance calculation based upon the status code classification.	This condition has been corrected.
4	Reclamation did not have adequate controls pertaining to credit card accounts. Management did not properly approve two of the ten statements of cardholders sampled.	This condition has been corrected.
5	Reclamation did not establish and implement specific posting models in FFS for Required Supplemental Stewardship Information (RSSI) transactions.	This condition has been corrected.
6	Reclamation conducted only one HAZ-MAT audit during fiscal year 2002. This was not in accordance with policies established in the Resource Conservation and Recovery Act or Reclamation's policy requiring five audits of area facilities and/or audit regional work each year.	This condition has been corrected.

Ref	Condition	Status
7	Reclamation recorded revenue from irrigation assistance during fiscal year 2002 that should have been recorded during fiscal year 2003.	This condition has been corrected.
8	Reclamation's policies and procedures for recording the disposal of assets were inadequate. Although the assets were removed from the accounting records, gains and losses from such disposals where cash is received were not recorded properly.	This condition has been corrected.
9	Reclamation had improperly classified a capital lease as an operating lease. The lease agreement contained a bargain purchase option, which requires treatment as a capital lease. We also noted that Reclamation had not established a process or posting routines for recording and tracking capital leases.	This condition has not been corrected and is repeated in fiscal year 2003.