U.S. DEPARTMENT OF ENERGY

Office of Inspector General

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March 3, 2026

Internal Control Weaknesses Identified During the Western Area Power Administration's Fiscal Year 2025 Financial Statements Audit

MANAGEMENT LETTER

Department of Energy
Washington, DC 20585

March 3, 2026

MEMORANDUM FOR THE ADMINISTRATOR, WESTERN AREA POWER ADMINISTRATION

SUBJECT: Management Letter: *Internal Control Weaknesses Identified During the Western Area Power Administration's Fiscal Year 2025 Financial Statements Audit*

The Office of Inspector General engaged the independent public accounting firm of KPMG LLP to conduct the fiscal year 2025 financial statements audit of the Western Area Power Administration (WAPA), subject to our review. As part of this audit, KPMG LLP considered WAPA's internal controls over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances for the purpose of expressing its opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WAPA's internal control.

During the audit, KPMG LLP identified certain deficiencies in internal control that are included in the attached management letter. The attached letter contains two findings and five recommendations that were issued to WAPA during *The Western Area Power Administration's Fiscal Year 2025 Financial Statements Audit*. Management concurred with the findings and recommendations and had taken or planned to take corrective actions. Management's responses are included with each finding.

We appreciated the cooperation of your staff during the review.

Matthew D. Dove
Assistant Inspector General
for Audits
Office of Inspector General

cc: Deputy Secretary
Chief of Staff
Acting Chief Financial Officer, Western Area Power Administration
Acting Comptroller, Western Area Power Administration

DOE OIG HIGHLIGHTS

Internal Control Weaknesses Identified During the Western Area Power Administration's Fiscal Year 2025 Financial Statements Audit

Why The Audit Was Performed

The Office of Inspector General engaged the independent public accounting firm of KPMG LLP (KPMG) to conduct the fiscal year 2025 financial statements audit of the Western Area Power Administration (WAPA), subject to our review. As part of this audit, KPMG considered WAPA's internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing its opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WAPA's internal control.

KPMG performed the audit in accordance with generally accepted government auditing standards.

What the Audit Found

During the audit, KPMG identified certain deficiencies in WAPA's internal control related to the recording of operation and maintenance expenses, purchased power expense, and accounts payable that are included in the attached management letter.

What the Audit Recommends

The attached letter contains two findings and five recommendations that were issued to WAPA during *The Western Area Power Administration's Fiscal Year 2025 Financial Statements Audit*. Management concurred with the findings and recommendations and had taken or planned to take corrective actions. Management's responses are included with each finding.

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

February 6, 2026

Management
Western Area Power Administration
Lakewood, Colorado

To the management of Western Power Administration:

In planning and performing our audit of the consolidated financial statements of Western Area Power Administration (WAPA) as of and for the year ended September 30, 2025, 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 WAPA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose for expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of WAPA's internal control. Accordingly, we do not express an opinion on the effectiveness of WAPA's internal control.

Our consideration of internal control was for 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 February 6, 2026 on our consideration of WAPA's internal control over financial reporting.

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 misstatements on a timely basis. During our audit, we identified the following deficiencies in internal control:

25-WAPA-O&M-FSA-01

Condition

During our interim testing of operations and maintenance expenses, we identified 1 exception out of 10 sampled transactions. This error is related to the Rocky Mountain Region. Specifically, a transaction related to the purchase of 10 rolls of cable where, although the total inventory cost of $2,092 was entered correctly in October 2023 (fiscal year (FY) 2024), the units were entered incorrectly in the inventory system. The warehouse team input the units in the inventory system in rolls rather than feet.

In February 2024, when needing to use the cable, the warehouse attempted to correct the error in the inventory system; however, the adjustment was incomplete and inappropriately decreased total costs. A subsequent correction was made in December 2024 but again inappropriately decreased the total cost. Overall, these attempted corrections incorrectly decreased SGL 6500 (cost of goods sold) by approximately $4 million.

In June 2025, the inventory was appropriately updated to correct the original unit error from FY 2024, and SGL 6500 was appropriately debited (increased) by approximately $4 million. KPMG LLP sampled the correcting entry but noted that since a portion of the errors were recorded in the prior FY, the correction was not timely and, as a result, operations and maintenance expenses were overstated by approximately $2.2 million in FY 2025 and understated by the same amount in FY 2024.

Criteria

Green Book, Principle 10, *Design Control Activities*, paragraph 10.01 states, "Management should design control activities to achieve objectives and respond to risks." Furthermore paragraph 10.03 states, "Management designs appropriate types of control activities for the entity's internal control system. . . Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded." Furthermore, paragraph 10.07 states, "Management designs control activities at the appropriate levels in the organizational structure."

Green Book, Principle 12, *Implement Control Activities,* 12.01 states, "Management should implement control activities through policies."

Green Book, Principle 3, *Establish Structure, Responsibility, and Authority*, paragraph 3.04, states, "As part of establishing an organizational structure, management considers how divisions, operating units, functions, and other structures interact to fulfill their overall responsibilities. Management establishes reporting lines within an organizational structure so that units can communicate the quality information necessary for each unit to fulfill its overall responsibilities to support the internal control system. Reporting lines are defined at all levels of the organization and provide methods of communication that can flow down, across, up, and around the structure. Management also considers the entity's overall responsibilities to external stakeholders and establishes reporting lines that allow the entity to both communicate with and obtain information from external stakeholders."

Green Book, Principle 4, *Recruitment, Development, and Retention of Individuals*, paragraph 4.05 states, "Management recruits, develops, and retains competent personnel to achieve the entity's objectives. Management considers the following. . . Train - Enable individuals to develop competencies appropriate for key roles, reinforce standards of conduct, and tailor training based on the needs of the role."

Green Book, Principle 16, *Perform Monitoring Activities*, paragraph 16.05 states that "Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, trend analysis, data analytics, activities to identify improper payments or potential fraud, testing, and other routine actions."

DOE Financial Management Accounting Handbook, Chapter 9, *Accounting for Inventory and related property*, states that:

- For all inventory or material, records shall include location of items, dollar values, item descriptions, and quantity for the items being controlled. Where applicable, the records will also include . . . current unit cost, and date of last physical count.
- The accounting and physical records shall be reconciled and adjusted to physical quantities annually by DOE field elements and contractors. This is best accomplished when a physical count is completed. Any adjustments to perpetual records as a result of reconciliation shall be recorded as a gain or a loss, and inventory or material records should be adjusted.

KPMG

- The use of decentralized accounting and the summarization of that data . . . requires accuracy and timeliness for all accounting transactions. Accuracy includes the use of detailed Standard General Ledger (SGL) subaccounts. Timeliness includes not only posting all transactions within the same accounting period in which the transactions occur, but also the prompt recognition and recording of changes in item value due to gains or losses, spoilage, obsolescence, etc. All such accounting entries should be made during the same accounting period in which the change in the item value is realized.

Cause and Effect

WAPA's management control activities were not effective in ensuring inventory was recorded at the correct quantity upon acquisition. Furthermore, controls over inventory adjustments lacked effectiveness in ensuring that corrections were complete, accurate, and properly reviewed at the time they were made. Additionally, warehouse personnel lack the necessary training and/or guidance to understand how to make proper corrections into inventory records. As a result of the inventory error and subsequent inaccurate corrections, WAPA understated operations and maintenance expenses by $2.2 million in FY 2024. When the error was fully and accurately corrected in FY 2025, the financial statements reflected an overstatement of $2.2 million in that FY. The ineffective control activities noted above increase the risk of additional misstatements in operations and maintenance expenses and their related disclosures.

Recommendation

We recommend that the Acting Chief Financial Officer, WAPA:

1. Design and implement a control to ensure that inventory unit costs are entered using the correct units (per foot rather than per roll) to comply with current Department policies;
2. Provide targeted training to all relevant staff on the importance of accurate unit and unit cost entry, as well as the process for reviewing and correcting errors timely; and
3. Evaluate and, if necessary, develop additional policies, guidelines and/or other resources to support the execution and review of inventory controls.

Management's Response to Recommendations

WAPA concurs with the finding and recommendations. WAPA will evaluate the processes and controls currently in place to ensure inventory costs are entered using the correct units. Based on the results of the evaluation, WAPA will determine whether additional controls or policies are needed to strengthen accuracy in unit and cost entry. WAPA will also assess current training materials and practices to identify opportunities for targeted reinforcement of proper inventory procedures. Where appropriate, WAPA will provide additional training to relevant staff, emphasizing the importance of accurate unit and cost entry and its impact on financial reporting. WAPA anticipates completing this evaluation and implementing any necessary enhancements by September 30, 2026.

25-WAPA-SURL-FSA-01

Condition

During our search for unrecorded liabilities, we identified 1 exception out of 10 sampled transactions. This error is related to the Colorado River Storage Project (CRSP) Management Center. The exception pertains to a $9.6 million disbursement made in fiscal year (FY) 2026 for services provided during FY 2025, which was not

Management
Western Area Power Administration
February 6, 2026
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accrued as of September 30, 2025. The error was noted in both purchase power expense and accounts payable.

As a result of this exception, KPMG LLP lowered our selection criteria and selected 14 additional samples for testing. No additional exceptions were noted.

Criteria

Green Book, Principle 10, *Design Control Activities*, paragraph 10.01 states that "Management should design control activities to achieve objectives and respond to risks." Furthermore paragraph 10.03 states that "Management designs appropriate types of control activities for the entity's internal control system. . . Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded." Furthermore, paragraph 10.07 states that "Management designs control activities at the appropriate levels in the organizational structure."

Green Book, Principle 12, *Implement Control Activities*, 12.01 states that "Management should implement control activities through policies."

Green Book, Principle 16, *Perform Monitoring Activities*, paragraph 16.05 states that "Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, trend analysis, data analytics, activities to identify improper payments or potential fraud, testing, and other routine actions."

Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities*, paragraph 39 states that "Liabilities covered by budgetary resources should be recognized when incurred, regardless of whether they have been paid." Paragraph 42 further clarifies that "Accrued liabilities for goods and services received should be recognized in the period in which the goods are received or the services are performed, even if invoices have not been received or paid."

Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 19 defines a liability for Federal accounting purposes as "a probable future outflow or other sacrifice of resources as a result of past transactions or events." Paragraph 22 adds that "Liabilities should be recognized when incurred, regardless of whether the amounts are due and payable."

DOE Financial Management Accounting Handbook, Chapter 11, *Liabilities*, states that "Accounts shall be maintained on an accrual basis. Expenses and revenues shall be identified and recorded in the period in which they are incurred, even if receipt of the revenue or payment for the expenditure occurs in a subsequent accounting period. Liabilities shall reflect an invoice or the accrual of costs for goods or services received, but payment has not been made. A balance should be maintained between the effort required to measure accrued costs precisely and the added value of such precision."

Western Area Power Administration's Accounting Policies, *Accruing for Purchase Power Costs* and *Accrual of Revenue and Liabilities*, states that "Monthly accruals will be made for those goods or services equal or greater than $30,000. Headquarters and Regional Financial Managers have the discretion to accrue items less than this threshold as appropriate."

Cause and Effect

WAPA's management has not properly designed control activities to timely recognize and record all expenses and related liabilities in the proper accounting period. Specifically, the CRSP Management Center did not maintain sufficient communication lines with its third-party vendor to clarify contract terms and billing schedules, especially when they are unclear or not updated, to ensure expenses are recorded in the FY incurred. The CRSP Management Center assumed that, because billing schedules were not updated and invoicing was delayed, no accrual was necessary.

As a result, purchased power expense and accounts payable, public, were both understated by $9.6 million as of September 30, 2025.

Recommendations

We recommend that the Acting Chief Financial Officer, WAPA:

1. Review, strengthen, and document internal control policies over the identification and recognition of expense transactions to ensure expenses are recorded in the correct period. Document and monitor control activities to confirm consistent application.
2. Communicate proactively with third-party vendors to clarify contract terms and billing schedules, especially when they are unclear or not updated, to ensure expenses are recorded in the FY incurred.

Management's Response to Recommendations

WAPA management concurs with the finding and recommendations. Prior to the completion of FY 2026, management will strengthen and formally document internal control policies and procedures related to the identification and evaluation of liability accruals. This will include:

1. Updating policies to explicitly require evaluation of incurred expenses regardless of vendor billing timing.
2. Establishing clearer documentation requirements for accrual determinations, including management's judgement and assumptions and vendor communications.
3. Implementing periodic monitoring and review to confirm expenses are consistently allocated and recorded in the correct accounting period.
4. Providing training to financial staff on accrual requirements.

WAPA's response to the deficiencies identified in our audit is described above. WAPA's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on it.

This purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

FEEDBACK

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