



U.S. DEPARTMENT OF ENERGY

Office of Inspector General

DOE-OIG-26-50

September 25, 2026

Internal Control Weaknesses Identified During the Southwestern Federal Power System's Fiscal Year 2025 Combined Financial Statements Audit



MANAGEMENT LETTER



Department of Energy
Washington, DC 20585

September 25, 2026

**MEMORANDUM FOR THE ACTING ADMINISTRATOR AND CHIEF EXECUTIVE
OFFICER, SOUTHWESTERN POWER ADMINISTRATION**

SUBJECT: Management Letter: *Internal Control Weaknesses Identified During the
Southwestern Federal Power System's Fiscal Year 2025 Combined Financial
Statements Audit*

The Office of Inspector General engaged the independent public accounting firm of KPMG LLP to conduct the fiscal year 2025 combined financial statements audit of the Southwestern Federal Power System, subject to our review. During the audit, KPMG LLP identified certain deficiencies in internal control that are included in the attached management letter.

We appreciated the cooperation of your staff during the review.

A handwritten signature in blue ink, appearing to read "MD", is located below the main body of the letter.

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

cc: Deputy Secretary
Chief of Staff
Senior Vice President and Chief Operating Officer, Southwestern Power Administration, SW
Acting Chief Financial Officer, Southwestern Power Administration, SW

DOE OIG HIGHLIGHTS

Internal Control Weaknesses Identified During the Southwestern Federal Power System's Fiscal Year 2025 Combined 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 combined financial statements audit of the Southwestern Federal Power System (SWFPS), subject to our review.

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.

What the Audit Found

As part of this audit, KPMG considered SWFPS' 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.

During the audit, KPMG identified certain deficiencies in SWFPS' internal control related to entity-level controls, post-retirement benefits, workers' compensation, personal protective equipment, and operation and maintenance expenses that are included in the attached management letter.

What the Audit Recommends

The attached letter contains two findings, including one repeat prior year finding, and four recommendations that were issued to Southwestern Power Administration during the audit of *The Southwestern Federal Power Systems Fiscal Year 2025 Combined Financial Statements Audit*. Management concurred with three of the recommendations included in the management letter and had taken or planned to take corrective actions. Management nonconcurred with one of the findings and the associated recommendation but planned certain corrective actions to develop a non-Generally Accepted Accounting Principles policy to address the finding. Management's responses are included with each finding.



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

August 24, 2026

Management
Southwestern Power Administration
Tulsa, Oklahoma

To the management of Southwestern Power Administration (Southwestern):

In planning and performing our audit of the combined financial statements of Southwestern Federal Power System (SWFPS) 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 the SWFPS'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SWFPS's internal control. Accordingly, we do not express an opinion on the effectiveness of the SWFPS's internal control.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency and in accordance with *Government Auditing Standards*, we communicated this significant deficiency in our report dated August 24, 2026.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. During our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. During our audit we identified a deficiency in internal control that we consider to be a significant deficiency which was communicated in our report dated August 24, 2026 and is included in Exhibit A of this letter.

Although not considered to be a significant deficiency or material weakness, we also noted a deficiency in internal control during our audit which we would like to bring to your attention. This control deficiency is included in Exhibit B. We have also presented the status of prior year findings in Exhibit C.

Southwestern's written response to the deficiencies identified in our audit are included in Exhibits A and B. Southwestern's written response was not subjected to the auditing procedures applied in the audit of the combined financial statements, and accordingly, we express no opinion on it.

KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



Management
Southwestern Power Administration
August 24, 2026
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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

Index to Exhibits

OPEN DEFICIENCIES (I.E. FINDINGS) – INTERNAL CONTROLS AND OTHER OPERATIONAL MATTERS
*(with parenthetical references to findings and recommendations issued during the engagement)***OPEN FINDING RELATED TO FISCAL YEAR (FY) 2025 NOTICE OF FINDINGS AND
RECOMMENDATIONS (NFR) – SIGNIFICANT DEFICIENCY****Exhibit A**

Process Area	NFR Number	NFR Description	Page
CERAMICS	24-SWFPS-ELC-FSA-01 (Reissued in FY25)	Deficiency in Entity Level Controls – Communication	A-1

OPEN FINDING RELATED TO FY 2025 NFR – CONTROL DEFICIENCY**Exhibit B**

Process Area	NFR Number	NFR Description	Page
Property, Plant and Equipment	25-SWFPS-PPE-FSA-01	Ineffective Controls Over Plant in Service Retirements	B-1

STATUS OF PRIOR YEAR FINDINGS**Exhibit C****ACRONYMS****Exhibit D**

Exhibit A

MANAGEMENT LETTER

OPEN FINDING RELATED TO FY 2025 NFR – SIGNIFICANT DEFICIENCY

24-SWFPS-ELC-FSA-01 – Deficiency in Entity Level Controls – Communication

Background

The Southwestern Federal Power System (SWFPS) is comprised of the Southwestern Power Administration (SWPA), a component of the Department of Energy, and the Department of the Army, U.S. Army Corps of Engineers (Corps), a component of the Department of War (DOW). SWPA is responsible for marketing and transmitting the hydroelectric power generated by the Corps within SWPA's marketing areas and is responsible for the preparation and presentation of the SWFPS combined financial statements.

The hydroelectric power dams that the Southwestern Division of the Corps own are operated by six districts: Tulsa, Oklahoma; Little Rock, Arkansas; Kansas City, Missouri; St. Louis, Missouri; Vicksburg, Mississippi; and Fort Worth, Texas. Each hydroelectric project within these districts is a multi-purpose dam, with costs allocated to both power and non-power purposes such as flood control, irrigation, recreation, and wildlife conservation. For financial reporting purposes, each Corps district prepares power reports by individual power generating project that contain a statement of assets and liabilities (balance sheet) and statement of revenues and expenses (income statement). The power reports provided by the Corps are consolidated by Southwestern for financial reporting in the combined financial statements.

Condition

During FY 2024, we identified deficiencies¹ related to the financial information the Corps exchanged with Southwestern. Through inquiries with management to better understand the root-cause of the issue, we noted that, although Southwestern and the Corps communicate throughout the year, there are no formal policies, procedures, or documented responsibilities that define financial reporting roles, review expectations, and communication channels between the components. Specifically, we noted the following:

1. While Southwestern is responsible for the preparation and presentation of the SWFPS combined financial statements, Southwestern management has not established formal policies or procedures requiring the Corps to provide data that is complete and accurate.
2. Southwestern has not implemented a review framework for Corps' data. Although ad hoc reviews and inquiries occur, no documented review criteria exists. There is no consistent follow-up on anomalous items and no audit trail demonstrating that the Corps' information is systematically and formally reviewed and validated.
3. SWFPS management has not established consistent, documented communication channels, reporting lines, or a responsibility matrix across Southwestern and the related Corps districts and centers. As a result, it is unclear who is accountable for specific data elements or who should be contacted when reporting issues arise.

¹ 24-SWFPS-O&M-01, 24-SWFPS-PP&E-FSA-01, 24-SWFPS-WC-FSA01, and 24-SWFPS-PRB Expense-FSA-01

Criteria

The U.S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (Green Book) sets the standards for an effective internal control system and provides an overall framework for designing, implementing, and operating effective internal control systems. Relevant criteria include the following principles:

- Green Book, Principle 14, *Communicate Internally*, paragraph 14.02-14.03, 14.05
- Green Book, Principle 3, *Establish Structure, Responsibility, and Authority*, paragraph 3.02, 3.04

Cause and Effect

SWFPS management has not formalized governance over inter-component financial reporting between Southwestern and the Corps. Specifically, management did not establish documented policies, procedures, roles, review criteria, or communication protocols that define responsibilities and expectations for the preparation, validation, and transmission of Corps' data used in the combined financial statements. This gap has allowed reliance on informal, ad hoc communications and inconsistent review practices rather than repeatable, controlled processes.

As a result, the failure to establish an organization structure and communicate effectively internally, or across components, increases the risk of misstatement in the combined financial statements of the SWFPS.

Recommendations

We recommend that the Acting Chief Financial Officer, Southwestern:

1. Define documented review criteria and thresholds for follow-up (e.g., materiality, variance percentage, exception types) related to financial data/information the Corps provides to Southwestern for inclusion in the SWFPS combined financial statements. Require standardized review procedures for anomalous items and a sign-off process by designated reviewers.
2. Develop a formal agreement among Corps districts and centers to provide clear guidance on responsibilities, ensure controls over the completeness and accuracy of data, and establish consistent policies and procedures over financial reporting. Policies should define required controls, acceptable file formats, submission deadlines, and documentation standards.
3. Collaborate with the Corps to define clear reporting lines to ensure that management roles are properly identified across the system.

Management's Response

Management concurs with the finding. Specifically, Southwestern and the Corps partially concur with the above recommendations and will work collaboratively to define responsibilities and expectations for the preparation, validation, and transmission of Corps' data used in the combined financial statements. Specifically, both agencies will: (1) define documented review criteria and thresholds for follow-up related to financial data/information provided by the Corps for inclusion in the SWFPS combined financial statements and require standardized review procedures for anomalous items and establish a sign-off process by designated reviewers; (2) define clear reporting lines to ensure that management roles are properly identified across the system; and (3) develop a formal agreement among Corps districts and centers to provide clear guidance on responsibilities, ensure controls over the completeness and accuracy of data, and establish consistent policies and procedures over financial reporting. A Memorandum of Understanding (formal agreement) exists between Southwestern and the Corps, outlining obligations and responsibilities in regard to the SWFPS financial procedures and accounting reporting requirements, including the Corps' financial reporting responsibilities to Southwestern. However, Southwestern recognizes the need to refine this agreement to clarify guidance and

expectations for the data the Corps provides for the combined financial statements. The target completion date for implementing these actions is September 30, 2027.

FY25 Status

In management's response above, management indicated that a Memorandum of Understanding exists between Southwestern and the Corps that outlines obligations and responsibilities with respect to the SWFPS financial procedures and accounting reporting requirements, including the Corps' financial reporting responsibilities to Southwestern. This agreement, however, is outdated, and Southwestern acknowledged the need to refine this agreement to clarify guidance and expectations for the data that the Corps provides for the SWFPS combined financial statements. Because corrective actions are still ongoing, with planned completion by September 30, 2027, this finding will remain open until all corrective actions are fully implemented.

Exhibit B

MANAGEMENT LETTER

OPEN FINDINGS RELATED TO FY 2025 NFRs – CONTROL DEFICIENCY

25-SWFPS-PPE-FSA-01 – Ineffective Controls Over Plant in Service Retirements

Background

Property, plant, and equipment (PP&E) is one of the largest balances on the SWFPS balance sheet, with utility plant at over \$1.4 billion (i.e., \$2.4 billion of plant in service net of accumulated depreciation of \$1 billion).

The majority of the SWFPS's PP&E is held at the Corps. In fiscal year 2025, the Corps retired approximately \$12 million of SWFPS's plant in service. When an asset is retired, it is removed from service and recorded as a disposal. Sales of retired assets are accounted for separately.

Condition

SWPA management was unaware that controls over the Corps' PP&E retirements were not properly designed to accurately record losses on the disposal of assets in accordance with ASC Topic 360, ASC Topic 610, and Green Book, Principle 10. Specifically, in performing testwork over the Corps' plant in service retirements as of September 30, 2025, we identified one out of three instances where the Corps recorded the loss on disposal at the asset's full net book value without factoring in the proceeds received from the sale.

Criteria

The GAO's Green Book, sets the standards for an effective internal control system and provides an overall framework for designing, implementing, and operating effective internal control systems. Relevant criteria include the following principles:

- Green Book, Principle 6, *Define Objectives and Risk Tolerances*, paragraphs 6.02, 6.05
- Green Book, Principle 10, *Design Control Activities*, paragraph 10.01, 10.03

In addition, Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 360, Property, Plant, and Equipment, Section 10-40-5, states that "A gain or loss not previously recognized that results from the sale of a long-lived asset shall be recognized when the long-lived asset is derecognized." Further, ASC Topic 610, *Other Income*, Section 20-32-2, states that the gain or loss on derecognition of a nonfinancial asset is measured as "the difference between the amount of consideration measured and allocated to that distinct asset [...] and the carrying amount of the distinct asset."

Cause and Effect

Corps management's current methodology for recording asset disposals aligns with Federal Accounting Standards Advisory Board budget (FASAB) concepts rather than the FASB accounting standards applicable to SWPA. SWPA and Corps management have not collaborated to discuss how to properly record disposals within the SWFPS's financial statements that align with FASB standards. Additionally, they have not performed a formal assessment to verify sales of disposed assets are immaterial to the SWFPS's financial statements, nor documented this deviation as a non-GAAP accounting policy. Consequently, SWFPS's management did not sufficiently define their risk tolerances for asset disposals, in accordance with Green Book, Principle 6.

This control deficiency resulted in an overstatement of operations and maintenance expenses and an understatement of cash of \$51,800 in the SWFPS financial statements as of September 30, 2025. Deficiencies in controls over PP&E retirements increase the risk that losses for sales of retired assets will continue to be misstated, increasing the risk operations and maintenance expenses are overstated and cash is understated.

B-1

Recommendation

We recommend that the Acting Chief Financial Officer, Southwestern:

4. Collaborate with Corps management to perform and document a quantitative and qualitative materiality assessment over retired assets disposed of by sale and consider:
 - a. Formally documenting and continually evaluating a non-GAAP accounting policy for assets disposed of by sale; or
 - b. Designing and implementing controls that ensure cash proceeds received from asset sales are accurately netted against the carrying amount of the asset, in accordance with ASC Topic 360 and ASC Topic 610.

Management's Response

Management non-concurs with the finding. Specifically, Southwestern and the Corps do not concur with the above condition, as the Corps records proceeds from sale of property in accordance with 33 U.S.C. §558 to credit the proceeds to the appropriation related to the work for which it was acquired. When the Corps record the customer order, they record unearned revenue which offsets the loss. However, management indicated they will consider documenting a non-GAAP policy for assets disposed of by sale. The target completion date for implementing this action is September 30, 2027.

KPMG's Response

Although management has asserted that the Corps is complying with the U.S.C., SWPA's response acknowledged that it records asset sales in accordance with FASAB budgetary concepts. Furthermore, management also indicated that it would consider developing a non-GAAP policy for assets disposed of by sale going forward and provided a target completion date for implementing this action. Without designing and implementing controls to record property disposals in accordance with FASB standards or identifying a non-GAAP policy to address this deviation, SWPA risks overstating expenses and understating cash related to not properly accounting for disposals upon sale.

Exhibit C

MANAGEMENT LETTER

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, 2025

- | | |
|--|------------------|
| A. Controls over Post Retirement Benefits Expenses (24-SWFPS-PRB-Expenses-FSA-01) | Closed in FY25 |
| B. Controls over Workers' Compensation (24-SWFPS-WC-FSA-01) | Closed in FY25 |
| C. Deficiency in Entity Level Controls – Communication (24-SWFPS-ELC-FSA-01) | Reissued in FY25 |
| D. Ineffective Controls Over Plant in Service (24-SWFPS-PP&E-FSA-01) | Closed in FY25 |
| E. Ineffective Controls over Operations and Maintenance Expenses (24-SWFPS-O&M-FSA-01) | Closed in FY25 |

Exhibit D

MANAGEMENT LETTER

ACRONYM

Southwestern	Southwestern Power Administration
SWFPS	Southwestern Federal Power System
NFR	Notice of Findings and Recommendations
FY	Fiscal Year
DOE	Department of Energy
DOW	Department of War
PRB	Post Retirement Benefit
GAO	Government Accountability Office
DOL	Department of Labor
Corps	Army Corps of Engineers
O&M	Operations and Maintenance
PPE	Property, Plant, and Equipment
CWIP	Construction Work in Progress
OPM	Office of Personnel Management

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