



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**FOLLOWUP OF RECOMMENDATIONS CONCERNING
THE RECOVERY OF OPERATION AND
MAINTENANCE PROGRAM EXPENSES,
BUREAU OF RECLAMATION**

**REPORT NO. 95-I-1376
SEPTEMBER 1995**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20240

SEP 29 1995

MEMORANDUM

TO: The Secretary

FROM: Wilma A. Lewis
Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information - "Followup of Recommendations Concerning the Recovery of Operation and Maintenance Program Expenses, Bureau of Reclamation" (No. 95-I-1376)

Attached for your information is a copy of the subject final audit report.

The Bureau of Reclamation has made progress in implementing corrective actions recommended in our December 1991 audit report on the recovery of operation and maintenance program expenses, but further actions are needed to fully implement all the recommendations. Of the seven recommendations in our prior report, we found that four were implemented and three were partially implemented. The recommendations were considered partially implemented because the Bureau had not: revised and/or implemented operation and expense allocations for three projects; developed accounting guidelines for recovering the replacement cost of major project facilities, updated replacement lists, or indexed original or estimated property costs for inflation; and recovered from project beneficiaries the costs of assessing the overall condition and operational readiness of project facilities. As a result, the Bureau has not recovered an additional \$14.8 million of operation and maintenance expenses from project beneficiaries since our prior report. In addition, if corrective actions are not taken in a timely manner, the Bureau will not recover costs of about \$4.7 million annually.

Besides the requirement that the Bureau should fully implement the prior recommendation concerning the revision and implementation of operation and maintenance expense allocations for three projects, we recommended that the Bureau: implement a revised expense allocation for a project not included in our prior review, publish proposed regulations and implement an administrative fee as a means of recovering operation and maintenance expenses from project beneficiaries; ensure that a region develops administrative and accounting guidelines for recovering the replacement cost of major project facilities; and revise the Reclamation Instructions to require regions to recover the costs associated with performing operation and maintenance reviews.

Since the Bureau did not respond to the draft report by the established due dates, the report's five new recommendations are considered unresolved.

If you have any questions concerning this matter, please contact me at (202) 208-5745.

Attachment



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Headquarters Audits
1550 Wilson Boulevard
Suite 401
Arlington, VA 22209

SEP 29 1995

MEMORANDUM AUDIT REPORT

To: Assistant Secretary for Water and Science

From: Marvin Pierce *for Judy Harrison*
Acting Assistant Inspector General for Audits

Subject: Final Audit Report on Followup of Recommendations Concerning the Recovery of Operation and Maintenance Program Expenses, Bureau of Reclamation (No. 95-I-1376)

INTRODUCTION

This report presents the results of our followup review of recommendations contained in the audit report entitled "Recovery of Operation and Maintenance Program Expenses, Bureau of Reclamation" (No. 92-I-269), issued in December 1991. The objective of the followup review was to determine whether the Bureau of Reclamation had satisfactorily implemented the corrective actions recommended in the report and whether any new recommendations were warranted. We concluded that the Bureau has made progress in implementing corrective actions but that further actions are needed to fully implement all the recommendations. If these actions are not taken in a timely manner, the Bureau will not recover costs of about \$4.7 million annually. In addition, the Bureau has not recovered an additional \$14.8 million of operation and maintenance expenses from project beneficiaries since our prior audit.

BACKGROUND

The Bureau of Reclamation is responsible for constructing, operating, and maintaining water projects throughout the 17 western states. Bureau water projects were constructed either for a single purpose, such as irrigation water delivery, or for multiple purposes, such as hydroelectric power, municipal and industrial water deliveries, and flood control. The Bureau generally operates and maintains multipurpose projects, whereas water districts operate and maintain single purpose projects.

The purpose of the Bureau's operation and maintenance program is to ensure reliable water delivery, improve system efficiencies, extend the useful life of projects, and secure repayment of reimbursable project costs. In fiscal year 1994, the Bureau's total estimated operation and maintenance expense obligations were \$317 million. For multipurpose operation and maintenance expenses, which do not benefit a specific purpose, the Bureau determines the amount of operation and maintenance expenses that is reimbursable by allocating the joint expenses to the various project purposes. Generally, the expenses allocated to the purposes of irrigation, municipal and industrial water delivery, and power generation are reimbursable, while the expenses allocated to the purposes of flood control, recreation, and fish and wildlife management are nonreimbursable. The Bureau bills the water users for reimbursable expenses through water rates or periodic assessments.

SCOPE OF AUDIT

The scope of our followup audit was limited to reviewing actions taken on the recommendations made in the December 1991 report. Accordingly, we limited our review to the six main projects (see Appendix 3) discussed in our prior report. To accomplish our objective, we reviewed documents and records pertaining to: (1) the bases for allocating expenses between reimbursable and nonreimbursable project purposes; (2) water rate computations for the recovery of operation and maintenance expenses; and (3) billing practices, including the assessment of interest and penalties on unpaid operation and maintenance expenses for fiscal years 1992, 1993, and 1994. We interviewed program and administrative personnel responsible for allocating, assessing, and recovering operation and maintenance expenses and officials responsible for implementing the prior audit recommendations.

The audit was performed at the Bureau's five regional offices and the Denver Office (see Appendix 3). This review was made, as applicable, in accordance with the 'Government Auditing Standards,' issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. Because of the limited scope and objective of our review, internal controls were reviewed only to the extent that they affected corrective actions taken on the recommendations.

We also reviewed the Department's Annual Statement and Report, required by the Federal Managers' Financial Integrity Act, for fiscal year 1993 to determine whether any reported weaknesses were within the objective and scope of our audit. As a result of our prior audit report the Department reported inadequate policies and procedures for the recovery of operation and maintenance program expenses as a material weakness. The actions identified by the Bureau to correct the material weakness were originally scheduled for completion by 1992 but were rescheduled for implementation at various dates through 1995. We determined that because of the

weakness, Government revenues continued to decrease because the identified actions were not fully implemented, as discussed in the Results of Audit section of this report. Our followup recommendations, if implemented, should correct the weaknesses identified at the sites reviewed.

PRIOR AUDIT COVERAGE

Our prior audit concluded that the Bureau did not fully recover or assess all reimbursable operation and maintenance expenses. This occurred because the Bureau: (1) did not properly follow allocation policies and guidelines; (2) deferred the recovery of or understated expenses; (3) inappropriately delayed billings or did not bill certain users for annual operation and maintenance expenses; and (4) did not properly assess delinquent charges. In addition, the Bureau had not established guidelines requiring in-depth, periodic reviews of the operation and maintenance expense allocations of projects. The report concluded that as a result the Bureau had not recovered approximately \$6.5 million of fiscal year 1990 operation and maintenance expenses and would continue to lose about \$3.9 million of these expenses annually unless corrective actions were taken. The Bureau originally agreed to implement the report's seven recommendations by December 31, 1992, but subsequently rescheduled the implementation dates for four of the recommendations to dates ranging from December 1993 through September 1995. As of December 1994, the Office of the Assistant Secretary for Policy, Management and Budget classified only Recommendation 2 as still being tracked for implementation by September 1995.

Our office and the General Accounting Office have also issued five other audit reports that addressed aspects of the recovery of operation and maintenance expenses (see Appendix 4). The reports concluded that the Bureau needed to update operation and maintenance expense allocations; simplify the cost allocation methodology; improve internal controls over debt collection; and accrue, assess, and collect penalties and interest on delinquent payments.

RESULTS OF AUDIT

We found that of the seven recommendations contained in our prior audit report, four were implemented and three were partially implemented (see Appendix 2). Recommendations were not fully implemented because the Bureau had not: (1) revised operation and maintenance expense allocations; (2) developed accounting guidelines for property replacement factors; and (3) recovered the costs of performing reviews of operation and maintenance activities on project facilities. We also found that two regions did not comply with contractual agreements for issuing billings and assessing interest and penalties on late payments. As a result, the Bureau has not recovered \$14.8 million of reimbursable expenses from project

beneficiaries for fiscal years 1992 through 1994 and may not recover costs exceeding \$4.6 million annually.

Recommendation 1. Establish guidelines requiring an in-depth, period review of the operation and maintenance expense allocation of each project to ensure that the reimbursable expense allocations conform to Reclamation Policies and guidellines.

The prior audit found that if the Bureau had had guidelines requiring an in-depth, periodic review of each project's allocation base, appropriate allocations could have been developed to charge reimbursable operation and maintenance expenses in a more accurate manner. The Bureau originally agreed to issue guidelines by September 30, 1992, but subsequently extended the implementation date to September 1994. Our followup review found that the Bureau issued the guidelines in December 1994; therefore, we consider this recommendation implemented.

Recommendation 2. Revise the operation and maintenance expense allocations for the projects included in our review, determine the allowability for recovering those fiscal year 1990 reimbursable operation and maintenance expenses allocated to nonreimbursable Purposes, and bill the water users accordingly.

Our prior report found that the Bureau inappropriately allocated up to \$3 million in reimbursable operation and maintenance expenses to nonreimbursable project purposes in fiscal year 1990 for four projects (Yuma Area Projects, the Rio Grande Project, the Boise Project, and the Pick-Sloan Missouri Basin Program). The Bureau agreed to implement the recommendations by September 1995.

Our followup review disclosed that the Bureau had revised the operation and maintenance expense allocations for the Yuma Area Projects, the Rio Grande Project, and the Boise Project but had not implemented the revised allocations for the Yuma Projects and the Rio Grande Project. As a result of the almost 3-year delay in issuing the guidelines and revising the projects' allocations, the Bureau has not recovered an estimated \$13 million in operation and maintenance expenses from project beneficiaries for fiscal years 1992 through 1994 and will continue to lose an estimated \$4.6 million annually until the revised allocations have been implemented. In addition, the Bureau did not determine the allowability for recovering those fiscal year 1990 reimbursable operation and maintenance expenses allocated to nonreimbursable purposes for the four projects included in our prior review. Therefore, we consider the recommendation partially implemented.

Yuma Area Projects. The prior report concluded that the Bureau's Lower Colorado Region had allocated over 98 percent of its total expenses for operating and maintaining the Yuma Area Projects to nonreimbursable purposes because the Bureau had exempted the water users from paying these costs. As such, the Bureau did not collect up to \$2 million in additional reimbursements for fiscal Year 1990

activities that directly benefited the Colorado River water users. Our followup review found that the Region had developed an administrative fee designed to recover the costs of managing the water storage and delivery systems of the Lower Colorado River. The fee includes provisions for the recovery of operation and maintenance expenses for the Yuma Area Projects. The Region estimated that through application of the fee, it would recover about \$13.4 million annually from all the Lower Colorado River water users. However, the fee is contained in proposed regulations that Bureau officials estimated would not be implemented until at least fiscal year 1997 because of controversial provisions relating to interstate water marketing.

Until the fee is implemented, the Bureau will not recover an estimated \$3.5 million annually in operation and maintenance expenses from the Yuma Projects' beneficiaries. Based on the Region's current water usage information, we estimated that the Region had not collected expenses totaling about \$10.5 million from the Yuma Area Projects for fiscal years 1992 through 1994. According to a Regional official, the Region is reluctant to assess and collect these expenses before the administrative fee is implemented because contracts with the water users do not allow for the collection of these expenses. However, our review disclosed that the four major contracts for the Yuma Projects permitted the collection of operation and maintenance expenses from water users.

Rio Grande Project. The prior audit concluded that the Bureau's Upper Colorado Region overallocated operation and maintenance expenses to nonreimbursable project purposes for the Rio Grande Project. This occurred because irrigation allocations for the Project's Elephant Butte Dam and Reservoir were reallocated to nonreimbursable Project purposes, such as recreation and flood control. As a result, the Bureau would not recover over \$503,000 of fiscal year 1990 expenses for the Project. Our followup review found that the Bureau's Denver Office revised the expense allocation for the Elephant Butte Dam and Reservoir during fiscal year 1994. However, the Region had not implemented the revised allocation because the Denver Office did not issue the new guidelines until December 15, 1994. In addition, an attorney advisor in the Intermountain Regional Office, Office of the Solicitor requested that the revised allocation not be implemented because of a pending lawsuit between the Bureau and the Elephant Butte Irrigation District. Until the revised allocation is implemented, the Region will not recover an estimated \$40,000 annually. Based on the Region's current water usage information, we estimated that the Region did not collect expenses totaling about \$121,000 for fiscal years 1992 through 1994.

Boise Project. The prior audit concluded that the Pacific Northwest Region did not allocate operation and maintenance expenses on the Boise Project in accordance with guidelines developed by a Bureau task force. As a result, the Bureau would not recover over \$164,000 of fiscal year 1990 reimbursable expenses.

Our followup review found that in fiscal year 1993, the Pacific Northwest Region revised and implemented the expense allocation in accordance with the task force guidelines. This has resulted in the Region's collecting an additional \$101,000 of reimbursable expenses for the Boise, Minidoka, and Hungry Horse Projects in 1993.

Pick-Sloan Missouri Basin Program. The prior report concluded that the Great Plains Region's allocation of operation and maintenance expenses for the Pick-Sloan Missouri Basin Program resulted in an excess allocation of expenses to nonreimbursable purposes. As a result, the Bureau would not recover fiscal year 1990 expenses of \$256,000. Our followup review found that the Region did not revise the operation and maintenance expense allocation for the Program. According to Regional officials, the allocation was not revised because the Region was waiting for the Bureau's Denver Office to issue new allocation guidelines, which were issued on December 15, 1994. Until the allocation is revised and implemented, the Region will not recover an estimated \$200,000 annually in operation and maintenance expenses from the Program beneficiaries. Based on the Region's current water usage information, we estimated that the Region did not collect expenses totaling about \$497,000 for fiscal years 1992 and 1993 and an estimated \$200,000 for fiscal year 1994.

Our prior audit also disclosed that reimbursable expenses of \$440,000 for hydrothermal integration were inadvertently charged to nonreimbursable accounts by the Great Plains Region. Subsequent to our audit, the Region transferred all hydrothermal integration expenses for fiscal years 1989 to 1994 to the reimbursable power account. As a result, the Government will recover at least \$895,500 in reimbursable expenses.

Central Valley Project. The prior audit did not include the Mid-Pacific Region's Central Valley Project because the Bureau was in the process of proposing its 1988 revision to the Project's cost allocation. We conducted a limited review of the Project as part of our followup audit and found that the revised cost allocation was not implemented because the Region needed to modify the allocation to address: (1) public comments and concerns received on its proposed revision; (2) recommendations made in the March 1992 General Accounting Office report "Bureau of Reclamation Central Valley Project Cost Allocation Overdue and New Method Needed" (No. GAO/RCED-92-74) to simplify and expedite the cost allocation methodology; and (3) the requirements of the Central Valley Project Improvement Act of 1992. According to the Region's Economist, the Project's cost allocation is still being revised. Once the allocation has been revised, it will be sent for public comments, finalized, and approved by the Regional Director. The Region expects the Project's revised cost allocation and the reallocation of fiscal year 1995 operation and maintenance expenses to be implemented by December 31, 1995. The Region will not recover an estimated \$842,000 annually in operation and maintenance expenses from Project beneficiaries until the revised allocation is

implemented. Based on the Project's revised allocation percentages, we determined that the Region did not recover expenses totaling about \$1.7 million for fiscal years 1992 and 1993.

Recommendation 3. Obtain a legal opinion as to the need for Congressional approval to revise the basis for allocating operation and maintenance expenses on the Pick-Sloan Missouri Basin Program. If Confessional approval is required, it should be requested.

We consider the recommendation implemented because the Bureau determined that it has the authority to revise the basis for allocating operation and maintenance expenses on the Pick-Sloan Missouri Basin Program without Congressional approval.

Recommendation 4. Discontinue the Practice of capitalizing total annual operation and maintenance expenses on partially completed projects that have been placed in service.

The prior audit found that the Bureau's Lower Colorado Region developed an interim water rate that deferred the Government's recovery of about \$4.1 million in reimbursable operation and maintenance expenses during construction of the Central Arizona Project. The Region's decision to capitalize and defer repayment of the operation and maintenance expenses did not comply with the Secretary's decision on the water allocation for the Central Arizona Project, which required Project water to be marketed during interim periods to expedite the Project's repayment obligation. Although capitalizing the expenses enables the Government to recover its interim operation and maintenance costs, reimbursement was not expedited because the obligation was to be repaid over the Project's 50-year repayment period. The Bureau agreed to develop a policy by September 30, 1992, directing all of its regions to discontinue the capitalization practice unless the revenue stream from marketing water or services did not cover expenses. Our followup review disclosed that a Bureauwide policy was established in October 1993. Therefore, we consider this recommendation implemented.

Recommendation 5. Update guidelines for estimating the property replacement factors and develop accounting guidelines for such replacement factors.

The prior audit found that the Mid-Pacific Region's water rate for the Central Valley Project included an expense factor that was not sufficient to fund replacements of Project property. The report concluded that: (1) the Region had not adjusted the Project's expense factor to reflect property changes that had occurred since 1982; and (2) the Project's expense factor would only accumulate funds to replace property at its estimated or original cost. The Bureau agreed to update its guidelines for estimating the factors and to develop guidelines to account for such factors.

Our followup review found that the Bureau had issued final draft Reclamation Instructions in March 1994 but that the Instructions did not fully address the issues identified with the Central Valley Project's replacement factor. Specifically, the revision did not provide and the Region did not develop administrative and accounting guidelines for recovering the replacement cost of major replacement items, for updating the replacement list for property changes and new items acquired, or for indexing original or estimated property costs for inflation. A Mid-Pacific Regional official stated that because of other priorities, the development of replacement factor guidance was considered a lower priority item. The Region said that it was planning to implement the necessary corrective actions by September 30, 1995, to ensure that the replacement factor included in the water rates provides sufficient funds to replace project property. Therefore, we consider this recommendation partially implemented.

Recommendation 6. Revise Reclamation Instructions to require recovery of expenses incurred for reviewing the adequacy of operation and maintenance activities on project facilities.

The prior audit found that the Bureau did not bill water users for its reviews of operation and maintenance activities. These periodic reviews provided an indirect benefit to the water users by independently assessing the overall condition and operational readiness of project facilities. The report concluded that fiscal year 1990 billings would increase by \$1 million if the Bureau charged the water users for review expenses. The Bureau agreed to revise Reclamation Instructions by June 30, 1992, to require the regions to recover the expenses incurred for reviewing operation and maintenance activities. However, the Bureau stated that it would not attempt to obtain reimbursement from entities whose repayment and water service contracts did not have provisions for or did not specifically preclude the collection of these expenses.

In September 1992, the Bureau issued an Interim Reclamation Instruction (No. 233.1.17) on the recovery of expenses for reviewing operation and maintenance activities, which was to be implemented for fiscal year 1993. The Interim Instruction stated that review expenses would be recovered from the water users as project operation and maintenance costs unless specifically prohibited by contract language. The Interim Instruction also stated:

For existing contracts where the contract is silent on the [review of operation and maintenance] cost recovery issue, costs are to be paid by project beneficiaries because the absence of specific language is considered to be nonprohibitive.

However, our followup review found that in May 1993, the Bureau made significant changes to the Interim Instructions which delayed the recovery of review expenses

until fiscal year 1994. For contracts that were silent on the water users' responsibility to pay such costs, the revised Instruction stated that review expenses were not to be sought until formal rules and regulations addressing cost recovery were publicized. As a result of the delay, the regions will not recover an estimated \$44,000 in 1994 and annually from the 56 project beneficiaries whose contracts are silent on the users' responsibility to pay for operation and maintenance review costs. In addition, the Bureau did not recover about \$1.8 million in review expenses for fiscal years 1992 through 1994.

Our followup review also showed that three regions had not fully implemented corrective actions to recover \$43,900 in review expenses. Specifically, the Upper Colorado Region had not established accounting procedures and set up accounts to accumulate review expenses or billed and collected \$2,100 in costs for performing the reviews. Also, the Great Plains Region had not billed \$20,600 of the \$28,100 spent for the reimbursable reviews performed during fiscal year 1994, but the Region said that it plans to bill these costs during fiscal year 1995. Further, the Pacific Northwest Region had not billed or collected any of the \$21,200 spent on the eight reviews performed during fiscal year 1994 because cost data were lost at fiscal year-end. Subsequent to our review, the Region forwarded data to its finance office to bill for six reviews, totaling \$14,700, and was in the process of billing for the remaining two reviews.

While the Mid-Pacific Region's review requirements and practices remained the same, the four other regions had taken some actions to reduce costs to the water users for the reviews or to charge some reimbursable review expenses to nonreimbursable programs as follows:

- The Great Plains and the Pacific Northwest Regions extended their 3-year review cycle to 6 years and 5 years, respectively, for minor facilities. However, the Lower Colorado Region limited the extension of the review cycle (6 years) for minor facilities only to those water users who disputed being charged for the review expenses. Subsequent to our review, the Region changed the policy to review the condition of facilities on a case-by-case basis to determine the frequency of reviews.

- The Pacific Northwest Region eliminated the Denver Office's participation in performing reviews, limited the Region's participation to major facilities reviews, and designated responsibility for performing minor facilities reviews to its area offices.

- The Upper Colorado Region's policy combined its reviews of minor facilities that have been transferred to water users with its "management reviews" of the Water Conservation Program. The Regional policy is to perform the reviews every 5 years. Although Regional officials stated that they intend to charge the reimbursable review portion to the water users and the nonreimbursable portion to the Water

Conservation Program, there are no formal procedures in place to ensure that the costs will be properly charged. In addition, the Region limited the Denver Office's and its own participation in major reviews to those facilities that have been identified as unique or having complex problems, combined its major facilities reviews with the assessments performed under the Safety Evaluation of Existing Dams Program, and, charged some of the reimbursable review expenses to the Dams Program. As a result, the Region significantly reduced reimbursements from the water users. For example, the Region's fiscal year 1991 program costs for performing facilities reviews were about \$125,350, whereas in fiscal year 1994, program costs for performing reviews of the same group of facilities were only about \$16,770. As such, a review completed in 1991 cost the Region about \$8,050 when funded by the Government. The same review performed in 1994 cost \$432 when charged directly to the water users.

Since the Instructions were not revised properly, we consider the recommendation only partially implemented.

Recommendation 7. Direct the regions to comply with Reclamation Policies and contractual agreements for issuing operation and maintenance expense billings and for assessing penalties on late payments.

The prior audit found that the Bureau inappropriately delayed the billing of certain users for annual operation and maintenance expenses and did not properly assess delinquent charges, resulting in a loss to the Government of over \$47,000. The Bureau's September 25, 1991, memorandum directed the regions to comply with Bureau policy and contractual agreements. The Bureau also stated that it would follow up on regional compliance as part of the fiscal year 1992 cash management/debt collection management control review.

Our followup review disclosed that the Bureau did not perform the 1992 management control review but did perform a Departmentwide fiscal year 1994 cash management and debt collection functional review, the results of which were issued on June 22, 1994. The functional review included the five regional offices in our prior audit and identified no weaknesses related to the billing and collection of operation and maintenance expenses. Our followup review found, however, that internal control and compliance weaknesses relating to billing and assessing penalties for late payments still existed at the Mid-Pacific and the Pacific Northwest Regions, resulting in late payment penalties and interest charges totaling \$73,000 not being collected.

Mid-Pacific Region. At the Mid-Pacific Region, we reviewed the Region's monthly aging reports of outstanding accounts that were over \$10,000 and more than 1-year old. Of the 12 accounts reviewed, we found that 2 accounts related to the payment of operation and maintenance expenses were more than 18 months

delinquent in payment to the Bureau and that the water contractors were still receiving project water. The contracts between the Bureau and the water contractors state that no water will be made available to contractors during any period in which the contractors may be in arrears in the advance payment of any water rate charges due the United States. Reclamation Instructions also require that when collection efforts by the operating office have not produced payment, the matter should be referred to the Solicitor's field office. We found that Regional administrative personnel did not follow up on delinquent accounts and forward delinquent bills to the Denver Office because they thought that it was the Denver Office's responsibility to enforce collection. The Region had continued to supply water and had not enforced collection or followed up on delinquent billings because Regional officials: (1) were unaware of the delinquent accounts; (2) did not have sufficient staff or time to perform the required followup; and (3) considered collection enforcement a lower priority than billing. As a result, the Region has not collected late payment penalties and interest charges totaling about \$5,000 for fiscal years 1992 through 1994.

Pacific Northwest Region. Our followup review found that the Region did not assess or collect interest charges for delinquent payments from one of the Yakima Project districts because of an administrative error, resulting in a loss to the Region of about \$2,000. In addition, we recently completed an audit of the recovery of operation and maintenance costs of the Columbia Basin Project (Assignment No. W-IN-BOR-O02-94), which disclosed that the Region had not billed the water districts in a timely manner or assessed and collected penalties and interest charges on delinquent payments. As a result the Government lost about \$70,400 related to operation and maintenance expenses for the 3-year period ending December 31, 1993. This matter and the monetary amount were discussed in the Columbia Basin Project audit report.

Since the Bureau directed the Region to comply with Reclamation policies and contractual agreements, we consider the recommendation implemented. However, because our followup review found that weaknesses still existed in the Mid-Pacific and the Pacific Northwest Regions, we made a new recommendation (No. 5) to ensure that these two regions comply with Bureau policy and contractual agreements.

Recommendations

We recommend that the Commissioner, Bureau of Reclamation:

1. Publish proposed regulations and implement the administrative fee in order to collect management expenses from all Lower Colorado River water beneficiaries.
2. Approve and implement the revised Central Valley Project operation and maintenance expense allocation and bill the water users accordingly.

3. Ensure that the Mid-Pacific Region develops administrative and accounting guidelines for recovering the replacement cost of major replacement items. These guidelines should include updating the list of replacements to incorporate items acquired since the replacement factor was developed, adding new items as they are acquired, and indexing original or estimated property costs for inflation.

4. Revise the Reclamation Instructions to require regions to recover costs associated with performing operation and maintenance reviews except when legislation or contractual agreements specifically prohibit the collection of these expenses. These Instructions should include establishing procedures to accumulate and account for all direct and indirect review expenses and to bill and collect the expenses from the water users.

5. Ensure that the Mid-Pacific and the Pacific Northwest Regions comply with Reclamation policies and contractual agreements for issuing operation and maintenance expense billings and for assessing interest and penalties on late payments, including the requirement to not deliver project water to water districts that are delinquent in their payments.

On May 22, 1995, a draft of this report was provided to the Bureau for comment, and a July 6, 1995, written response was requested. Our office subsequently granted the Bureau extensions to July 21 and September 13, 1995, in which to respond. Our discussions with Bureau officials had indicated that the Bureau was planning to concur with all of the report's recommendations and was developing target dates for implementation. However, as of September 22, 1995, the Bureau's written response had not been received. Accordingly, all of the recommendations are considered unresolved.

In accordance with the Departmental Manual (360 DM 5.3), we are requesting a written response to this report by November 30, 1995. The response should provide the information requested in Appendix 5.

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

cc: Commissioner, Bureau of Reclamation
Chief, Division of Management Control and
Audit Follow-up
Audit Liaison Officer, Water and Science
Audit Liaison Officer, Bureau of Reclamation

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Area/Project</u>	<u>Potential Additional Revenues*</u>	<u>Lost Revenues (Fiscal Years 1992 - 1994)</u>
Allocation of Operation and Maintenance Expenses		
Yuma Area Projects	\$3,489,000	\$10,468,000
Rio Grande Project	40,000	121,000
Pick-Sloan Missouri Basin Program	200,000	697,000
Central Valley Project	842,000	1,685,000
Operation and Maintenance Review Expenses		
Reimbursable Expenses,	44,000	1,784,000
Silent Contracts	44,000	44,000
Billing Delays and Payment Delinquencies		
Mid Pacific Region		5,000
Pacific Northwest Region	<u> </u>	<u>2,000</u>
Total	<u>\$4,659,000</u>	<u>\$14,806,000</u>

“The amounts represent the recurring operation and maintenance expenses that will not be recouped annually from project beneficiaries if corrective actions are not taken.

**SUMMARY OF RECOMMENDATIONS AND CORRECTIVE
ACTIONS FOR AUDIT REPORT “RECOVERY OF OPERATION
AND MAINTENANCE PROGRAM EXPENSES,
BUREAU OF RECLAMATION”**

<u>Recommendations</u>	<u>Status of Recommendations and Corrective Actions</u>
1. Establish guidelines requiring an in-depth, periodic review of the operation and maintenance expense allocation of each project to ensure that the reimbursable expense allocations conform to Reclamation policies and guidelines.	Implemented. Guidelines were issued on December 15, 1994.
2. Revise the operation and maintenance expense allocations for the projects included in our review, determine the allowability for recovering those fiscal year 1990 reimbursable operation and maintenance expenses allocated to nonreimbursable purposes, and bill the water users accordingly.	Partially implemented. The expense allocation for one project has not been revised, and revised expense allocations for two projects have not been implemented. The Bureau’s revised target date is September 1995.
3. Obtain a legal opinion as to the need for Congressional approval to revise the basis for allocating operation and maintenance expenses on the Pick-Sloan Missouri Basin Program. If Congressional approval is required, it should be requested.	Implemented. The Bureau determined that it has the legal authority to revise the Program’s expense allocation.
4. Discontinue the practice of capitalizing total annual operation and maintenance expenses on partially completed projects that have been placed in service.	Implemented. The Bureau established a policy in October 1993 to discontinue the practice of capitalizing operation and maintenance expenses.
5. Update guidelines for estimating the property replacement factors and develop accounting guidelines for such replacement factors.	Partially implemented. Guidelines were not developed to ensure that the replacement factors were sufficient to replace project property.
6. Revise Reclamation Instructions to require recovery of expenses incurred for reviewing the adequacy of operation and maintenance activities on project facilities.	Partially implemented. Interim Reclamation Instructions were revised in September 1992 but were subsequently changed which reduced and delayed the recovery of expenses.
7. Direct the regions to comply with Reclamation policies and contractual agreements for issuing operation and maintenance expense billings and for assessing penalties on late payments.	Implemented. Regions were directed to comply with Bureau policy and contractual agreements but were not complying.

OFFICES VISITED AND CONTACTED

<u>Office/Project</u>	<u>Location</u>
Denver Office	Lakewood, Colorado
Lower Colorado Region Yuma Area Projects	Boulder City, Nevada
Upper Colorado Region Rio Grande Project	Salt Lake City, Utah
Great Plains Region* Pick-Sloan Missouri Basin Program	Billings, Montana
Pacific Northwest Region* Boise Project Columbia Basin Project	Boise, Idaho
Mid-Pacific Region Central Valley Project	Sacramento, California

“Contacted only.”

PRIOR AUDIT COVERAGE

The Office of Inspector General and the General Accounting Office have issued five audit reports that addressed aspects of the recovery of operation and maintenance expenses as follows:

- The September 1993 Office of Inspector General report “Pick-Sloan Missouri Basin Program Cost Allocation, Bureau of Reclamation” (No. 93-1-1641) concluded that Program beneficiaries did not pay an equitable share of the operation and maintenance costs for the use of existing multipurpose facilities. The report stated that until the Program’s cost allocations were updated to reflect “realistic development expectations,” operation and maintenance costs would continue to be allocated inequitably among Program beneficiaries and the taxpayers would pay a disproportionate share of Program and financing costs. The report also stated that in 1991, taxpayers paid for an estimated \$2 million in operation and maintenance costs that should have been borne by power beneficiaries. We recommended that the Bureau modify the allocation of operation and maintenance costs to initiate recovery of these amounts as soon as possible. As discussed in the Results of Audit section of our current report, we found that the Bureau still had not modified the Pick-Sloan operation and maintenance allocation.

- The December 1992 Office of Inspector General report “Bureau of Reclamation Combined Statement of Financial Position as of September 30, 1991” (No. 93-I-367) concluded that although the Bureau’s automated accounting system was designed to provide its management with details on the collection status of individual bills, the regions had not entered this information into the system for all outstanding bills. As a result, Bureau management had no means of reviewing and monitoring the collection efforts in a timely manner to ensure that all necessary debt collection actions were taken for each individual account and to initiate action to write off accounts as uncollectible when warranted. As discussed in the Results of Audit section of our current report, we found that the Bureau’s Mid-Pacific and Pacific Northwest Regions were not monitoring debt collection efforts to ensure that necessary actions were taken.

- The September 1991 Office of Inspector General report “Implementation of the Federal Financial System, Bureau of Reclamation” (No. 91-1-1445) concluded that the Bureau did not assess and record interest receivables effectively and process accounts receivable transactions efficiently. In addition, the Bureau did not assess and record in the system \$330,000 in interest related to delinquent accounts

receivable. As discussed in the Results of Audit section of this report, we found that the Bureau's Mid-Pacific and Pacific Northwest Regions were not assessing penalties on delinquent accounts.

- The December 1987 Office of Inspector General report "Bureau of Reclamation's Compliance With the Federal Managers' Financial Integrity Act of 1982, Fiscal Year 1987" (No. 88-22) concluded that three of the four Bureau reviews did not include sufficient testing to identify material weaknesses. The report identified significant internal control weaknesses for debt collection in both the Pacific Northwest and the Mid-Pacific Regions that were not disclosed by the Bureau's internal reviews. The report also stated that interest and administrative charges were not assessed by the Mid-Pacific and the Pacific Northwest Regions for 32 delinquent bills totaling \$405,116. At an annual rate of 7 percent, the amount of interest would be \$28,358 per year. As discussed in the Results of Audit section of our current report, we found that the Bureau's Mid-Pacific and Pacific Northwest Regions were not assessing penalties on late payments.

- The March 1992 General Accounting Office report "Bureau of Reclamation Central Valley Project Cost Allocation Overdue and New Method Needed" (No. GAO/RCED-92-74) concluded that the Bureau had not met the Congressionally mandated deadline for updating the Central Valley Project's cost allocation and noted two fundamental problems in the Bureau's cost allocation method: (1) the reliance on assumptions and subjective judgments about costs and benefits relating to each project purpose that were open to question; and (2) the need for data that were not always available or that were time-consuming to generate. The report recommended that the Bureau adopt a cost allocation methodology which was less complicated and more timely and which relied on existing data. As discussed in the Results of Audit section of our current report, we found that the Project's cost allocation is still being revised and that the Mid-Pacific Region expects the revised cost allocation and the reallocation of fiscal year 1995 operation and maintenance expenses to be implemented by December 1995.

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1, 2, 3, 4, and 5	Unresolved.	Provide a response indicating concurrence or nonconcurrence with each recommendation. If concurrence is indicated, provide an action plan that identifies the target date and title of the official responsible for implementation. If nonconcurrence is indicated, provide specific reasons for the nonconcurrence.

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