Financial Statements and Notes

Reclamation projects supply water to irrigate barley, a short-season, early maturing crop.

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

January 31, 2005

Memorandum

To: Commissioner, Bureau of Reclamation

From: Roger La Rouche
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Bureau of Reclamation's Financial Statements for Fiscal Years 2004 and 2003 (Report No. C-IN-BOR-0063-2004)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the Bureau of Reclamation's (BOR) financial statements for fiscal years 2004 and 2003. The contract required that KPMG conduct its audit in accordance with U.S. generally accepted government auditing standards; Office of Management and Budget Bulletin 01-02, as amended, *Audit Requirements for Federal Financial Statements;* and the Government Accountability Office/President's Council on Integrity and Efficiency's *Financial Audit Manual*.

In its audit of BOR (Attachment 1), KPMG found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. As discussed in KPMG's report and note 1B to the financial statements, BOR's fiscal year 2004 consolidated statement of net cost is not comparable to its fiscal year 2003 consolidated statement of net cost. This occurred because in fiscal year 2004, BOR revised the presentation of costs and revenues to match the *Government Performance and Results Act* strategic plan applicable to fiscal year 2004, which is different from the plan applicable to fiscal year 2003.

KPMG identified two reportable conditions related to internal controls over financial reporting, the first of which KPMG considers to be a material weakness:

- Controls over land inventory.
- Controls over revenue recognition.

Further, KPMG found that BOR's financial management systems did not substantially comply with the *Federal Financial Management Improvement Act* (FFMIA) *of 1996* because of noncompliance with federal accounting standards. Excluding FFMIA, there were no reportable findings of noncompliance with laws and regulations tested during the audit.

KPMG is responsible for the attached auditors' report and for the conclusions expressed therein. We do not express an opinion on BOR's financial statements, conclusions about the effectiveness of internal controls, conclusions on whether BOR's financial management systems substantially complied with FFMIA, or conclusions on compliance with laws and regulations.

In its November 23, 2004 response to the draft report (Attachment 2), BOR indicated general concurrence with the findings and recommendations, except for recommendations A.2 and B.2. BOR did not concur with recommendation A.2 to include a material land inventory control weakness in the *Federal Managers Financial Integrity Act* (FMFIA) report, because BOR does not agree that this constitutes a material weakness under FMFIA. Consequently, BOR also did not concur that its financial management systems did not substantially comply with federal accounting standards, as required by FFMIA. Additionally, BOR did not concur with the finding and applicable recommendation B.2 on controls over revenue recognition as they relate to the classification of facility transfers. In its comments on these matters, KPMG stated it believes that the BOR's land inventory is a significant matter and that BOR should seek more guidance on the classification of title transfers.

Based on BOR's response, we consider all of the recommendations, except for A.2 and B.2 resolved but not implemented. These recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. Recommendations A.2 and B.2 will be referred for resolution.

The legislation, as amended, creating the Office of Inspector General, (5 U.S.C.A. App. 3) requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report. The distribution of the report is not restricted and copies are available for public inspection.

We appreciate the cooperation and assistance of BOR personnel during the audit. If you have any questions, please contact me at (202) 208-5512.

Attachments (2)