



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

# AUDIT REPORT

OAI-FS-17-01

October 2016

**MANAGEMENT LETTER ON THE  
SOUTHWESTERN FEDERAL POWER  
SYSTEM'S FISCAL YEAR 2015  
FINANCIAL STATEMENT AUDIT**



**Department of Energy**  
Washington, DC 20585

October 31, 2016

MEMORANDUM FOR THE ADMINISTRATOR, SOUTHWESTERN AREA POWER  
ADMINISTRATION

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

FROM: Rickey R. Hass  
Acting Inspector General

SUBJECT: INFORMATION: Audit Report for the "Management Letter on the  
Southwestern Federal Power System's Fiscal Year 2015 Financial  
Statement Audit"

KPMG LLP (KPMG), our contract auditors, planned and performed an audit of the combined financial statements of the Southwestern Federal Power System (the System) as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The combined financial statements include the Southwestern Area Power Administration, a component of the U.S. Department of Energy, and the hydroelectric generation and power operations of the U.S. Army Corps of Engineers, a component of the U.S. Department of Defense.

As part of the audit of the combined financial statements, KPMG considered the System's internal control over financial reporting (internal control) as a basis for designing auditing procedures for the purpose of expressing an opinion on the combined financial statements but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, KPMG did not express an opinion on the effectiveness of the System's internal control. The Office of Inspector General monitored audit progress and reviewed the audit report and related documentation. This review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted Government auditing standards.

During the audit, KPMG noted certain matters involving internal control and other operational matters that are presented in the attached management letter prepared by KPMG. The letter contains three findings that were issued during the course of the System's Fiscal Year 2015 Financial Statement Audit. Management concurred with each of the findings and provided planned corrective actions for the recommendations listed in the Management Letter.

Attachment

cc: Chief Financial Officer, CF-1  
Deputy Chief Financial Officer, CF-2

Director, Office of Finance and Accounting, CF-10  
Deputy Director, Office of Finance and Accounting, CF-10  
Assistant Director, Office of Financial Policy and Internal Controls, CF-12  
Chief Financial Officer, Southwestern Power Administration  
Acting Team Leader, Office of Financial Policy and Internal Controls, CF-12  
Audit Resolution Specialist, Office of Financial Policy and Internal Controls, CF-12  
Audit Liaison, Southwestern Area Power Administration

Report Number: OAI-FS-17-01



KPMG LLP  
Suite 310  
100 West Fifth Street  
Tulsa, OK 74103

Attachment

September 26, 2016

The Administrator of Southwestern Federal Power Administration and the  
U.S. Department of Energy Office of the Inspector General:

We have audited the combined financial statements of the Southwestern Federal Power System (SWFPS) as of and for the year ended September 30, 2015 and have issued our report thereon dated August 12, 2016. In planning and performing our audit of the combined financial statements of SWFPS, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered SWFPS' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements but not for the purpose of expressing an opinion on the effectiveness of SWFPS' internal control. Accordingly, we do not express an opinion on the effectiveness of SWFPS' internal control.

The combined financial statements include the hydroelectric generating and power operations of the U.S. Army Corps of Engineers (Corps), a component of the U.S. Department of Defense and the transmission and disposition of the related power by the Southwestern Power Administration (Southwestern), a component of the U.S. Department of Energy.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

**1. Inaccuracies of Accrued Liabilities Related to Fiscal Year-End – Southwestern (15-SWPA-01)**

During our testwork of a sample of 10 subsequent cash disbursements and invoices received and processed after September 30, 2015, we identified 1 invoice which was under accrued by a total of \$23,823. The under accrual was due to differences between the accruals made by Southwestern Power Administration staff (using a good faith effort and following the applicable policies) and the actual invoice amounts that were received and paid subsequent to September 30, 2015.

*Recommendation:*

We recommend that Southwestern enhance existing procedures and related controls to ensure all material procurement of goods and services received prior to period-end be timely and accurately accrued.



The Administrator of Southwestern Federal Power Administration and the  
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*Management Response:*

Southwestern concurs with the finding that the differences are not the result of a control deficiency. Southwestern will continue to monitor its accrual process.

**2. Inaccuracies of Accrued Liabilities Related to Fiscal Year-End – Corps (15-SWPA-02)**

During our testwork of a sample of 16 subsequent cash disbursements and invoices received and processed after September 30, 2015, we identified 5 invoices at 3 Army Corps of Engineers (Corps) districts (Ft. Worth, Little Rock and Tulsa) which were under accrued by a total of \$742,868. Two of the three under accruals at the Little Rock district were due to differences between the accruals made by the accounting department (using a good faith effort and following the applicable policies) and the actual invoice amounts that were received and paid subsequent to September 30, 2015. The remaining underaccrual at the Little Rock district was due to a subcontractor performing work when they were told to stop work due to the project being flooded. The program manager had no knowledge of the subcontractor performing work and thus there was no basis for inputting an accrual. For the Fort Worth and Tulsa districts, the under accruals (one at Fort Worth and one at Tulsa) were caused by a lack of communication by the project managers to the accounting department of the information necessary to allow for the recording of an appropriate accrual prior to year-end. This finding was considered a significant deficiency in combination with 15-SWPA-01.

*Recommendation:*

We recommend that Southwestern contact the Corps in order to enhance existing procedures and related controls to ensure all material procurement of goods and services received prior to period-end be timely and accurately accrued.

*Management Response:*

Army Corps of Engineers:

We concur with the recommendation. The U.S. Army Corps of Engineers has current processes and systems in place within the Corps of Engineers Financial Management System (CEFMS) to reduce unrecorded liabilities.

A new function was established in CEFMS on 10Oct15 to automatically estimate accruals based on an average of the last three contract payments. If a contract has less than three payments an accrual must be input manually. Employees have been given guidance and training on the new Civil Works Accrual process which should prevent material unrecorded liabilities in the future.



The Administrator of Southwestern Federal Power Administration and the  
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Southwestern Power Administration:

Southwestern concurs with the findings pertaining to the Army Corps of Engineers (Corps) and the Corps management response. As noted in the recommendation, Southwestern will follow up with the Corps on their procedures established on October 1, 2015, to ensure compliance.

**3. Inaccuracies in the Preparation of Prior Year Power Reports (15-SWPA-03)**

During our testwork related to the preparation of the combined financial statements, we noted a prior year adjusting journal entry was made by the Tulsa Corps district to record the cumulative effect of gains/losses not previously reported in the district's income statement(s) (income statements together with balance sheets are part of the district's power reports) that were submitted to Southwestern Power Administration for the purpose of the preparation of the Southwestern Federal Power System combined financial statements. The adjusting journal entry made by the Tulsa district netted to \$1,120,716 and was recorded as an adjustment (decrease) to the capitalization section of the balance sheet.

*Recommendations:*

We recommend that Southwestern coordinate with the Corps, Tulsa District, to:

1. Enhance existing procedures and related controls related to the compilation and review of power reports which are submitted to the Southwestern to ensure the reports are accurate and complete.

*Management Response:*

Army Corps of Engineers:

Gains and Losses to assets have been recorded in the Corps of Engineers Financial Management System (CEFMS) correctly. CEFM provides source data entry for all income and costs reporting for Multi-Purpose Hydropower Accounting. A new module was established in CEFMS to load and track each Hydropower project and to be able to pull electronic reports; specific to Hydropower from CEFMS.

The U.S. Army Corps of Engineers (Corps) is currently transitioning Hydropower Districts from using individual SQL queries that pull data from individual tables in CEFMS and keypunching data from these queries into spreadsheets provided to SWPA/KPMG for audit purposes. This process leaves room for human error; such as not pulling all numbers or key punch errors from queries to the audit spreadsheet. The target date for transition is September 30, 2017.



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Southwestern Power Administration:

Southwestern concurs with the finding and recommendation. Southwestern will follow-up on the corrective actions the Corps have taken.

SWFPS' written responses to our comments and recommendations were not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on the responses. Our audit procedures are designed primarily to enable us to form an opinion on the combined financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of SWFPS' organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of SWFPS' management, the Administrator, and the Department of Energy Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

## **FEEDBACK**

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Office of Inspector General (IG-12)  
Department of Energy  
Washington, DC 20585

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 253-2162.