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

AUDIT REPORT

FOLLOWUP OF RECOMMENDATIONS
CONCERNING REPAYMENT OF
MUNICIPAL AND INDUSTRIAL WATER SUPPLY
INVESTMENT COSTS,
BUREAU OF RECLAMATION

REPORT NO. 00-I-270
MARCH 2000
EXECUTIVE SUMMARY

Followup of Recommendations Concerning Repayment of Municipal and Industrial Water Supply Investment Costs, Bureau of Reclamation
Report No. 00-I-270
March 2000

BACKGROUND

Our August 1992 audit report “Repayment of Municipal and Industrial Water Supply Investment Costs, Bureau of Reclamation” (No. 92-I-1 128) stated that the Bureau of Reclamation (BOR) was not fully recovering the Government’s costs of financing municipal and industrial water supply facilities that were originally constructed to supply water for irrigation purposes. According to the report, this occurred primarily because BOR had not established the controls needed to identify changes in water use from irrigation to municipal and industrial purposes. As a result, we estimated that BOR was not recovering financing costs of more than $1.3 million annually on 11 projects reviewed. We also reported that BOR guidelines did not include provisions to allow the Government to fully recover financing costs from the date project construction was completed to the date that these facilities were converted to municipal and industrial purposes. Consequently, we estimated that for the 11 projects, BOR would not recover municipal and industrial financing costs ranging from $23 million, using project interest rates, to $128 million, using U.S. Treasury interest rates. To improve BOR’s internal controls and ensure that the Government’s financing costs are fully recovered from project beneficiaries, we recommended that BOR take the following actions: establish internal controls to require periodic reviews of annual project water use to ensure that the quantities of water delivered are in conformance with the contract terms (Recommendation 1); revise its guidelines to provide for the recovery of an equitable portion of the Government’s financing costs on facilities that have been converted to municipal and industrial use (Recommendation 2); and compute and recover the Government’s financing costs on the 11 projects identified as having water use conversions and on any other projects where conversions have occurred, as identified through implementation of our recommendations (Recommendation 3). BOR agreed to implement the first recommendation and the five action items established by the Assistant Secretary for Policy, Management and Budget in lieu of the other two recommendations.

OBJECTIVE

The objective of our audit was to determine whether BOR had taken sufficient actions to implement the recommendations made in our August 1992 audit report and whether any new recommendations were warranted.
RESULTS IN BRIEF

Overall, we found that BOR had not taken sufficient actions to implement the recommendations made in our August 1992 audit report. Specifically, BOR had not developed procedures or conducted adequate reviews to ensure that changes in water use were identified and had not completed four of the five agreed-upon actions designed to provide policy guidance and assist it in valuing and reporting on water use conversions to ensure that the Government fully recovered the cost of financing municipal and industrial water supply facilities that were originally constructed to supply water for irrigation purposes. As a result, BOR did not have sufficient procedures and controls to identify changes in water use and ensure that an equitable portion of the Government’s costs of financing the facilities were recovered. Based on our current review, we identified financing costs of about $217,000 on 4 of 12 projects reviewed that BOR will not recover annually. In addition, BOR has lost the opportunity to recover financing costs of about $2.3 million associated with water use conversions on six projects identified in our August 1992 report.

RECOMMENDATIONS

We recommended that BOR’s Commissioner establish uniform and consistent control procedures that require periodic reviews of annual project water use to ensure that the quantities delivered and used are in conformance with the water contracts, complete the five action items that are cited in this report, and report BOR’s lack of adequate procedures to identify water conversions in BOR’s annual assurance statement on management controls as a material weakness under the Federal Managers’ Financial Integrity Act.

AUDITEE COMMENTS AND OIG EVALUATION

BOR said that it “agrees in principle” with the recommendation relating to requiring periodic reviews of annual project water use and would establish a task group responsible for “developing various options for Reclamation-wide implementation of directives.” BOR concurred with the remaining two recommendations relating to completing five action items and reporting the lack of procedures for identifying water conversions as a material weakness. Based on the response, we considered the three recommendations resolved but not implemented.
AUDIT REPORT

Memorandum

To: Assistant Secretary for Water and Science

From: Roger LaRouche
Acting Assistant Inspector General for Audits

Subject: Audit Report on Followup of Recommendations Concerning Repayment of Municipal and Industrial Water Supply Investment Costs, Bureau of Reclamation (No. 00-I-270)

INTRODUCTION

This report presents the results of our audit of actions taken by the Bureau of Reclamation (BOR) to implement the recommendations made in our August 1992 audit report entitled “Repayment of Municipal and Industrial Water Supply Investment Costs, Bureau of Reclamation” (No. 92-I-128). The objective of our current audit was to determine whether BOR had taken sufficient actions to implement the recommendations made in the August 1992 audit report and whether any new recommendations were warranted.

BACKGROUND

BOR has constructed more than 120 multipurpose projects, which provide, among other benefits, water for irrigation and municipal and industrial purposes in the 17 western states. Construction of these projects was financed primarily with funds appropriated by the Congress. In accordance with Reclamation law,1 water users enter into contracts with BOR to repay the Government’s investment in those projects. Beginning with project construction, BOR computes and is supposed to recover, from municipal and industrial water contractors, interest on their construction obligations at rates established by Reclamation law.

However, to encourage agricultural development within the western states, the Congress has

1Reclamation law is a term used to refer to the total body of public laws governing the reclamation program, beginning with the Reclamation Act of 1902 and including all laws amending and supplementing the Act.
subsidized irrigation contractors by not authorizing BOR to assess and collect interest on the repayment obligations associated with irrigation water deliveries.

Because of population growth in the western United States, including areas served by BOR water projects, the demand for municipal and industrial water supplies has increased significantly, with deliveries from BOR projects doubling since 1965. Because of this increased demand, project facilities originally constructed by BOR to provide water for irrigation purposes have been used to provide more water for municipal and industrial purposes than was originally planned.

In our August 1992 audit report, we stated that BOR was not fully recovering the Government’s costs of financing municipal and industrial water supply facilities that were originally constructed to supply water for irrigation purposes. This occurred primarily because BOR had not established the controls needed to identify changes in water use from irrigation to municipal and industrial purposes. As a result, we estimated that BOR was not recovering financing costs of more than $1.3 million annually on 11 projects reviewed. We also reported that BOR guidelines did not include provisions to allow the Government to fully recover financing costs from the date project construction was completed to the date that these facilities were converted to municipal and industrial purposes. Consequently, we estimated that for the 11 projects, BOR would not recover municipal and industrial financing costs ranging from $23 million, using project interest rates, to $128 million, using U.S. Treasury interest rates.

To improve BOR’s internal controls and ensure that the Government’s financing costs are fully recovered from project beneficiaries, we recommended that BOR take the following actions: establish internal controls to require periodic reviews of annual project water use to ensure that the quantities of water delivered are in conformance with the contract terms (Recommendation 1); revise its guidelines to provide for the recovery of an equitable portion of the Government’s financing costs on facilities that have been converted to municipal and industrial use (Recommendation 2); and compute and recover the Government’s financing costs on the 11 projects identified as having water use conversions and on any other projects where conversions have occurred, as identified through implementation of our recommendations (Recommendation 3).

In response to Recommendation 1, BOR agreed to implement procedures to require periodic reviews of the water quantities delivered to ensure that they are in conformance with contractual terms. Based on BOR’s response, we considered Recommendation 1 resolved but not implemented, and the Department of the Interior reported the control deficiency as a material weakness under the Federal Managers’ Financial Integrity Act in December 1992. In December 1994, the Assistant Secretary for Policy, Management and Budget considered the recommendation implemented based on corrective actions cited by BOR, and in December 1995, the Department reported that the material control weakness had been corrected.

In response to Recommendations 2 and 3, BOR agreed to revise its guidelines to ensure that an “equitable share” of the Government’s financing costs are recovered during the repayment period. Also, BOR agreed to compute and recover an “equitable share” of the Government’s financing costs on the projects included in the audit report and on other projects where changes in water use have occurred. In accordance with the Departmental Manual, we
referred the two recommendations to the Assistant Secretary for Policy, Management and Budget in February 1993 for tracking of implementation. However, by November 1996, BOR changed its position and stated that it did not concur with these recommendations. Therefore, Policy, Management and Budget resolved the matter in July 1997 by establishing, in lieu of the recommendations, five action items, which BOR agreed to implement. BOR reported in January 1999 that it had completed actions on four of the five items. BOR officials told us in December 1999 that work on the remaining item would be completed by March 31, 2000.

SCOPE OF AUDIT

The scope of our current audit included an evaluation of the actions taken by BOR to implement Recommendation 1 in the August 1992 report and the five action items specified in the July 25, 1997, memorandum that resolved Recommendations 2 and 3. To accomplish our objective, we interviewed officials from BOR’s Denver Office and BOR’s regional and area offices (see Appendix 2) and reviewed supporting documentation pertaining to the actions taken in response to Recommendation 1 and the action items. In addition, we reviewed the latest available water usage records at three of BOR’s five regions and compared these amounts with amounts recorded in fiscal year 1992 to identify additional conversions of use. In instances where we identified increased municipal and industrial water usage, we reviewed contracts, legislation, and other documents to determine whether the increased municipal and industrial use was authorized and whether the contractor had paid municipal and industrial water rates to BOR.

We conducted our audit from May through September 1999 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. We also reviewed the Departmental Reports on Accountability for fiscal years 1997 and 1998, which included information required by the Federal Managers’ Financial Integrity Act, and BOR’s annual assurance statements on management controls for fiscal years 1997 and 1998 and determined that no material weaknesses were reported that directly related to the objective and scope of our audit.

We also evaluated BOR’s system of internal controls related to our audit objective. We found that BOR did not establish sufficient procedures to ensure that conversions of water use from irrigation to municipal and industrial purposes were identified. The internal control weakness is discussed in the Results of Audit section of this report. The recommendations, if implemented, should improve the internal controls in this area.

PRIOR AUDIT COVERAGE

During the past 5 years, neither the Office of Inspector General nor the General Accounting Office has issued any reports that directly related to the objective and scope of our audit.
RESULTS OF AUDIT

Overall, we found that BOR had not taken sufficient actions to implement Recommendation 1 or to complete four of the five action items agreed to as a result of our August 1992 audit report. To resolve Recommendation 1, BOR agreed to develop “Reclamation Instructions,” which would establish procedures for monitoring water use and require periodic reviews to ensure that the quantities of water delivered are in conformance with contractual terms. However, we found that BOR had not developed procedures or conducted adequate reviews to ensure that changes in water use were identified. To resolve Recommendations 2 and 3, BOR agreed to take five actions designed to provide policy guidance and assist BOR in valuing and reporting on water use conversions to ensure that the Government fully recovers the cost of financing municipal and industrial water supply facilities that were originally constructed to supply water for irrigation purposes. We found that actions were not completed on four of the five items in that BOR did not (1) develop example water rates for facilities expecting future conversions, (2) report annually (beginning with fiscal year 1997) on the individual quantities and prices of the water converted during the year, (3) conduct economic studies to estimate the demand for municipal and industrial water in major markets supplied by BOR, and (4) issue guidance regarding the incorporation of contract language for the periodic reallocation of costs based on current water use. As a result, we found that BOR did not have sufficient procedures and controls to identify changes in water use and ensure that an equitable portion of the Government’s costs of financing these facilities were recovered. Based on our current review, we identified financing costs of about $217,000 on 4 of 12 projects reviewed that BOR will not recover annually. In addition, BOR has lost the opportunity to recover financing costs of about $2.3 million associated with water use conversions on six projects identified in our 1992 report.

BOR Actions

Our review of BOR’s efforts to implement Recommendation 1 and the agreed-upon action items are summarized in the paragraphs that follow.

Recommendation 1. “Establish internal controls requiring periodic reviews of annual project water use to ensure that the quantity delivered conforms with that specified in the contracts.”

In response to the recommendation, BOR stated that it would develop “Reclamation Instructions” to require periodic reviews to ensure that the quantities of water delivered are in conformance with contractual terms. We found that instead of “Reclamation Instructions,” a November 22, 1994, policy memorandum was issued by the Commissioner, which stated:

The regional offices and area offices are directed to establish procedures to periodically review water deliveries to ensure they conform to the contract provisions. As a part of the implementation of this recommendation, you should review your data reporting procedures to ensure that accurate data is being reported by the districts... It is anticipated Reclamation will adopt
Based on this memorandum, BOR and the Assistant Secretary for Policy, Management and Budget considered the recommendation to be implemented, and the Department considered the material control weakness reported under the Federal Managers’ Financial Integrity Act to be corrected. However, we believe that the memorandum did not establish the recommended procedures and the necessary internal controls because BOR’s regional and field offices did not develop the Commissioner’s directed procedures to verify water use, conduct sufficient reviews to ensure compliance with contractual terms, or verify the overall accuracy of the monitoring program. Instead, at the regional and field offices that we visited or contacted, BOR officials cited “other” procedures and reviews which they believed satisfied the intent of the policy memorandum such as the following:

- Reclamation Reform Act reviews. BOR officials from the Mid-Pacific and Upper Colorado Regions stated that certain procedures performed during their water contractor reviews for compliance with requirements of the Reclamation Reform Act of 1982 (43 U.S.C. § 390) were used to identify changes in water use. At the Mid-Pacific Region, officials stated that since 1997, their reviews included asking contractor officials whether they had established procedures to assess municipal and industrial water rates for water delivered to small tracts. At the Upper Colorado Region, officials stated that their reviews included an examination of water user lists to identify potential municipal and industrial water users and that, if any were noted, the cognizant BOR repayment specialist would be asked to determine whether a conversion of use had occurred.

- Contract renewal procedures. At all five regions contacted, officials stated that they addressed conversions of water use when they renewed existing contracts. For conversions proposed by water districts, BOR included provisions in contracts to recover a portion of the Government’s costs associated with the converted water. To allow for future conversions, BOR also included appropriate provisions in contracts to allow charging municipal and industrial water rates.

- Water delivery tracking. At all five regions contacted, officials stated that the quantity of water delivered to water contractors was “tracked” by BOR on projects that it operated. By doing this, according to those officials, BOR ensured that the amount of water it delivered to water contractors was in conformance with its contractual terms.

We believe that the procedures and reviews cited by regional officials provide a part of the internal control environment anticipated by the Commissioner’s policy memorandum and/or Recommendation 1. However, we believe that the procedures do not ensure that (1) the amounts of irrigation and municipal and industrial water use reported by water contractors are accurate and (2) the use of the water is in conformance with contract provisions. Such expanded procedures could be performed during the Reclamation Reform Act reviews, which are performed on a 3-year cycle, but alternative arrangements and procedures would

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2Water delivered to small parcels of land, as defined in water district contracts, is considered to be used for municipal and industrial purposes.
be needed for water contractors that are not subject to these reviews. Furthermore, we found that no action had been taken to establish procedures for verifying the overall accuracy of the monitoring program.

As part of our evaluation of the regions’ cited alternative procedures, we determined the extent to which the regions collected water usage data (amount of municipal and industrial and irrigation water deliveries by water contractors). We found that in 1998, the regions collected water use data for only 58 (17 percent) of the 342 water contractors served by BOR, while in 1992, the regions collected water use data for 307 (90 percent) of the 342 water contractors. These water use data are compared in Table 1.

**Table 1. Collection of Water Use Data**

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Water Contractors</th>
<th>Water Contractors Reporting</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent*</td>
</tr>
<tr>
<td>Great Plains</td>
<td>126</td>
<td>112</td>
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<tr>
<td>Lower Colorado</td>
<td>36</td>
<td>27</td>
</tr>
<tr>
<td>Mid-Pacific</td>
<td>14**</td>
<td>14</td>
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<tr>
<td>Pacific Northwest</td>
<td>111</td>
<td>101</td>
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<tr>
<td>Upper Colorado</td>
<td>55</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>342</td>
<td>307</td>
</tr>
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</table>

*The percentages of contractors reporting in 1992 and 1998 were calculated by dividing the number of contractors reporting each year by the total number of water contractors.

**The number of water contractors for the Mid-Pacific Region excludes 102 Central Valley Project contractors that, under the terms of their contracts, were required to pay water rates based on the actual amount of water received.

As shown in Table 1, some regions collected a greater percentage of water use data than other regions, but no regions verified the data submitted. Also, water contractors did not report their data consistently. For example, a contractor reported municipal and industrial water deliveries as miscellaneous deliveries in certain years and as municipal and industrial in other years, while another contractor reported municipal and industrial water deliveries as irrigation. We believe that BOR needs to ensure that accurate and complete water use data are available in order to identify potential conversions. Because water use data were not available from all contractors, we concluded that BOR’s ability to identify conversions in a timely manner had not improved since our 1992 report was issued. As such, we believe that a material control weakness still exists and should be reported in BOR’s annual

1Water contractors that have fully met their construction repayment obligations are exempt from the Act’s provisions.

4In our August 1992 report, we stated that BOR relied on data submitted by irrigation contractors to monitor water use without verifying its accuracy or compliance with contractual amounts. At that time, BOR published this data in an annual document entitled “Summary Statistics,” but BOR discontinued the document after 1992.
assurance statement on management controls under the Federal Managers’ Financial Integrity Act.

As part of our audit, we visited three of BOR’s regional offices to identify conversions of water use from irrigation to municipal and industrial purposes. Based on the limited reporting information available, we compared municipal and industrial water use reported in 1998 with the use reported in 1992 on 12 projects and identified 4 projects for which conversions of use had occurred that were not identified by BOR and were not covered by authorizing legislation or contract provisions. We estimated that BOR did not recover financing costs of about $21,700 in 1998 associated with these conversions. We also found that the Pacific Northwest Region did not take actions to recover financing costs for conversions on six projects identified in our 1992 report. As such, we estimated that BOR lost the opportunity to recover financing costs of about $2.3 million from 1993 to 1998 on these projects.

To fully implement Recommendation 1 from our August 1992 report, we believe that BOR should develop uniform and consistent control procedures to ensure that project water is used in conformance with contract terms. Specifically, BOR should (1) collect and verify annual water use data from all of its irrigation water contractors, (2) determine whether the water was used in conformance with contract terms, and (3) maintain documentation of the verifications performed and the determinations made.

**Action Item 1.** “Issue policy guidance to the regions and develop example rates for facilities expecting future conversions/ transfers.”

In response to this action item, BOR issued a November 13, 1997, memorandum entitled “Policy for Pricing Water Converting from Irrigation to Municipal and Industrial Service” to its regions that contained policy which applies to all proposed conversions that have not been reduced to contract unless an exception is approved by the Commissioner. Based on our review of the policy, we believe that BOR completed the requirement to issue policy guidance on water conversions. However, BOR did not develop “example rates” for facilities expecting future conversions. Instead, the memorandum stated only that “additional background information and guidance including examples of the current cost method will be provided in the near future.” (Emphasis added.) According to a BOR official, the example rates were not developed because BOR believed that the action taken to implement Action Item 3 would meet the requirement. We do not agree with this position because the wholesale market rates listed for Action Item 3 are too general and do not correlate to specific BOR projects in which future conversions are anticipated. As such, we believe that to consider the action completed, BOR needs to develop “example rates” specifically for its projects in which future water conversions are expected.

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*These projects are Tucumcari, The Dalles, Crescent Lake Dam, and Ventura River.

*This amount was computed in accordance with the Commissioner’s November 13, 1997, policy memorandum on pricing water conversions issued in response to Action Item 1.

*These projects are Yakima, Lewiston Orchards, Owhyee, Rathdrum Prairie, Rogue River Basin, and Crooked River.
Action Item 2. “Provide the Assistant Secretary for Water and Science with an annual report on the individual quantity and prices of the transfers and conversions that occurred during the year. The first year report will be issued for fiscal year 1997.”

In response to this action item, BOR’s November 13, 1997, policy memorandum established criteria for documenting how pricing decisions for water conversions would be made and stated that the Commissioner would submit annual reports to the Assistant Secretary beginning with the completion of fiscal year 1997. However, as of September 1999, these reports had not been submitted. A BOR official stated that a task group established to complete implementation of Action Item 5 will prepare the first report. However, specific milestones for completion of this action were not provided. As such, we do not consider Action Item 2 implemented until the reports are prepared and submitted to the Assistant Secretary for Water and Science.

Action Item 3. “Conduct economic studies and compile existing information to estimate the demand for M&I [municipal and industrial] water in the major markets supplied by federal projects. Information will be distributed to the regions to be used in developing pricing policies for water converted or transferred from agriculture to M&I [municipal and industrial] uses.”

In response to this action item, BOR issued a November 2, 1998, memorandum entitled “Wholesale Municipal and Industrial Water Rates” to its regions. The memorandum presented primarily wholesale water rates for 149 water providers in 15 of the 17 western states. However, according to the memorandum, BOR did not conduct economic studies or compile data to estimate future demand for municipal and industrial water because of “the complications associated with estimating the demand for municipal and industrial water in different markets.” As such, we believe that BOR did not take sufficient actions to satisfy the intent of the agreed-upon item. Therefore, to consider this action item complete, we believe that this information is needed to assist BOR in estimating future water demand and in developing prices for water conversions in the markets that BOR serves.

Action Item 4. “Issue guidance regarding the incorporation of contract language to provide for the periodic reallocation of costs based on current water use at the time and [for] rate review at five year intervals.”

In response to this action item, BOR incorporated in its November 13, 1997, policy memorandum, a requirement to review water rates at 5-year intervals but did not provide the guidance to incorporate contract language for the periodic reallocation of costs based on current water use. A BOR official said that a policy statement on the reallocation of costs was being developed. We believe that this guidance is needed to consider the action item complete and to provide for the recovery of an equitable share of the Government’s financing costs attributable to water supplies converted from irrigation to municipal and industrial purposes.

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*Excludes New Mexico and Idaho.
**Action Item 5.** “Review water transfer guidelines and determine if additional steps are required to facilitate voluntary transfers of water. A written report will be distributed to all regions and area offices.”

BOR’s established milestone for completion of this action item is March 31, 2000. Therefore, we did not evaluate BOR’s actions for completeness.

**Recommendations**

We recommend that the Commissioner, Bureau of Reclamation:

1. Establish uniform and consistent control procedures that require periodic reviews of annual project water use to ensure that the quantity delivered and used is in conformance with the water contracts. These procedures should include provisions to collect and verify annual water use data, determine whether the use of the water is in accordance with contract terms, and maintain documentation of the verifications performed and the determinations made.

2. Complete the five action items as agreed to with the Assistant Secretary for Policy, Management and Budget that are cited in this report.

3. Until Recommendation 1 is fully implemented, report BOR’s lack of adequate procedures to identify water conversions in BOR’s annual assurance statement on management controls as a material weakness under the Federal Managers’ Financial Integrity Act.

**BOR Response and Office of Inspector General Reply**

In the March 1, 2000, response (Appendix 3) to the draft report from the BOR Commissioner, BOR said that it “agrees in principle” with Recommendation 1 and concurred with Recommendations 2 and 3. Based on the response, we consider the recommendations resolved but not implemented. Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

**Recommendation 1.** Concurrence indicated.

**BOR Response.** BOR stated that it “agrees in principle with the desirability of these data and follow-up” and that it has “established a task group consisting of representatives from the Denver, regional, and area office staffs to address the audit findings.” BOR further stated that the task group is responsible for “developing various options for Reclamation-wide implementation of directives to meet the intent of the recommendation taking into account regional budget, staffing, and program priorities.” According to BOR, the task group will finalize a team report “outlining various viable options available to Reclamation” by July 31, 2000, when it intends to meet with the Audits staff “to discuss the most viable options that meet Reclamation’s legislative and contractual responsibilities and address the audit findings.”
Office of Inspector General Reply. We believe that BOR’s willingness to address both the audit findings and Recommendation 1 provides a forum to mutually resolve the recommendation. We are available to discuss and/or comment on the various options considered by the task group. Accordingly, we believe that this action is sufficient to consider Recommendation 1 resolved but not implemented.

Since the report’s recommendations are considered resolved, no further response to the Office of Inspector General is required (see Appendix 4).

Section S(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. In addition, the Office of Inspector General provides audit reports to the Congress.
## CLASSIFICATION OF MONETARY AMOUNTS

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<th>Finding Area</th>
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<tr>
<td>Monitoring water use</td>
<td>$217,000*</td>
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<tr>
<td>Conversions identified in 1992 audit report</td>
<td>2,262,000**</td>
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<td>Total</td>
<td>$2,479,000</td>
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*This amount is an estimate of the financing costs that the Government did not recover in 1998 and will not recover annually on project investments related to changes in water use on the four projects identified in this report.

**This amount is an estimate of the financing costs that the Government did not recover from 1993 to 1998 on project investments related to changes in water use on the six projects identified in our 1992 report.
### BUREAU OFFICES VISITED OR CONTACTED

<table>
<thead>
<tr>
<th>Office</th>
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<tbody>
<tr>
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<td>Provo Area Office</td>
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<td>El Paso Field Division*</td>
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<td>Western Colorado Area Office*</td>
<td>Grand Junction, Colorado</td>
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<td>Great Plains Regional Office*</td>
<td>Billings, Montana</td>
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<td>Snake River Area Office - West*</td>
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<td>Lower Colorado Regional Office*</td>
<td>Boulder City, Nevada</td>
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*Offices contacted.
MEMORANDUM

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

From: Eluid L. Martinez
     Commissioner


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

We recommend that the Commissioner, Bureau of Reclamation:

Recommendation 1:

Establish uniform and consistent control procedures that require periodic reviews of annual project water use to ensure that the quantity delivered and used is in conformance with the water contracts. These procedures should include provisions to collect and verify annual water use data, determine whether the use of the water is in accordance with contract terms, and maintain documentation of the verifications performed and the determinations made.

Response

Reclamation agrees in principle with the desirability of these data and follow-up. Reclamation has established a task group consisting of representatives from the Denver, regional, and area office staffs to address the audit findings. The task group has been charged with developing various options for Reclamation-wide implementation of directives to meet the intent of the recommendation taking into account regional budget, staffing, and program priorities. By July 31, 2000, the task group will finalize a team report outlining various viable options available to Reclamation. At that time, Reclamation intends to meet with your audit staff to discuss the most viable options that meet Reclamation’s legislative and contractual responsibilities and address the audit findings.
In support of this effort, Reclamation has recently received approval from the Office of Management and Budget to reinstate the “Water User Crop Census Report” which will provide basic water use data for all Reclamation projects. The task group has also been charged with identifying additional information to supplement the crop census report for documenting conversions of water from one use to another. The task group will determine how the water delivery data will be verified and documented relative to the provisions of the water contracts. The responsible official is the Director, Office of Policy.

**Recommendation 2:**

Complete the five action items as agreed to with the Assistant Secretary for Policy, Management and Budget that are cited in this report.

**Response**

Concur. The five action items will be completed in consultation with the staff of the Assistant Secretary for Policy, Management and Budget (PMB). Four of the five action items were considered to be complete; however, after further consultation with the PMB staff, it was determined that additional work needs to be completed. Portions of this additional work have already been undertaken and will be reviewed with the PMB staff. The planned completion date for the first four action items is September 30, 2000. The fifth action item has been included as part of the activities of the Reclamation Task Group addressing water transfers. This activity includes a review of the Departmental “Principles Governing Voluntary Water Transactions That Involve Or Affect Facilities Owned or Operated by the Department of Interior.” The completion date for the fifth action item is dependent on the ability of the team to finish its activities; however, the team work is projected to be completed no later than December 31, 2000. The responsible official is the Director, Office of Policy.

**Recommendation 3:**

Until Recommendation 1 is fully implemented, report Reclamation’s lack of adequate procedures to identify water conversions in Reclamation’s annual assurance statement on management controls as a material weakness under the Federal Managers’ Financial Integrity Act.

**Response**

Concur. If Recommendation 1 is not implemented by September 30, 2000, Reclamation will report this action as a material weakness in Reclamation’s fiscal year 2000 annual
assurance statement. The responsible official is Reclamation’s Management Control Coordinator.

If you have any questions or require additional information, please contact Luis Maez at (303) 445-2793.

cc: Assistant Secretary - Policy, Management and Budget, Attention: Benjamin Simon
     Assistant Secretary - Water and Science, Attention: Laura Brown
## STATUS OF AUDIT REPORT RECOMMENDATIONS

<table>
<thead>
<tr>
<th>Finding/Recommendation Reference</th>
<th>Status</th>
<th>Action Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>1, 2, and 3</td>
<td>Resolved; not implemented.</td>
<td>No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.</td>
</tr>
</tbody>
</table>

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ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO
THE OFFICE OF INSPECTOR GENERAL

Internet Complaint Form Address

http://www.oig.doi.gov/hotline_form.html

Within the Continental United States

U.S. Department of the Interior
Office of Inspector General
1849 C Street, N.W.
Mail Stop 5341 - MIB
Washington, D.C. 20240-0001

Our 24-hour
Telephone HOTLINE
1-800-424-508 1 or
(202) 208-5300

TDD for hearing impaired
(202) 208-2420

Outside the Continental United States

Caribbean Region

U.S. Department of the Interior
Office of Inspector General
Eastern Division - Investigations
4040 Fairfax Drive
Suite 303
Arlington, Virginia 22203

(703) 235-922 1

Pacific Region

U.S. Department of the Interior
Office of Inspector General
Guam Field Office
415 Chalan San Antonio
Baltej Pavilion, Suite 306
Agana, Guam 96911

(67 1) 647-6060