



**U.S. Department of Energy**  
**Office of Inspector General**  
**Office of Audits and Inspections**

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# AUDIT REPORT

Management Letter on the Western Federal  
Power System's Fiscal Year 2013 Financial  
Statement Audit

OAS-FS-15-04

December 2014

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September 5, 2014

The Administrator of Western Area Power Administration and the  
U.S. Department of Energy Office of the 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, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the System's 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 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 (Western), 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 Western markets and transmits power.

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 the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

#### **1. Segregation of Duties**

During our test work over Western journal entries and related information technology (IT) application controls, we identified that segregation of duties is not enforced for journal entries manually entered into the general ledger module within the YOGI and BIDSS systems. Accordingly, individuals with access to prepare journal entries also have access to approve the same manual journal entries within the general ledger. The lack of segregation of duties within YOGI is mitigated by a compensating control wherein the population of YOGI journal entries are reconciled by Corporate Services Office (CSO) management to the YOGI trial balance, ensuring 100 percent of YOGI journal entries are manually reviewed and approved; no similar compensating control exists over BIDSS; however, based on examination of 100 percent of journal entries recorded, transactions both created and posted by the same individual were inconsequential.



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In addition, we identified one individual at CSO with system administrative access who also has access to prepare and post entries within the journal entry modules; however, based on examination of 100 percent of journal entries recorded, this individual did not post any entries.

Western has policies in place requiring the manual review and approval of journal entries. These policies require hard copies of proposed journal entries, along with accompanying supporting documentation, to be reviewed and approved by multiple layers of management prior to being recorded in BIDSS. However, the policies do not prevent or detect situations where an individual either intentionally or inadvertently bypasses the manual review process and both prepares and posts an entry into YOGI or BIDSS. In addition, the individual with system administration access to YOGI and BIDSS also had access to prepare and approve journal entries within those systems.

Inadequate segregation of duties, combined with inappropriate user access to the journal entry module, may result in fraudulent journal entries or otherwise inappropriate journal entries that were not subject to appropriate supervisory review. This risk is substantially mitigated within the YOGI system based on the existing detective control, as outlined above.

#### *Recommendations*

We recommend the following:

- a. Enforce segregation of duties with the YOGI and BIDSS systems, ensuring that the preparer of a journal entry is restricted from posting the same entry (preventative control).
- b. If enforcement is not available within BIDSS, establish a manual process for evaluating BIDSS entries prepared and posted by the same individual ensuring the journal entry complies with Western's established manual review processes.
- c. Since the individual who has system administration access is not staffed within the financial reporting group, remove the individual's access rights to both prepare and approve journal entries within YOGI and BIDSS.

#### *Management's Response*

Management has acknowledged and responded to our recommendations. In summary, management concurs with the finding and recommendations, with planned implementation of recommendations 1.a. and 1.c. for YOGI and recommendation 1.b. for BIDSS. The target implementation date for corrective action is September 30, 2014.



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## 2. Asbestos Clean-up Liability

During our testing of environmental cleanup liabilities, specifically friable and nonfriable asbestos, we identified that Western failed to record approximately \$10 million in asbestos clean-up liabilities. Although Western has a process in place for inventorying potential real property containing asbestos, certain inputs within the model were unsubstantiated and the results of the analysis were not sufficiently reviewed so as to record the resulting estimate of the clean-up obligation. Specific inputs that were not sufficiently substantiated were the clean-up cost per square foot and the completeness and accuracy of the real property inventory used in the analysis, as the database utilized for developing the inventory is not routinely reconciled to the general ledger.

FASAB Technical Release No. 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*, paragraph 1.a states, "Federal entities will (1) estimate both friable and non-friable asbestos-related cleanup costs and (2) recognize a liability and related expense for those costs that are both probable and reasonable estimable, consistent with the current guidance in Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*." Further, FASAB Technical Release No. 10, paragraph 10, outlines steps to be taken to identify real property that may contain asbestos, including a review of the inventory listing and establishing a cost model framework. For purposes of the combined financial statements, similar criteria are located within Accounting Standards Codification (ASC) 450, *Contingencies* and ASC 410-30-5, *Asset Retirement and Environmental Obligations*.

### *Recommendations*

We recommend the following:

- a. Perform procedures and retain documentation to ensure the population of potential real property containing asbestos is complete and accurate.
- b. Ensure inputs, such as clean-up costs per square foot, to the asbestos cleanup liability are appropriate and sufficient evidence is documented and accessible.
- c. Enhance the existing review process to ensure all resulting liabilities, both individually at the regional level and in the aggregate, are appropriately considered for recordation in the combined financial statements.

### *Management's Response*

Management has acknowledged and responded to our recommendations. In summary, management concurs with the finding and recommendations and will determine the most efficient way to implement corrective action. The target implementation date for corrective action is September 30, 2014.



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The System's response was not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on the response.

In addition, we identified certain deficiencies in internal control that we consider to be significant deficiencies and material weaknesses, and communicated them in writing to management and those charged with governance on September 5, 2014.

Our audit procedures are designed primarily to enable us to form an opinion on the 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 the System's organizations 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 System management, the Administrator, and the DOE Office of the 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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