



United States Department of the Interior

Office of Inspector General Western Region

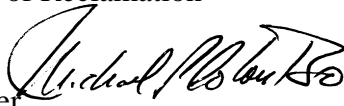
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Report No. W-VS-BOR-0001-2006

May 30, 2006

Memorandum

To: Assistant Secretary for Policy, Management and Budget
(Attention: Associate Director for Finance, Policy and Operations)
Commissioner, Bureau of Reclamation

From: Michael P. Colombo 
Regional Audit Manager

Subject: Verification Review of Four Recommendations from Our September 2002
Audit Report No. 2002-I-0052 Titled "Review of Central Valley Project
Responsibilities Transferred Under Direct Funding Agreements Between
BOR and Three California Water Authorities"

The Office of Inspector General has completed a verification review of the four recommendations presented in the subject audit report. The objective of the review was to determine whether the recommendations were implemented as reported to the Office of Inspector General and to the Office of Financial Management, Office of Policy, Management and Budget. In a memorandum dated October 23, 2003, the Office of Financial Management reported to the Office of Inspector General that all the recommendations in the subject report had been implemented and that the audit report was closed.

Background

Our September 2002 audit report, "Review of Central Valley Project Responsibilities Transferred Under Direct Funding Agreements Between BOR and Three California Water Authorities" (No. 2002-I-0052), made three recommendations to the Bureau of Reclamation (BOR) relating to the transfer of fiscal responsibilities to the Water Authorities and one recommendation on the lack of sufficient controls over water measurement and metering activities of the Water Authorities.

In a September 12, 2002 response to the draft of the subject report, BOR concurred with all four of the recommendations. Based on this response, we considered Recommendations 1 and 2 to be resolved and implemented and Recommendations 3 and 4 to be resolved but not implemented. Accordingly, on October 21, 2002, we referred

Recommendations 3 and 4 to the Office of Financial Management for tracking of implementation.

Scope and Methodology

The scope of this review was limited to determining whether BOR took adequate action to implement the recommendations. To accomplish our objective, we reviewed the supporting documentation that BOR officials provided to close the recommendations. We also interviewed regional and area office personnel within BOR's Mid-Pacific Region to gather additional information on the actions taken to implement the recommendations.

We did not perform any site visits (other than BOR's Mid-Pacific Regional Office in Sacramento, California) or conduct any detailed audit fieldwork to determine whether the underlying deficiencies that were initially identified have actually been corrected. As a result, this review was not conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States.

Results of Review

Our current review found that BOR implemented Recommendations 1 and 2 but did not take sufficient action to implement Recommendations 3 and 4. The status of the recommendations is summarized in the Appendix.

Recommendation 1: "Take the immediate steps necessary to ensure that the Water Authorities comply with Federal law as outlined by the Office of the Solicitor."

In its September 12, 2002 response to the draft of the report, BOR stated it had revised the agreement with the Tehama-Colusa Canal Authority (TCCA) as recommended by the Office of the Solicitor. Also, BOR notified the San Luis and Delta Mendota Water Authority (SLDMWA) and the Friant Water Authority (FWA)¹ in writing of the requirement to comply with the legal opinion. Subsequently BOR instructed SLDMWA and FWA to close out the fiscal agent accounts and remit the fund balances to BOR.

We obtained the revised TCCA agreement and reviewed the letters to SLDMWA and FWA and concluded that BOR had taken the immediate corrective action envisioned by this recommendation. Accordingly, we concluded that Recommendation 1 has been resolved and implemented.

¹ BOR entered into this direct funding agreement with the Friant Water Users Authority. In a June 30, 2004 amendment to the agreement, the Friant Water Users Authority assigned all rights, title, and interest in the agreement to FWA.

Recommendation 2: “Take action to amend the direct funding agreements to terminate Water Authority designation as fiscal agents and re-establish financial mechanisms by which water districts would directly pay BOR for their water use.”

In its September 12, 2002 response to this recommendation, BOR stated it terminated the TCCA fiscal agent designation and was amending the SLDMWA and FWA agreements to terminate their fiscal agent designations. BOR also stated that it notified the individual water districts to submit amounts due BOR directly to the U.S. Treasury.

We obtained the revised agreements with each Water Authority and verified that the fiscal agent designation and related provisions were removed from the agreements. We also verified that BOR advised the water districts to make their required payments directly to the U.S. Treasury. As a result, we concluded that Recommendation 2 has been resolved and implemented.

Recommendation 3: “Work with the Water Authorities to reconcile each of the water district payments with the amounts retained and forwarded by the Water Authorities since the inception of the direct funding agreements.”

In an October 14, 2003 memorandum to the Office of Financial Management, BOR stated that it provided specific instructions to each Water Authority for documenting water district payments included in the fiscal agent account balances that were remitted to the U.S. Treasury. BOR also requested individual water districts to review and comment on their analysis of payments reported by the Water Authorities. BOR stated that it reconciled the amounts recorded in the accounting records for each water district with the amounts reported by the Water Authorities.

During our review, we found that BOR had completed the reconciliation of the SLDMWA fiscal agent account. However, BOR had not completed the reconciliation of payments to the FWA fiscal agent account to ensure that BOR received all payments due. Regional office personnel told us that BOR hired a public accountant in 2005 to review differences in amounts reported by water districts as paid to the FWA fiscal agent account. An additional \$150,000 was reported by water districts as paid to FWA that was not included in the amounts FWA forwarded to the U.S. Treasury. As for TCCA, BOR officials did not know whether a reconciliation was done, as the responsible BOR employee had retired. The BOR officials could not find any evidence that the reconciliation was done.

Subsequent to our exit conference, BOR officials provided us with additional information from the public accountant reviewing the FWA payments showing that eight water districts still had unexplained differences. A BOR official stated the reconciliation was substantially complete, that the differences were minor, and that it was not cost beneficial to continue trying to resolve the differences. However, BOR officials have not formally determined that the reconciliation is complete or how the remaining differences will be disposed of.

Additionally, although BOR originally concurred with the recommendation in October 2003 to conduct reconciliations of all the Water Authorities, BOR officials told us that they never agreed to do a reconciliation of TCCA. They believed that such a reconciliation was not needed because of the relatively small amount of federal funds collected and that no problems were identified in a previous review of TCCA payments.

Because BOR had not completed all the reconciliations, we concluded that this recommendation was not adequately implemented and therefore should be reinstated and classified as not implemented.

Recommendation 4: “Establish, in conjunction with the Water Authorities, a Quality Assurance Program that will ensure the integrity of the water measurement activities.”

In its October 14, 2003 memorandum to the Office of Financial Management, BOR said it collaborated with the Water Authorities to develop and implement a Quality Assurance Program to ensure the integrity of water measurement activities. BOR stated that the audit report’s concerns have been addressed by the three Water Authorities. Each Water Authority established standard operating procedures designed to ensure that water measuring devices were accurately recording the quantity of water delivered to each water district.

We obtained each of the Water Authorities’ standard operating procedures and concluded that these procedures addressed the recommendation from the Water Authorities’ perspective. However, based on discussions with BOR personnel identified as responsible for implementing this recommendation, we concluded that BOR did not establish a Quality Assurance Program to ensure the integrity of the water measurement activities. While we were told that a regional office employee and three area office employees coordinated with the Water Authorities to develop BOR’s response to the recommendation in 2003, the regional office employee and an area office employee that coordinated with SLDMWA were not involved with the subsequent implementation of a Quality Assurance Program. Only the area office employee working with TCCA told us that he periodically visited TCCA and verified that its standard operating procedures were in place and working. We were told that such reviews would be done at FWA in the future.

As part of its response to the recommendation, BOR provided the Office of Financial Management with copies of memorandums from its three area office employees establishing a range of losses (percentages) that, when comparing water BOR delivered to the Water Authorities to the amount the Water Authorities delivered to water districts, would trigger an investigation of potential misappropriation. The responsible BOR area office employee told us that BOR did not conduct the contemplated investigations, even though FWA water delivery data provided by BOR showed that this loss percentage was exceeded for 3 months since 2003. The BOR area office employee told us BOR was in the process of refining the loss percentage and may use a longer period of time for the analysis because of seasonal variations in the loss percentages on the Friant-Kern Canal. The responsible area office employee for SLDMWA told us he had not done the contemplated analyses and did not have the water delivery data to do so.

Subsequent to our exit conference, BOR officials provided us with information indicating that the area office had begun verifying FWA's implementation of its standard operating procedures and was also refining its criteria for reviewing water losses. However, BOR officials agreed that the recommendation had not been implemented with respect to SLDMWA.

BOR involvement in the Quality Assurance Program is crucial to ensure the integrity of water measurement activities. These activities are essential to BOR's assessment and collection of federal revenues and may be adversely impacted by the close relationship between the Water Authorities and their member water districts. In addition to financial impacts, accurate water measurements should be a concern because of the historic scarcity of water supplies in California. As a result, we concluded that BOR had not taken sufficient action to implement this recommendation and that it should be reinstated and classified as not implemented.

Conclusion

We informed BOR officials of the results of this review at an exit conference on April 25, 2006. The officials agreed with the results of our review with the exception of Recommendation 3, which they believed was substantially complete. BOR should provide the Office of Financial Management with information on the actions it will perform to implement Recommendations 3 and 4 by June 30, 2006.

Responding to the Report

We request that the Office of Financial Management reinstate Recommendations 3 and 4 as not implemented from the subject audit report and inform us of the actions to be taken for these recommendations.

If you have any questions about this report, please contact me at (916) 978-5653.

cc: Focus Leader for Management Control and Audit Follow-up, Office of Financial Management, Office of the Assistant Secretary for Policy, Management and Budget
Audit Liaison Officer, Department of the Interior
Audit Liaison Officer, Assistant Secretary for Water and Science
Audit Liaison Officer, Bureau of Reclamation

STATUS OF PRIOR AUDIT RECOMMENDATIONS

<u>Recommendation</u>	<u>Status</u>	<u>Action Required</u>
1	Resolved and Implemented	No further action required.
2	Resolved and Implemented	No further action required.
3	Not Implemented	We are requesting the Office of Financial Management, Office of Policy, Management and Budget, to reinstate the recommendation. The Commissioner, BOR, should provide a plan identifying actions to be taken, target dates for implementation, and titles of officials responsible for implementation.
4	Not Implemented	We are requesting the Office of Financial Management, Office of Policy, Management and Budget, to reinstate the recommendation. The Commissioner, BOR, should provide a plan identifying actions to be taken, target dates for implementation, and titles of officials responsible for implementation.