



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

# AUDIT REPORT

DOE-OIG-18-37

JUNE 2018

**MANAGEMENT LETTER ON THE  
SOUTHWESTERN FEDERAL POWER  
SYSTEM'S FISCAL YEAR 2017  
FINANCIAL STATEMENT AUDIT**



**Department of Energy**  
Washington, DC 20585

June 28, 2018

MEMORANDUM FOR THE ACTING ADMINISTRATOR, SOUTHWESTERN AREA  
POWER ADMINISTRATION

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

FROM: Sarah B. Nelson  
Assistant Inspector General  
for Audits and Administration

SUBJECT: INFORMATION: Management Letter on the Southwestern Federal  
Power System's Fiscal Year 2017 Financial Statement Audit

KPMG LLP, our contract auditors, planned and performed an audit of the combined financial statements of the Southwestern Federal Power System as of and for the year ended September 30, 2017, 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 LLP considered the Southwestern Federal Power 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 Southwestern Federal Power System's internal control. Accordingly, KPMG LLP did not express an opinion on the effectiveness of the Southwestern Federal Power 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 LLP did not comply, in all material respects, with generally accepted Government auditing standards.

During the audit, KPMG LLP noted certain matters involving internal control and other operational matters that are presented in the attached management letter prepared by KPMG LLP. The letter contains one finding that was issued during the course of the Southwestern Federal Power System's Fiscal Year 2017 Financial Statement Audit. Management concurred with the finding and provided planned corrective actions for the recommendation listed in the Management Letter.

Attachment

cc: Chief Financial Officer, CF-1  
Deputy Chief Financial Officer, CF-2  
Chief Financial Officer, Southwestern Power Administration  
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 Control, CF-12  
Division Director, 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: DOE-OIG-18-37



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

**Attachment**

June 19, 2018

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

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, 2017, 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'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 SWFPS's internal control. Accordingly, we do not express an opinion on the effectiveness of SWFPS's internal control.

The combined financial statements include the hydroelectric generating and power operations of the U.S. Army Corps of Engineers (the 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.

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. During our audit, we noted certain matters involving deficiencies in internal control and other operational matters that are presented in Exhibit A for your consideration. We have also presented the status of prior year findings in Exhibit B. These findings and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operational efficiencies.

SWFPS's 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's 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's management, the Acting Administrator, and the Acting 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**

**Management Letter Index to Exhibits**

**Open Findings – Internal Controls and Other Operational Matters**

*(with parenthetical references to findings and recommendations issued during the engagement)*

**Finding:** Inaccuracies of Accrued Liabilities Related to Fiscal Year-End  
(16-SWPA-01)

**Exhibit A**

**Status of Prior Year Findings**

**Exhibit B**

**Finding: Inaccuracies of Accrued Liabilities Related to Fiscal Year-End (16-SWPA-01)**

KPMG's audit testwork on a sample of 23 subsequent cash disbursements and invoices received and processed after September 30, 2017 identified five invoices at two of the Corps districts (Little Rock and Tulsa) which were under-accrued by a total of \$2,552,120 (\$2,485,951 related to Little Rock and \$66,169 related to Tulsa). The effect of the projected misstatement for the full population resulted in accounts payable and programs costs being understated by \$4,362,350 (which includes the factual misstatement of \$2,552,120).

Three of the five under-accruals at the Little Rock and Tulsa districts were due to 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. The remaining two under-accruals were caused by a failure to appropriately review information related to possible payments for goods/services related to the prior fiscal year for which payment was to be made after year-end to facilitate the recording of the liability at year-end or estimate the liability at year-end.

*Recommendation:*

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

*Management's Response:*

Southwestern and the Corps management concur with the finding. The Corps has a mitigating control which it uses to ensure the accuracy of Accounts Payable/Undelivered Orders that it books as an on top adjustment to its Civil Works Financial Statements. This mitigating control catches findings that were found during testing. Although the Corps agrees this adjustment is not recorded against the SWFPS numbers as the adjustment does not go down to that level, the Corps' financials are materially correct.

**Status of Prior Year Findings**

**Prior Year Findings Related to Internal Controls and Other Operational Matters**

*(with parenthetical references to findings issued in the prior year)*

**Status at September 30, 2017**

Finding 1:	Inaccuracies of Accrued Liabilities Related to Fiscal Year-End (16-SWPA-01)	Open in FY 2017
Finding 2:	Inaccuracies of Asset Useful Lives Related to Fiscal Year-End (16-SWPA-02)	Closed in FY 2017
Finding 3:	Inaccuracies of Construction in Progress Ending Balance Presentation Related to Fiscal Year-End (16-SWPA-03)	Closed in FY 2017
Finding 4:	Inaccuracies in the Preparation of Prior Year Power Reports (15-SWPA-03)	Closed in FY 2017

## **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:

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.