



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

# MANAGEMENT LETTER

DOE-OIG-20-29

February 2020

**WESTERN FEDERAL POWER SYSTEM'S  
FISCAL YEAR 2019 FINANCIAL  
STATEMENT AUDIT**



**Department of Energy**  
Washington, DC 20585

February 24, 2020

MEMORANDUM FOR THE ADMINISTRATOR, WESTERN AREA POWER  
ADMINISTRATION

A handwritten signature in black ink that reads "Sarah B. Nelson".

FROM: Sarah B. Nelson  
Assistant Inspector General  
for Technology, Financial, and Analytics  
Office of Inspector General

SUBJECT: INFORMATION: Management Letter on the "Western Federal Power  
System's Fiscal Year 2019 Financial Statement Audit"

Pursuant to requirements established by the *Government Management Reform Act of 1994*, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP to perform the audit of the Western Federal Power System's Fiscal Year 2019 Financial Statements. During the audit, KPMG LLP considered the Western Federal Power System's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters.

During the course of the audit, KPMG LLP identified deficiencies in internal control that are included in the attached management letter. Specifically, the attached letter contains two new findings and four recommendations that were issued during the audit of the Western Federal Power System's Fiscal Year 2019 Financial Statements. One finding identified during the audit is considered a significant deficiency. Management fully concurred with all recommendations included in the management letter and had taken or planned to take corrective actions. Management's responses are included with each finding.

I would like to thank all participating Department elements for their courtesy and cooperation during the review.

Attachment

cc: Deputy Chief Financial Officer, CF-2  
Senior Vice President and Chief Financial Officer, Western Area Power Administration, WAPA  
Vice President of Financial Management, Western Area Power Administration, WAPA

Report Number: DOE-OIG-20-29



KPMG LLP  
 Suite 800  
 1225 17th Street  
 Denver, CO 80202-5598

January 31, 2020

The Administrator of Western Area Power Administration and the  
 U.S. Department of Energy Inspector General:

In planning and performing our audit of the combined financial statements of the Western Federal Power System (the System) as of and for the year ended September 30, 2019, 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 the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control. The combined financial statements include the Western Area Power Administration (WAPA), a component of the U.S. Department of Energy, and the hydroelectric power generating functions of the U.S. Department of the Interior, Bureau of Reclamation (Reclamation); the U.S. Army Corps of Engineers; and the U.S. Department of State, International Boundary and Water Commission (the generating agencies) for which WAPA markets and transmits power.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated January 31, 2020 on our consideration of the System's internal control over financial reporting in which we communicated a deficiency in internal control that we considered to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's combined financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the System's internal control to be a significant deficiency:

**1. Significant Deficiency Over Reclamation's Power Trial Balance (19-WAPA-02)**

The Reclamation power trial balance (dataload) is a manual process, beginning with post-close balances obtained from Reclamation's information system (Financial and Business Management System), extracting details behind the 47 power projects applicable to the System, and applying the region-specific allocation rules, including allocation rates for multi-purpose project features.

During our fiscal year 2018 audit (see finding 18-WAPA-05), we identified multiple instances where Reclamation did not properly allocate project balances to the power function, and we recommended revised and enhanced review processes by Reclamation. In response, Reclamation, in conjunction with WAPA, identified and implemented numerous procedural enhancements to improve the reliability of the Reclamation dataload.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



The Administrator of Western Area Power Administration and the  
 U.S. Department of Energy Inspector General  
 January 31, 2020  
 Page 2 of 3

Despite these improvements, during our fiscal year 2019 audit testing over the Reclamation data load, we identified instances where underlying schedules, roll forwards, and adjustments were inaccurate or unsupported. Specifically, we identified:

- Unallocated beginning balances within the property, plant and equipment roll forward did not agree to prior year balances by \$1.7 million. Initially, the information Reclamation provided to WAPA contained a larger difference. However, WAPA identified the difference during its review and worked with Reclamation to obtain revised information. The difference noted above represents the final, unreconciled difference within the rollforward.
- Within the construction work in process (CWIP) rollforward, approximately \$22 million in unallocated CWIP transfers were inappropriately classified as adjustments, resulting in a \$22 million misclassification in non-cash activity within the statement of cash flows.
- Activity detail supporting property, plant and equipment additions and deletions and CWIP adjustments did not agree to the roll forwards by \$1.5 million and \$1.6 million, respectively.
- Schedules underlying the \$1.3 million accrued annual leave expense adjustment recorded by Reclamation to the data load were inaccurate, resulting in a \$2.2 million overstatement. WAPA identified the discrepancy and corrected the adjustment by reducing the \$2.2 million in response to the corrected schedules.

**Recommendations:**

1. We recommend that the Vice President of Financial Management, WAPA, work with Reclamation to:
  - A. Continue to enhance the review process performed by Reclamation over the data load to ensure underlying schedules and roll forwards are complete, accurate, and appropriately reconciled to the data load;
  - B. Provide additional training or oversight over individuals preparing roll forwards to ensure beginning balances agree to prior year balances and that roll forward categories (e.g. additions) are accurate and based on underlying activity detail; and
  - C. Provide additional training to improve Reclamation's understanding of journal entries recorded directly to the data load, including the appropriateness and accuracy of support underlying each entry.

**Management Response:**

WAPA concurred with the finding and recommendations. WAPA will work with Reclamation during fiscal year 2020 to improve the overall understanding of the process as well as specifics related to the issues identifying in the finding. WAPA and Reclamation will conduct interim "workshop" type events to ensure the training and clarity of understanding takes place prior to August 2020.

Although not considered to be a significant deficiency or material weakness, we also noted the following item during our audit which we would like to bring to your attention:



The Administrator of Western Area Power Administration and the  
U.S. Department of Energy Inspector General  
January 31, 2020  
Page 3 of 3

**2. Sale of Electric Power Revenue (19-WAPA-01)**

During our interim testing over the sale of electric power revenue at WAPA, we noted that one revenue transaction, totaling \$7.2 million, was recorded in fiscal year 2019 that related to revenue earned in fiscal year 2018 that was not appropriately accrued by the Sierra Nevada Region as of September 30, 2018. Instead, the revenue transaction was recorded in October 2018 within the NNCV power system (within the Central Valley Project).

Failure to completely and accurately record sales of electric power revenue accruals may result in revenue transactions being recorded in the wrong accounting period.

**Recommendation:**

2. We recommend that the Sierra Nevada Region Finance Officer, WAPA, enhance the revenue accrual process to ensure that revenue is accrued in the period in which it is earned.

**Management Response:**

The Sierra Nevada Region concurred with the recommendation. The Sierra Nevada Region identified a gap in the revenue accrual process used to estimate and record revenue accruals which led to the Sierra Nevada Region understating the September 2018 revenue accrual. The gap was not the result of conducting an insufficient review of all contracts and customers. This gap in the Sierra Nevada Region's process resulted from a lack of an existing check and balance in the revenue accrual workbook to ensure financial system raw data from previous month power bills, used to estimate revenue accruals, completely accounted for all customers and line from the previous month.

Corrective actions were taken by the Sierra Nevada Region in July 2019. An additional check has been added to the revenue accrual process to verify raw data query totals match the pivot table totals to ensure no lines will be missed in the future. Additionally, the Sierra Nevada Region Revenue Accountant added a step to compare the accrual total to previous accruals to help identify any significant accrual amount variances from prior accounting periods.

The System's written response to the deficiencies identified in our audit was not subjected to the auditing procedures applied in the audit of the combined financial statements, and accordingly, we express no opinion on it. Exhibit A presents the status of prior year deficiencies.

The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

**KPMG LLP**

**Exhibit A**

**STATUS OF PRIOR YEAR FINDINGS**

**Prior Year Findings Related to Internal Controls and Other Operational Matters**  
*(with parenthetical references to findings)*

**Status as of September 30, 2019**

Finding 1: Generating Agency Journal Entries (18-WAPA-06)	Closed in FY 2019
Finding 2: Untimely Access Revocation (18-WAPA-01)	Closed in FY 2019
Finding 3: Reclamation's Power Trial Balance (18-WAPA-05)	Re-Issued as 19-WAPA-02
Finding 4: Classifications of Property, Plant, and Equipment (18-WAPA-02 and 18-WAPA-04)	Closed in FY 2019
Finding 5: Unrecorded Liabilities (18-WAPA-03)	Closed in FY 2019

## **FEEDBACK**

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We aim to make our reports as responsive as possible and ask you to consider sharing your thoughts with us.

Please send your comments, suggestions, and feedback to [OIG.Reports@hq.doe.gov](mailto:OIG.Reports@hq.doe.gov) and include your name, contact information, and the report number. You may also mail comments to us:

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) 586-1818. For media-related inquiries, please call (202) 586-7406.