



fiscal year two thousand and one

Annual Report



United States Department of the Interior
Bureau of Reclamation

United States Department of the Interior

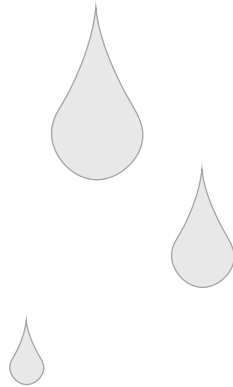
The mission of the Department of the Interior is to protect and provide access to our Nation's natural and cultural heritage and honor our trust responsibilities to tribes.

Bureau of Reclamation

The mission of the Bureau of Reclamation is to manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public.

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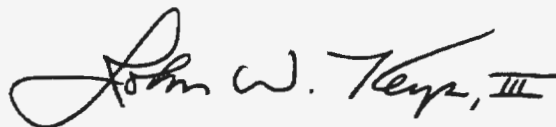
Letter from the Commissioner

It is indeed an honor and a privilege to submit the Bureau of Reclamation Annual Report for fiscal year 2001.

Reclamation has nearly completed 100 years of effective service to the Western States and the Nation as a whole. Reclamation's mission—"to manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public"—is more timely now than when the Reclamation Service was created in 1902.

As Commissioner, I am committed to developing creative solutions to meet the current and future water resource challenges facing the West through collaboration and cooperation with States, tribes, water users, and others. Following the terrorist attacks on September 11, 2001, I am placing even greater emphasis on operating and maintaining Reclamation projects to ensure continued safe delivery of water and power benefits to the public.

This report provides ample evidence of the contributions Reclamation makes to life in the West and across the Nation. I am pleased to present the Bureau of Reclamation's 2001 Annual Report and Chief Financial Officer's Statement to the Congress and the public.



John W. Keys, III





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Management Discussion and Analysis



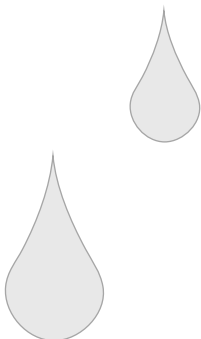
Management Discussion and Analysis

The Management Discussion and Analysis section of the Bureau of Reclamation's (Reclamation) Chief Financial Officer's Report summarizes how Reclamation fulfilled its mission in fiscal year (FY) 2001. This section contains a narrative discussion of Reclamation activities as well as highlights of performance toward Government Performance and Results Act (GPRA) goals.

GPRA requires every agency to define specific performance goals and report its success in meeting these goals. Under Federal Accounting Standards Advisory Board requirements, agencies

must include performance information in the Management Discussion and Analysis section. To meet this requirement, Reclamation has highlighted certain FY 2001 GPRA performance goals and included at least one goal for each GPRA program activity. The GPRA program activities link to Reclamation's budget categories.

Reclamation selected these goals because they best represent Reclamation's programs. Results of selected goals are displayed in a box under each of the six program activity headings.



Reclamation's primary mission is to provide water and power. With an ever-increasing Western population and demand for more water and power, developing new sources and prudently managing existing sources are essential parts of this mission. As the Nation's largest wholesale water supplier, Reclamation delivers 10 trillion gallons of water to more than 31 million people each year. Reclamation is also the second largest producer of hydroelectric power in the Western United States.

WATER AVAILABILITY

Reclamation strives to increase water availability through innovative agreements with water users throughout the West. Water availability may be increased through reuse and recycling projects, conservation, and water quality improvement.

Colorado River Management

Water from the Colorado River was apportioned among seven Western States and the Republic of Mexico under a series of compacts and other legal actions. Because these States have grown at different rates, some have traditionally used less than their apportionment and others have used more.

As the Lower Colorado River Basin States reached full apportionment, California began developing a plan to reduce its overuse of Colorado River

water at the urging of, and with assistance from, the Department of the Interior and Reclamation.

In FY 2001, Reclamation developed and implemented interim surplus guidelines to help California with its water reduction efforts. The guidelines provide specific criteria for determining the availability of surplus Colorado River water for Nevada, Arizona, and California as part of the Annual Operating Plan for the river. From water year 2002 through 2016, the guidelines ensure California receives much-needed Colorado River supplies for urban populations in its southern

Water and Energy Management and Development



coastal areas, while the State concurrently implements programs to reduce its overuse of the river. The guidelines also provide additional water for other urban areas in Nevada and Arizona. Implementing these

GPRA Goal for the Water and Energy Management and Development Program Activity

Performance Goal - In FY 2001, improve water quality in the Colorado River Basin States by eliminating 25,000 new tons of salt at a cost not to exceed \$50 per ton.

Performance Measure - New tons of salt eliminated at a cost no greater than \$50 per ton on average. FY 2001 Plan: 25,000 tons.

Data Source - Contract agreements, reports, and monitoring results.

Result - Exceeds target. FY 2001 actual: 36,437 tons.

guidelines will improve overall management of the Colorado River for the benefit of all river users.

Reclamation helped negotiate documents to implement California's plan to reduce its annual use of Colorado River water from approximately 5 million acre-feet annually to its apportionment of 4.4 million acre-feet. Reclamation also continued preparing environmental documentation for the plan's key components: (1) the proposed transfer of water from agricultural use in the Imperial Irrigation District of southern California to municipal use in the southern California coastal area; (2) a policy to address inadvertent overuse of water in the Lower Colorado River Basin; and (3) implementation of the San Luis Rey water rights settlement.

Reclamation—along with the Arizona Water Banking Authority, Central Arizona Water Conservation District, Southern Nevada Water Authority, and Colorado River Commission of Nevada—also developed a Storage and Interstate Release Agreement that will improve water management in the Lower Colorado River Basin. The agreement was made possible by a 1999 rule, developed by Reclamation, that established procedures for interstate transfer and use of Colorado River water. The agreement will allow Nevada to store portions of its unused Colorado River water in Arizona groundwater aquifers and specifies the exchange process for storing this water in Arizona for later retrieval by Nevada. It also states the terms and conditions for storage and recovery of the water, environmental compliance, and pricing.

Stipulated Agreement with Arizona Water District

Water problems often are interrelated, and solutions must be developed for an entire region, basin, or State. In FY 2001, Reclamation continued to participate in efforts to settle complex water issues in Arizona. Working with U.S. Senator John Kyl; U.S. Representative J.D. Hayworth; and State, local, and Federal entities, Reclamation helped negotiate issues related to water settlement agreements with area Indian

tribes. The issues include settling the Central Arizona Project repayment contract and related operation and maintenance issues through an agreement “Stipulation Regarding a Stay of Litigation” between the United States and the Central Arizona Water Conservation District, a water rights settlement for the Gila River Indian Community, a final amendment to the Southern Arizona Water Rights Settlement Act of 1982, and a final allocation of Central Arizona Project water to Arizona cities and Indian tribes. Agreements developed from these negotiations are expected to become part of legislation introduced by Senator Kyl in an overall Arizona water settlement bill.

Northwest Area Water Supply Environmental Assessment

After a long and complex planning and development process, Reclamation completed an environmental report on the Northwest Area Water Supply Project and released it to interested parties, including the Canadian Government, during FY 2001. The Northwest Area Water Supply Project is a municipal, rural, and industrial water supply system designed to serve a 10-county area in northwestern North Dakota. It was authorized by the Garrison Diversion Unit Reformulation Act of 1986 (Public Law 99-294). Under the project, raw water will

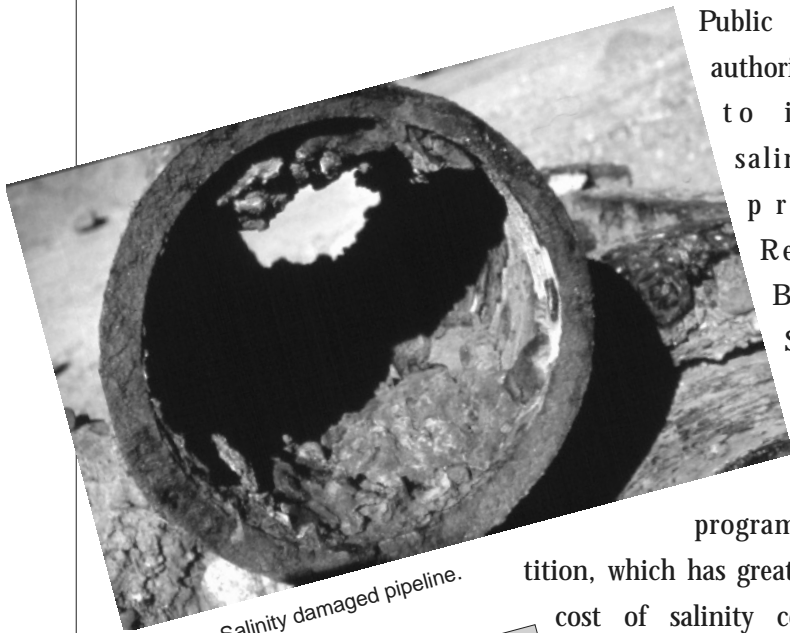
be drawn from either Lake Sakakawea or Lake Audubon, disinfected, and pumped to the Minot water treatment plant through buried pipeline. The Minot water treatment plant will then treat the water to meet drinking water standards before distributing it in the project service area. Before the project could move forward, this compliance report was necessary to ensure water treatment meets the requirements of the Boundary Waters Treaty of 1909.

WATER QUALITY

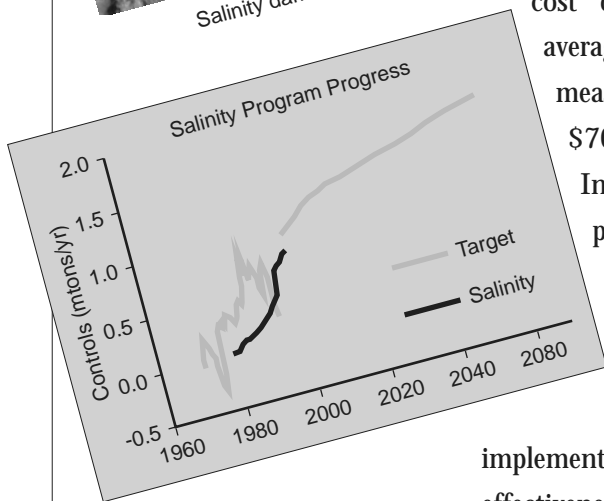
Improving water quality increases water availability by making formerly unusable water suitable to meet various needs.

Colorado River Salinity Program

The Colorado River and its tributaries provide municipal and industrial water to about 27 million people and irrigation water to nearly 4 million acres of land in the Western United States. The river also serves about 2.3 million people and irrigates 500,000 acres in Mexico. Salinity, which can damage agricultural lands and water delivery systems, is a major threat in both the United States and Mexico. Damages in Mexico are unquantified, but damages in the United States are presently about \$330 million per year. Title II of the Colorado River Basin Salinity Control Act seeks to prevent salts from polluting the river at far less cost than traditional technologies.



Salinity damaged pipeline.



Public Law 104-20 authorized new ways to implement salinity control projects.

Reclamation's Basinwide Salinity Control Program opens the

program to competition, which has greatly reduced the cost of salinity control. The average cost of salinity control measures has dropped from about \$70 per ton to \$30 per ton. Involved States provide 30 percent of the costs through a surcharge on power produced at Reclamation facilities within the basin. Local cost sharing and project implementation also increased program effectiveness.

Over the past 3 years, the program has consistently exceeded its goal by 50 percent, almost completely eliminating the backlog of work that accumulated before the new program began. To date, river salinity has been reduced by about 10 percent (800,000 tons per year).

Water Quality Models

Reclamation has developed water quality assessment models on seven reservoirs to: (1) evaluate operational changes, such as selective withdrawal for

temperature control at Glen Canyon Reservoir, and seasonally adjusted flow at Flaming Gorge Dam and (2) assess watershed water quality proposals from State or local watershed groups. Reclamation has participated in a joint study of Elephant Butte and Caballo Reservoirs on the Rio Grande in New Mexico, where dam releases are resulting in hydrogen sulfide problems. Reclamation has also completed the field work and two of four reports for a Colorado River basinwide selenium assessment.

Water Quality Data Base

In FY 2001, Reclamation initiated a bureauwide effort to compile a comprehensive list of Reclamation water quality data. The list will provide information on the type, location, and purpose of available data. The list will:

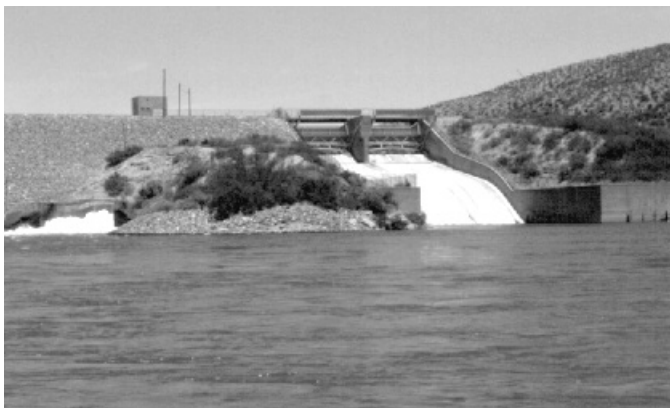
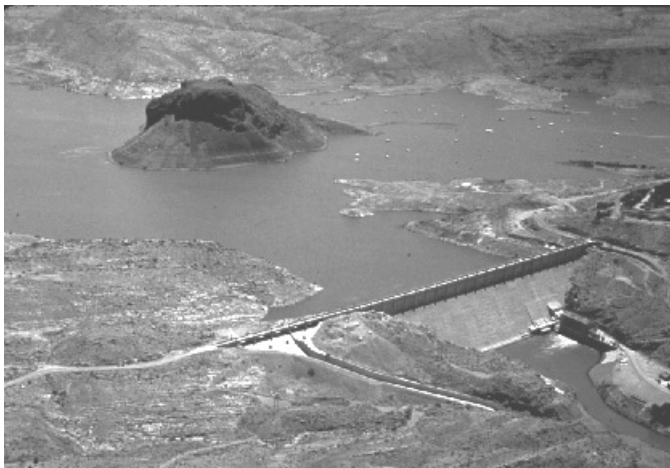
- ▶ Provide insight into Reclamation's total water quality monitoring efforts.
- ▶ Provide benchmarking across Reclamation regions and area offices and support consistent and efficient responses to data requests.
- ▶ Improve timeliness and completeness of responses.
- ▶ Improve Reclamation's ability to address Clean Water Act responsibilities and enhance Reclamation's effectiveness in working with States to establish basinwide water quality standards.

WATER CONSERVATION

Reclamation also strives to manage its water supplies through water conservation activities. Major activities are described in this section.

Water Conservation Field Services Program

Reclamation's Water Conservation Field Services Program provides ways to increase water availability. This incentive-based program provides technical and financial assistance to water districts covered by the Reclamation Reform Act and to other entities. Districts covered by the Reclamation Reform Act represent more than 10.5 million irrigated acres.

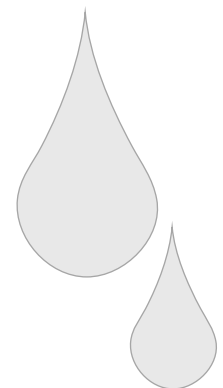


The Water Conservation Field Services Program assists local water users in four areas: (1) preparing water conservation plans; (2) implementing effective, efficient water management measures; (3) demonstrating innovative conservation technologies; and (4) promoting conservation information and education.

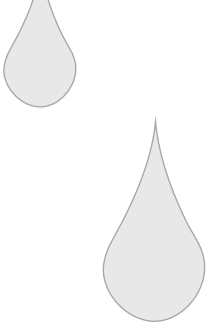
“Bridging-the-Headgate” Partnership

In February 2001, Reclamation and other Federal and non-Federal entities renewed their commitment to the Western agricultural conservation partnership called “Bridging-the-Headgate.” This partnership is a six-party alliance that includes

Reclamation, the Western States Water Council, the National Water Resources Association, the Natural Resources Conservation Service, the National Association of State Conservation Agencies, and the National Association of Conservation Districts. These six

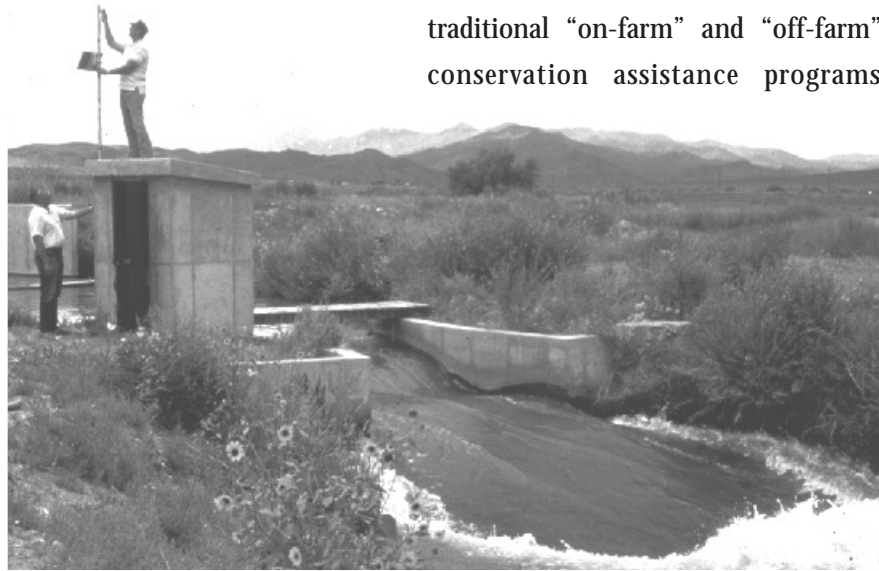


Elephant Butte (top) and Caballo (bottom) Reservoirs are contributing to hydrogen sulfide problems in the Colorado River Basin.



entities, representing the key Federal, State, and local interests in Western agricultural water management on respective sides of the off-farm/on-farm “headgate,” have joined to actively promote the idea of “working together for the sustainable and efficient use of Western agricultural water supplies.”

The overall intent of the partnership is to encourage innovative networking among all parties, particularly at the local level, to promote and facilitate collaborative problem solving on Western water resource issues. Since 1998, the “Bridging-the-Headgate” partnership has resulted in nearly 100 cooperative projects at the local level that have leveraged the benefits of traditional “on-farm” and “off-farm” conservation assistance programs



Efficient water use requires cooperation.

throughout the 17 Western States. The program has also encouraged non-Federal entities to take an active role in providing local leadership on water management and conservation issues.

DROUGHT MITIGATION

Reclamation's Drought Program helps States, tribes, and local entities throughout the Reclamation States and the State of Hawaii to address emergency drought impacts. In addition, the Reclamation States Emergency Drought Relief Act of 1991 (Public Law 102-250), as amended, authorizes Reclamation to undertake drought planning activities in all 50 States and U.S. territories. In FY 2001, Reclamation:

- ▶ Acquired emergency water supplies for the State of New Mexico to mitigate fish and wildlife impacts resulting from the multiyear drought in the Rio Grande area.
- ▶ Helped the cities of Geraldine and Hobson, the Galta County Water District, and the Sage Creek Colony in Montana develop municipal wells.
- ▶ Raised the elevation of a diversion dam used by the Kickapoo Tribe in Kansas, thus providing more water storage.
- ▶ Assisted the village of Culbertson, Nebraska, in developing a well.
- ▶ Improved water hauling in the State of Hawaii to supply water for domestic and livestock use in rural areas not served by municipal or private water systems. Reclamation purchased a

generator to pump well water to re-supply the Kualapuu Reservoir on the Island of Molokai.

- ▶ Acquired water to meet the needs of threatened and endangered species for the Klamath Project in Oregon.
- ▶ Helped the Quinault Indian Nation drill three potable water wells to mitigate recent drought impacts.
- ▶ Helped the Yakama Nation in Washington drill wells to support livestock water and aquatic life, including the Yakima River basin steelhead.
- ▶ Provided water from the Columbia Basin Project for Washington State's Temporary Trust Water Right Program. This water—used for irrigation, instream flows, and other purposes—was available as a result of the Bonneville Power Administration's load reduction program with the Columbia Basin Project farmers.
- ▶ Received drought mitigation plans for submission to the Congress. Entities submitting plans included the Hopi Tribe and the States of Hawaii, New Mexico, and Utah. Because of the extensive emergency drought needs throughout the West, no new drought planning efforts were initiated this fiscal year.

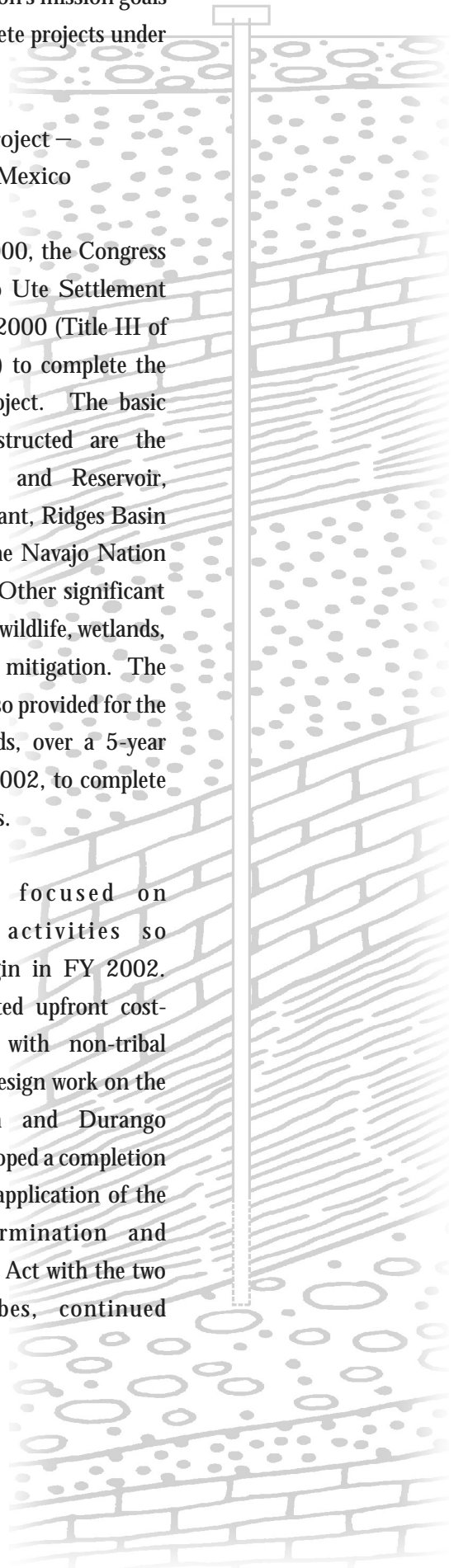
CONSTRUCTION

Another of Reclamation's mission goals is to efficiently complete projects under construction.

Animas-La Plata Project — Colorado and New Mexico

On December 21, 2000, the Congress enacted the Colorado Ute Settlement Act Amendments of 2000 (Title III of Public Law 106-554) to complete the Animas-La Plata Project. The basic facilities to be constructed are the Ridges Basin Dam and Reservoir, Durango Pumping Plant, Ridges Basin Inlet Conduit, and the Navajo Nation Municipal Pipeline. Other significant activities include fish, wildlife, wetlands, and cultural resources mitigation. The 2000 amendments also provided for the appropriation of funds, over a 5-year period beginning in 2002, to complete construction in 7 years.

FY 2001 work focused on preconstruction activities so construction can begin in FY 2002. Reclamation negotiated upfront cost-sharing agreements with non-tribal entities, began final design work on the Ridges Basin Dam and Durango Pumping Plant, developed a completion schedule, negotiated application of the Indian Self Determination and Education Assistance Act with the two Colorado Ute tribes, continued



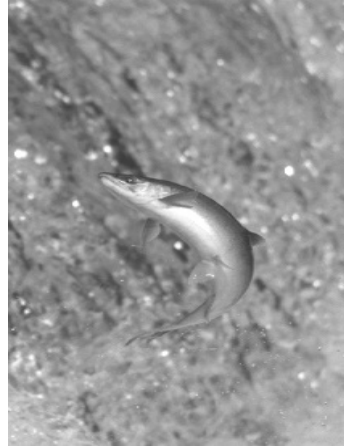
collecting environmental baseline data, and prepared a development plan for meeting wetland mitigation obligations.

NATIVE AMERICAN AFFAIRS

The Native American Program includes developing policy for Reclamation's work with federally recognized Indian

Central Washington University, and the Southwest Indian Polytechnic Institute.

- **Water Development.** Memorandums of Understanding were implemented to initiate working relationships with two large Indian organizations: (1) an agreement with the Navajo Nation to aid in strategic



Reclamation assistance helps tribes with environmental studies (left) and supports education opportunities (right).

tribes and coordinating Reclamation programs to assist Indian tribes. Once formulated, programs are carried out largely at the regional and area office levels.

The following milestone events occurred in FY 2001:

- **Education.** As part of its ongoing Indian education program, Reclamation initiated a scholarship program in partnership with the American Indian Science and Engineering Society and awarded four scholarships. Reclamation also continued supporting programs for Indian law and natural resources students at Arizona State University,

planning for future water development on the Navajo Reservation and (2) an agreement with the Mni Sose Water Rights Coalition, designed to assist its 27 member tribes with their future water development projects.

- **Technical Assistance.** The Native American Affairs Program continued its Technical Assistance to Tribes Program in FY 2001 by providing \$4.1 million to support 118 technical assistance projects for 92 tribes. (The 118 figure represents a wide range of new and continuing technical support. Technical assistance measured under GPRA includes only certain completed projects.)

► **Settlement Efforts.** Native American Affairs provided almost \$1.8 million to support the Department of the Interior's Indian water rights settlement efforts, including support for 4 assessments, 17 negotiations, and 17 implementation teams.

SCIENCE AND TECHNOLOGY

The Science and Technology Program provides coordinated, interdisciplinary research and development to advance mission-specific capabilities, increase water management flexibility and reliability, and reduce costs. The Science and Technology Program focuses on four main areas of water resources research:

- Improving water and hydropower infrastructure reliability and efficiency.
- Improving water delivery reliability and efficiency.
- Improving water operations decision support with advanced technologies and models.
- Enhancing water supply technologies.

Science and Technology Program activities in FY 2001 included:

- **Increasing Safety, Power Production, and Power Revenues.** The program developed and deployed

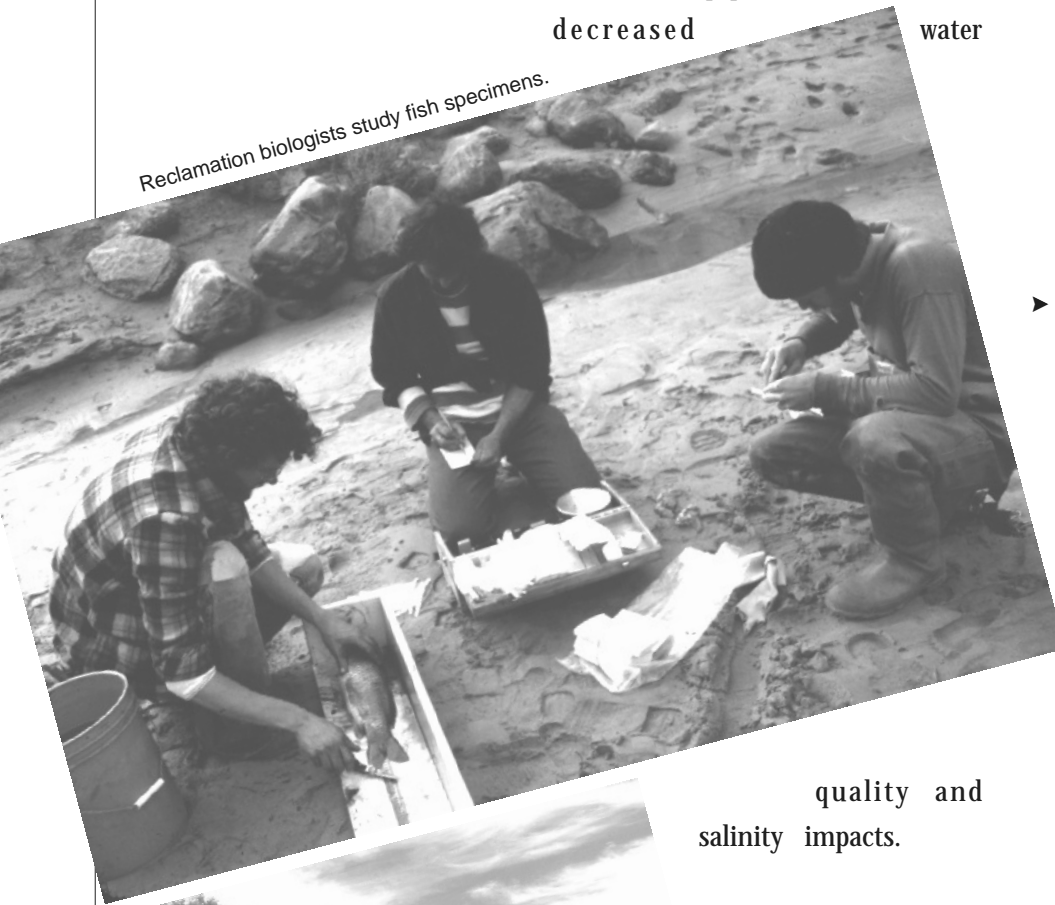
tunnel communication technology that increases worker safety in long water conveyance tunnels by improving communication with those on the outside. Annual cost savings at powerplants, made possible by more frequent tunnel cleaning, are estimated to be \$100,000 in labor and \$2 million in increased power revenues.

- **Developing Cost-Effective and Environmentally Friendly Powerplant Rehabilitation.** Reclamation completed research into Powerformer technology to make powerplant rehabilitation more cost effective, reduce maintenance requirements, and eliminate environmental risks from transformers.
- **Saving Water and Water Quality With Improved Water Supply Technologies.** Reclamation began implementing water delivery measurement and remote operation technologies on projects in Arizona, Montana, Utah, and New Mexico. Advances in these technologies can improve agricultural water use efficiencies from about 65 percent to about 80 to 95 percent. For example, on a project diverting 150,000 acre-feet of water per year, these technologies could save 30,000 acre-feet per year, resulting in a typical

value of about \$4.5 million. Additional advantages include increased operational flexibility, increased crop production, and decreased water

indicates that every \$1 spent on canal rehabilitation can return \$3 to \$5 in conserved water, and every \$1 spent on canal lining maintenance can return up to \$10 in conserved water. Many of the more than 16,000 miles of canal serving Reclamation project lands are unlined, so potential savings could be significant.

Reclamation biologists study fish specimens.

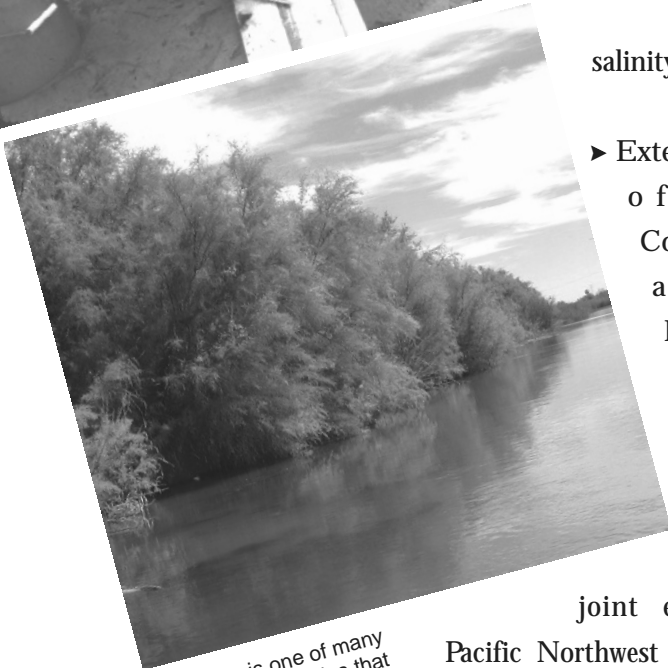


- ▶ **Saving Water by Eliminating Salt Cedar.** Reclamation, in collaboration with other agencies, tested a potentially effective method of eradicating salt cedar with insects that eat only salt cedar. Salt cedar, which clogs waterways and consumes more water than native vegetation, has invaded most riparian areas of the arid Western U.S., causing an estimated annual water loss as great as 2.5 million acre-feet. The annual dollar value of lost irrigation water is estimated as high as \$288 million, and the annual dollar value of lost power generation along the Colorado River is estimated as high as \$43.5 million.

quality and salinity impacts.

- ▶ **Extending the Life of Canals, Conserving Water, and Saving Money.** This program developed low-cost canal lining systems through a joint effort with the

- ▶ **Enhancing Water Supplies through Water Treatment Technologies.** This program developed a high-pressure sea water pump that significantly reduces energy consumption and dramatically



Salt cedar is one of many invasive species that Reclamation is working to control.

Pacific Northwest Region, 20 geosynthetic manufacturers, and 10 irrigation districts. Cost/benefit analysis

improves sea water desalination. The innovative system uses 50 percent less energy than conventional reverse osmosis systems and 90 percent less energy than multistage flash distillation. Energy-efficient sea-water desalination can provide new water supplies at an energy cost that is potentially less than that of pumping groundwater or basin transfers.

- ▶ **Locating Historic and Cultural Resources.** Reclamation proved buried historic and cultural structures and features can be located using non-destructive, geophysical technologies. These technologies can prevent the cost of inadvertent damage during construction to structures, features, and human remains—which can easily exceed \$100,000 per incident—as well as save excavation costs.

INTERNATIONAL AFFAIRS

Reclamation's International Affairs Program provides technical training and assistance on water resources management to countries throughout the world. In FY 2001, Reclamation hosted three well-received international workshops. Managers and administrators from 13 countries attended Reclamation's Integrated Water Resources Management International Workshop, which reviewed current trends and issues related to water resources management

in the American West. Additionally, canal operators, engineers, and managers from five countries attended Reclamation's Modern Methods in Canal Operation and Control Workshop, which outlined modern methods to upgrade the operations of existing canals, including canal automation techniques and equipment. Finally, the International Dam Safety Operation and Maintenance Seminar focused on techniques for safe and effective dam operation and maintenance. Managers, administrators, engineers, and geologists from more than 15 countries attended. Throughout the year, Reclamation also developed and conducted specialized visitor programs for more than 600 international visitors from more than 40 countries.

Other International Affairs Program achievements include the following:

- ▶ **Assisted**
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t r a n s b o u n d a r y

Engineers and scientists come from all over the world to attend Reclamation seminars and workshops.



conflicts in several river basins around the world, including several river basins in Africa.

installed reverse osmosis water purification units and trained Jordanian staff in their use.

- ▶ Extended an agreement with Hydro-Quebec (Canada) for cooperation in the fields of dam safety, water resources management, and hydroelectric power.

- ▶ Signed a cooperative agreement with the Japanese Public Works Research Institute to jointly study and share information in the field of watershed and river system management.

- ▶ Continued to assist the Department of the Interior in cleaning up and transferring/selling portions of Water Island in the U.S. Virgin Islands to the Virgin Islands government and private entities.



- ▶ Continued to assist the Puerto Rico

- ▶ Concluded an interagency agreement with the Department of Energy's National Renewable Energy Laboratory to help the government of Jordan desalinate its brackish water.
- R e c l a m a t i o n

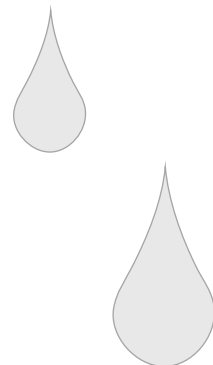


Reclamation hosts classes and field trips for visiting experts from around the world.



Representatives of Reclamation's International Affairs Program meet with delegates for the Okavango River Basin Commission, which is studying ways to improve basinwide water management for this river that serves the nations of Namibia, Botswana, and Angola.

- Electric Power Authority with dam safety studies and evaluations of Puerto Rican dams.
- Provided two workshops on alternative dispute resolution techniques to the South African Ministry of Water Affairs and Forestry.
- Provided a series of dam safety workshops to Mexico's National Water Commission.
- Continued to assist the U.S. State Department with issues related to desalination under the auspices of the



Land Management and Development

Under this GPRA program activity, Reclamation's goals are to maintain and protect project land resources and to provide quality recreation. Reclamation manages 8.6 million acres of land throughout the West for such project purposes as facility operations, recreation, fish and wildlife enhancement, and flood plain management.

In partnership with States or other Federal agencies, Reclamation manages 308 recreation sites which have 90 million visits each year. More than 80 percent of Reclamation-owned recreation areas are managed by other entities, including the National Park Service, the Bureau of Land Management, the U.S. Department of Agriculture, and State recreation

Reclamation works with the public and other entities to create and implement Resource Management Plans (RMPs) that identify resources, issues, and solutions.

RMPs are used to make decisions about land uses and develop strategies for sustaining them. These plans are often developed for areas with significant demands and conflicts over critical resources. Therefore, RMP development is also a public process in which divergent interests can provide input.

In FY 2001, Reclamation developed or revised RMPs for six project areas in the States of Utah, Nebraska, and Washington. Completion of other RMPs was delayed, mostly as a result of scheduling and completing activities required to comply with environmental laws, especially the public comment process.

GPRA Goal for the Land Management and Development Program Activity

Performance Goal - In FY 2001, improve land stewardship by completing 15 RMPs.

Performance Measure - Number of RMPs completed. FY 2001 Plan: 15 completed RMPs.

Data Source - RMP.

Result - Below target. FY 2001 actual: 6 RMPs.

agencies. Such partnerships are key to accomplishing Reclamation's goal of providing quality recreation.

RESOURCE MANAGEMENT PLANS

To ensure a comprehensive and balanced approach to land management,

FEDERAL LAKES RECREATION LEADERSHIP COUNCIL

The Federal Lakes Recreation Leadership Council is an interagency body formed to review and appropriately implement the recommendations of the National Recreation Lakes Study Commission. The commission was charged with reviewing the extent of recreation activities at federally constructed lakes and recommending actions to enhance water-related



Volunteers are an important part of the overall successful operation at Reclamation recreation sites such as Lake Cascade (above).

Reclamation has joined with the other members of the Federal Lakes Recreation Leadership Council to enhance reservoir recreation.

recreation opportunities. The Commissioner of Reclamation is a co-chair of the council, along with the Director of Civil Works for the U.S. Army Corps of Engineers. The primary goal of the council is to bring

together the eight agencies that manage the Nation's 1,782 Federal lakes and to identify and implement actions to improve the experiences of millions of visitors at these popular recreation destinations. Recreational use is the

primary authorized purpose of about a quarter of all Federal lakes. The 900 million recreation visits to Federal lakes generate \$44 billion annually for the national economy.

The council has focused on the pilot lakes demonstration program, which includes 31 lakes managed by 6 Federal agencies in 20 States. Each of the pilots has developed an action plan and will work with other Federal and non-Federal partners to plan, develop, and implement actions to enhance the recreation experience. Reclamation has eight lakes in the pilot project, representing each of the five regions. This special designation has instilled a new interest among the recreation managing partners. By granting managers greater latitude to experiment with process and procedures, better results are emerging. Successes, as well as barriers, will be shared among the council agencies and recreation managing partners.

VOLUNTEERS ASSIST AT LAKE CASCADE

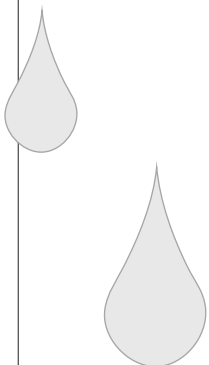
Volunteers have become an important part of Reclamation's land management program. For example, volunteer assistance on the lands

adjacent to Lake Cascade, located near Cascade, Idaho, has saved Reclamation more than \$150,000 in 5 years.

Reclamation owns and manages some 6,300 acres at Lake Cascade. Volunteer projects completed this year alone include planting riparian plants in constructed wetlands to improve water quality, placing nesting boxes for a wide array of bird species, and removing old barbed wire fences to reduce the possibility of animal entanglement.

The Boy Scouts of America has provided major assistance at Lake Cascade. Other volunteers include church groups, local advanced biology classes, and individuals. Reclamation's Pacific Northwest Region staff and Lake Cascade volunteers participated in the National Public Lands Day celebrations on Saturday, September 29, 2001.

Volunteer opportunities not only involve average citizens and civic organizations, but they also help develop "pride in ownership" toward federally managed projects and improve conditions without added cost to the Federal budget.



Reclamation's mission is to "manage, develop, and protect water and related resources in an environmentally . . . sound manner . . ." To that end, Reclamation focuses significant attention on improving habitat conditions for fish and wildlife, improving and protecting wetlands, and making decisions based on a watershed perspective.

The GPRA goal for this program activity is to preserve, restore, or establish additional wetlands. In FY 2001, Reclamation exceeded its target.

IMPROVEMENTS FOR FISH

Reclamation is committed to complying with the Endangered Species Act and has initiated several projects to improve water and habitat conditions for threatened and endangered fish.

Rio Grande Silvery Minnow Agreement - New Mexico

The Rio Grande silvery minnow, which now lives between Cochiti Dam and Elephant Butte Reservoir in New Mexico, was listed as an endangered species in 1994. In November 1999, environmental groups collectively filed suit against Reclamation and the U.S. Army Corps of Engineers for alleged Endangered Species Act and National Environmental Policy Act violations. In January 2000, Reclamation and other partners signed a Memorandum of Understanding to develop a Middle Rio Grande

Collaborative Program to support recovery of this species, while protecting existing and future water uses.

Since 1997, Reclamation has spent millions of dollars leasing water from San Juan-Chama Project contractors to enhance riverflows. Unfortunately, reserves of water have largely been exhausted. To address supplemental water needs for 2001-2003, a Conservation Water Agreement was signed on June 29, 2001, to store up to 100,000 acre-feet of water. Under the agreement, up to 30,000 acre-feet of water can be released per year for 3 years. The U.S. Fish and Wildlife Service issued its final biological opinion on June 29, 2001, which is effective for the same 3-year period.

Fish and Wildlife Management and Development

GPRA Goal for the Fish and Wildlife Management and Development Program Activity

Performance Goal - In FY 2001, protect and maintain, establish, restore, or enhance 1,000 acres of wetlands habitat.

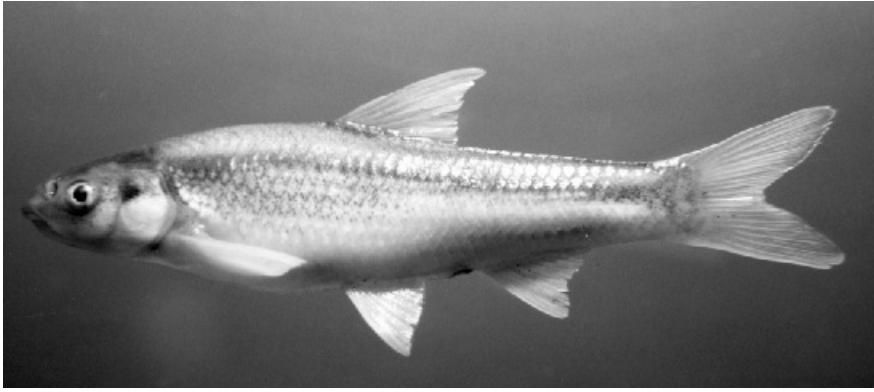
Performance Measure - Acres of wetlands and/or riparian habitat protected and maintained, established, restored, or enhanced. FY 2001 Plan: 1,000 acres.

Data Source - Section 404 permits, environmental documents, biological opinions.

Result - Exceeds target. FY 2001 actual: 6,212.

The biological opinion calls for a variety of activities, including providing the appropriate quantity and quality of water, suitable habitat, and fish passage.

Most of the efforts undertaken this year are for the immediate survival of the species. Reclamation believes the collaborative program is the best



Reclamation's efforts to enhance riverflows are designed to ensure the long-term survival of the Rio Grande silvery minnow.

Bay-Delta Program Elements:

- ▶ Watershed management
- ▶ Water transfers
- ▶ Storage
- ▶ Conveyance
- ▶ Water use efficiency
- ▶ Ecosystem restoration
- ▶ Water quality
- ▶ Long-term levee protection

approach to recover the endangered species, attain Endangered Species Act compliance, and permit existing and future water development and management activities.

Restoring the Bay-Delta Ecosystem

The CALFED Bay-Delta Program, composed of Federal and State agencies including the Department of the Interior, was established to develop a long-term solution for ecosystem and water management for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary. The solution must: (1) comply with the Clean Water Act and the Endangered Species Act and (2) allow continued operation of water projects, including Reclamation's Central Valley Project. The Department of the Interior supports resolution of Bay-Delta issues through this consensus process.

The lead CALFED agencies released the final programmatic environmental impact statement/environmental impact report and the preferred alternative on July 21, 2000. This was followed by the signing of the record of decision on August 28, 2000, which formally approved a long-term plan to restore the Bay-Delta ecosystem and

improve water management through a framework of eight common program elements.

The record of decision outlines commitments by Federal and State governments and performance goals for CALFED. One of the most significant program accomplishments in FY 2001 was implementing the environmental water account, a program designed to set aside water for fish without reducing allocations to farms and cities. The program also established the CALFED Science Program to provide peer review of the science and information underlying all elements of the CALFED program. Further, the program is granting funds to local agencies to address drinking water quality, water conservation, groundwater management, and watershed protection projects throughout California. Federal and State agencies have contributed \$699 million in this first year toward implementing actions outlined in the CALFED record of decision.

Environmental Impact Statement on the Operation of Flaming Gorge Dam - Utah

In FY 2001, Reclamation continued its efforts to prepare an environmental impact statement for the operation of Flaming Gorge Dam, Utah. The environmental impact statement will report the possible impacts of implementing flow and temperature recommendations intended to protect and assist in the recovery of the

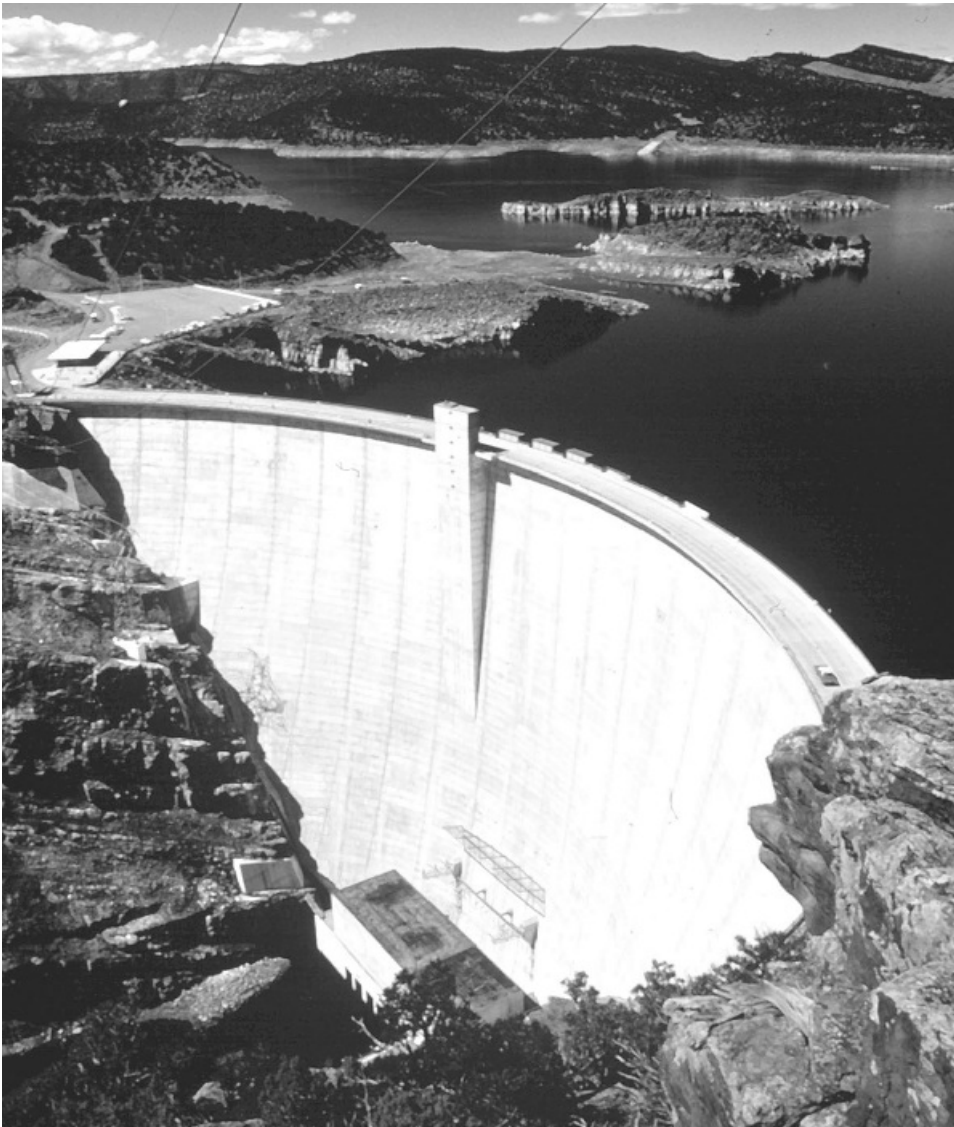
populations and designated critical habitat of four endangered fish species found in the Green River, downstream from Flaming Gorge Dam. At the same time, Reclamation will maintain and continue the other authorized purposes of the Colorado River Storage Project.

Eight cooperating agencies are working with Reclamation to complete the Flaming Gorge environmental impact statement: Bureau of Indian Affairs, U.S. Forest Service, U.S. Fish and Wildlife Service, Bureau of Land Management, National Park Service, Western Area Power Administration, Utah Department of Natural Resources, and Utah Associated Municipal Power Systems.

Reclamation received public input on the proposed scope of the environmental impact statement from June 2000 to September 2000. In FY 2001, Reclamation began developing the scope of the environmental impact statement, hydrology modeling, and gathering and analyzing data. The draft environmental impact statement is scheduled for release in FY 2002.

Glenn-Colusa Irrigation District Fish Screen Facility - California

The Glenn-Colusa Irrigation District fish screen facility is the fifth such system built at the Hamilton City pumping plant diversion on the Sacramento River since the 1920s. Although the preceding screens were



Reclamation, along with eight partners, is working on the environmental impact statement for Utah's Flaming Gorge Dam and Reservoir.

unsuccessful because of a combination of large floods and design problems, further experience contributed greatly to the design and construction of the current project. The Hamilton City pumping plant diverts up to 3,000 cubic feet per second of water, up to 25 percent of the river at times, to supply water to 20,000 acres at three national wildlife refuges and to produce \$200 million worth of crops in California's Sacramento Valley.

would minimize fish losses, while maximizing the ability of the district to divert its full water allowance on the meandering Sacramento River for at least the next 50 years.

The challenge was met by combining a flat plate fish screen structure with three types of water control structures to accommodate the fluctuating river conditions and by adding two types of fish bypasses to safely move fish past the screen and back to the Sacramento River. Reclamation is cautiously optimistic about the new facility but will complete a 3-year monitoring and testing program to determine its effectiveness.

The planning, design, environmental compliance, construction, and testing for this project total approximately \$70 million, shared by the Federal

Government (75 percent) and State and local governments (25 percent).

Navajo Reservoir Low Flow Test - Colorado and New Mexico

In July 2001, Reclamation conducted a 7-day low flow test by releasing 250 cubic feet of water



After the winter-run chinook salmon was designated as endangered in 1989-90, a cooperative effort began to develop a reliable fish screen system at the pumping plant. In addition to the irrigation district

Reclamation conducted flow tests at Navajo Reservoir to gather data for the forthcoming environmental impact statement.



and Reclamation, the U.S. Army Corps of Engineers, the California Department of Fish and Game, the California Department of Water Resources, the National Marine Fisheries Service, and the U.S. Fish and Wildlife Service all participated. The challenge lay in engineering a facility that



per second from Navajo Reservoir, half the releases normally made at that time of year. The test was an important part of Reclamation's preparation for an environmental impact statement on Navajo Dam operations. The San Juan River Basin Recovery Implementation Program recommends nonpeak flows of 500 to 1,000 cubic feet per second in the San Juan River from Farmington, New Mexico, to Lake Powell. (Accommodation of these flows requires releases of 250 cubic feet per second from Navajo Reservoir.) These flows are to help conserve and recover the endangered Colorado pikeminnow and razorback sucker populations, while protecting existing and new water development. Before conducting the controversial test, Reclamation staff held public meetings and met with local, State, tribal, Federal, and private individuals whose resources could be affected by low flows.

During the test, Reclamation gathered data on a variety of resources, trout health and habitat, river recreation impacts, economic impacts on fishing and rafting outfitters, water quality, water diversions, and flows in the river and in diversion canals. Reclamation also asked the public to provide information on impacts they experienced during the test. Reclamation will use the data to project impacts to the resources during the long-term, low flow release that could occur under the recovery program flow recommendations. The information will be included in the draft

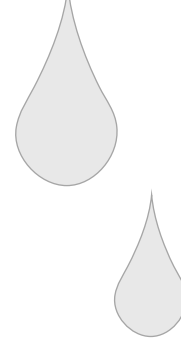
environmental impact statement scheduled for release in 2002.

Elwha Restoration Project - Washington

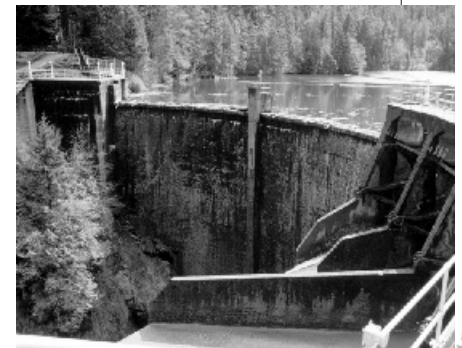
Two privately owned hydropower projects on Washington State's Olympic Peninsula were purchased by the Department of the Interior in February 2000 for removal to help restore the Elwha River ecosystem and native anadromous fisheries, in accordance with Public Law 102-495.

Historically, the Elwha River supported significant runs of anadromous fish. These runs were blocked by the construction of Elwha Dam, limiting spawning areas to the river below the dam. Biologists are optimistic that these runs can be restored once the Elwha and Glines Canyon Dams are removed.

Reclamation is assisting the National Park Service by operating and maintaining the dams and associated



To restore the Elwha River fishery, both Glines Canyon (above) and Elwha Dam (below) are slated for removal.



power facilities prior to removal. The total production of the powerplants is marketed by the Bonneville Power Administration. Revenue from power sales offsets operation and maintenance costs, with any remaining revenue earmarked for the Elwha Restoration Project.

Before dam removal could begin, an alternative water supply for local residents needed to be developed. A water quality mitigation program, coordinated with local residents within the Elwha Place Home Owners Association, was developed. Reclamation completed well field relocation and testing, designed pumping and disinfection facilities, and began construction in October 2001. A cooperative agreement on mitigation requirements for municipal water supply was reached with the city of Port Angeles, Washington. Successful coordination with the Lower Elwha Klallam Tribe also has taken place, as the National Park Service formulates an annual funding agreement for participation in restoration activities.

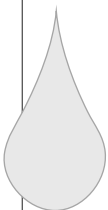
Central Arizona Project Fish Barriers

Reclamation recently completed construction of two concrete, low-head fish barriers on Aravaipa Creek in central Arizona. These barriers will prevent the upstream movement of non-native fish into habitats occupied by the native and federally threatened spikedace and loach minnow fishes that reside in the creek. The barriers were built in response to a 1994 U.S. Fish

and Wildlife Service biological opinion that determined the Central Arizona Project aqueduct could transport non-native species from the Colorado River to streams in central Arizona's Gila River basin, where they could negatively impact native species. Invasion of non-native aquatic organisms into habitats occupied by native fishes is viewed as one of the most serious and intractable long-term problems facing recovery of native fishes. The design of the barriers produces shallow, fast-flowing water below them. This waterflow, combined with the vertical height of the barriers, should exceed fish leaping abilities.

WATERSHED APPROACHES TO DECISIONMAKING

The watershed approach is a coordinating framework for water resource management that focuses public and private sector efforts on the highest priority problems within hydrologically defined geographic areas, taking into consideration both ground and surface water. Reclamation supports watershed approaches that aim to resolve water quantity, quality, and management issues while balancing economic, social, and environmental needs. The foundation of a watershed approach is threefold: partnerships, geographic focus, and sound management based on strong science and data. Efforts to resolve issues through a watershed approach help Reclamation meet a broad spectrum of



Irrigation is one of many competing water needs in the Klamath River basin.



goals to increase water availability, protect fish and wildlife habitat, and ensure reliable water and power supplies.

Glen Canyon Dam Adaptive Management Program

The Glen Canyon Dam Adaptive Management Program provides an organization and process for cooperative integration of dam operations, downstream resource protection and management, and monitoring and research information to protect the values for which Glen Canyon National Recreation Area and Grand Canyon National Park were created. In this dynamic process, led by Reclamation, stakeholders of diverse interests and disciplines come together to recommend management actions to the Secretary of the Interior.

The Glen Canyon Dam Adaptive Management Work Group seeks consensus on recommendations for protecting downstream resources and

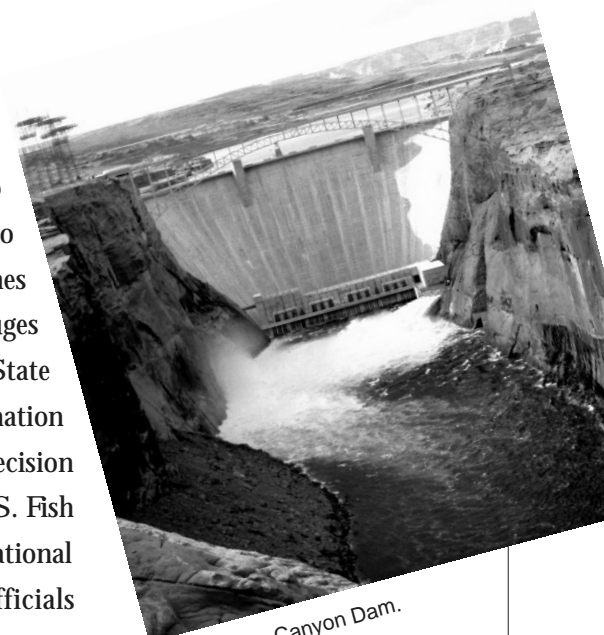
striking a wise balance on river operations. The group cites the following vision and mission in its strategic plan:

The Grand Canyon is a homeland for some, sacred to many, and a national treasure for all. In honor of past generations, and on behalf of those of the present and future, we envision an ecosystem where the resources and natural processes are in harmony under a stewardship worthy of the Grand Canyon.

The strategic plan also contains specific goals and management objectives for the various resources affected by dam operations. As a key part of adaptive management, scientific experimentation and monitoring will evaluate success and provide feedback to program managers.

Klamath Basin Water Crisis

The Klamath Project has operated for nearly a century to provide a reliable water supply to 210,000 acres of farms and ranches and to two national wildlife refuges near the California-Oregon State line. On April 6, 2001, Reclamation announced its water allocation decision for the Klamath Project after U.S. Fish and Wildlife Service and National Marine Fisheries Service officials



Glen Canyon Dam.

finalized biological opinions for project operations in this critically dry water year. Based on those opinions and the requirements of the Endangered Species Act, Reclamation announced that no water would be available from Upper Klamath Lake to supply farmers of the Klamath Project. Based on estimates of water availability, about 70,000 acre-feet, supplied by Clear Lake and Gerber Reservoirs, was available to irrigate the basin's east side.

In May 2001, Reclamation, in partnership with the Oregon Water Resources Department, the California Department of Water Resources, and the California Governor's Office of Emergency Services, began developing emergency groundwater supplies to assist drought-stricken agricultural water users. Reclamation provided funding and technical support to supplement drilling efforts in California and groundwater development actions in Oregon. Local water districts and landowners directly implemented the actions with assistance from the State water resources agencies and Reclamation, as well as irrigation districts, county governments, and tribal representatives. Involved agencies initially committed \$9.5 million for these drought relief programs.

On July 24, 2001, Secretary of the Interior Gale Norton announced the release of about 75,000 acre-feet of

water from Upper Klamath Lake for livestock, to provide critical recharge for some wells, and to help save pastures, alfalfa, and hay crops.

On August 7, 2001, several environmental groups filed a lawsuit challenging the water release. They stated that, according to the biological opinion, any extra water must go to the Lower Klamath National Wildlife Refuge to support waterfowl and wintering bald eagles. A deal was then negotiated with two irrigation districts to buy 2,700 acre-feet of water from Clear Lake Reservoir for the refuges. In September and October, Reclamation provided 6,300 acre-feet and 8,600 acre-feet of water, respectively, supplied by area irrigators to help replenish the refuges.

Reclamation continues to work with the above agencies, as well as PacifiCorp (an Oregon-based electrical energy producer), the California Waterfowl Association, irrigation districts, the tribes, and others in a mediation process to find a balance among the demands for water that will be acceptable to all interests and sustainable through a range of water year types.

Platte River Recovery Program -
Nebraska, Wyoming, and Colorado

The Platte River Recovery Program is an ongoing collaborative effort with other Federal agencies, State governments, water users, and conservation groups to jointly prepare

and implement a recovery program for the Platte River. In July 1997, the governors of Colorado, Wyoming, and Nebraska and the Secretary of the Interior signed a cooperative agreement to develop a recovery program for endangered species along the central Platte River in Nebraska. The agreement, which was extended until June 2003, will enable water-related Federal activities to proceed in compliance with the Endangered Species Act without the need for full consultation on individual projects. A basinwide, cooperative approach is more efficient and equitable because actions to improve habitat can be coordinated and combined. This approach also provides greater regulatory certainty for water users than project-by-project consultations. Actions to improve habitat are coordinated and combined.

The cooperative agreement provides strong incentive for water users to participate by complying with the Endangered Species Act during development of the recovery program. When implemented, full regulatory certainty will be provided to water users for 13 years, the first increment of the program.

National Irrigation Water Quality Program

The National Irrigation Water Quality Program (NIWQP) is an intradepartmental program that evaluates Department of the Interior irrigation projects and related impacts

on endangered species, migratory birds, and national wildlife refuges; assesses legal responsibilities associated with environmental laws; develops and evaluates alternatives; and implements remediation. In FY 2001, \$2.5 million were spent on these activities. NIWQP is the only departmental program that evaluates irrigation drain water and possible toxic levels of naturally occurring contaminants. The program is managed by Reclamation on behalf of the U.S. Geological Survey, U.S. Fish and Wildlife Service, and Bureau of Indian Affairs, who work cooperatively on program oversight and technical issues.

Current project areas are the Salton Sea area, California; Kendrick Project, Wyoming; Middle Green River area, Utah; and Gunnison and Colorado Rivers, near Grand Junction, Colorado. Activities in FY 2001 included working with groups of local, State, and other Federal interests in reaching water quality standards, mitigation efforts, and demonstration projects to develop alternatives for remediation. These activities strive to protect agricultural and fish and wildlife benefits, while helping to meet water quality standards and ensuring compliance with the Endangered Species Act and the Migratory Bird Treaty Act. These efforts have resulted in reduced Federal expenditures by cost sharing with State and local agencies.



Whooping cranes (top) and piping plovers (bottom) are among the species the Platte River cooperative agreement seeks to protect.

Reclamation manages 348 reservoirs with a total storage capacity of 245 million acre-feet of water. (An acre-foot supplies enough water for a family of four for 1 year.) Reclamation's 58 powerplants generate an average of 42 billion kilowatt-hours annually. Reclamation's goal is to operate its facilities cost effectively and ensure they provide safe, reliable supplies of water and power that are critical to maintaining the health and comfort of citizens throughout the West.

Partial funding for site security programs is provided under this program activity category, as well as

under the Facility Maintenance and Rehabilitation category. For simplicity, discussion of site security accomplishments in this report is presented under the Facility Maintenance and Rehabilitation category.

POWER BENCHMARKING

The cost per megawatt capacity is an indicator of how well Reclamation operates its facilities and is used to benchmark its operational effectiveness against other private and public hydropower facilities. For FY 2001, Reclamation achieved a \$6,063 cost per megawatt of power. This result is

GPRA Goals for the Facility Operations Program Activity

Performance Goal #1 - Deliver or release water (no less than 28 million acre-feet) from Reclamation-owned and operated facilities.

Performance Measure - Actual acre-feet of water delivered. FY 2001 Plan: 28 million acre-feet.

Data Source - Water records and local data bases.

Result - Exceeds target. FY 2001 actual: 29.1 million acre-feet.

Performance Goal #2 - Deliver power to meet Reclamation's contractual commitments 100 percent of the time.

Performance Measure - Number of megawatt hours/number of megawatt hours contracted for.

Data Source - Power records maintained by Reclamation.

Result - On target.

Performance Goal #3 - In FY 2001, attain power production costs per net generation in megawatt capacity that rank in the upper 25th percentile (ranked lowest to highest) for comparable hydropower facilities.

Performance Measure - Power production costs (\$)/net generation in megawatt capacity. FY 2001 Plan: \$7,100.

Data Source - Power Operations and Maintenance Reports.

Result - Exceeds target. FY 2001 actual: \$6,063.

slightly below (better than) the target dollar amount and within the upper 25th percentile of lowest cost hydropower facilities.

Reclamation benchmarked the powerplants at Hoover, Davis, and Parker Dams to ensure efficient and cost-effective operations. In FY 2001, Reclamation decreased the operational costs at the Hoover Dam Powerplant by more than \$500,000 and increased the powerplant's reliability by installing a computerized control system. As a result, the Hoover Dam Powerplant was listed as a leading performer in operations in a comparison of similar hydroelectric facilities worldwide. Hoover Dam Powerplant also ranked in the top half of all such facilities for maintenance. Compared with similar hydroelectric facilities around the world, Davis Dam and Parker Dam Powerplants were leading performers in both operation and maintenance for the fourth year in a row.

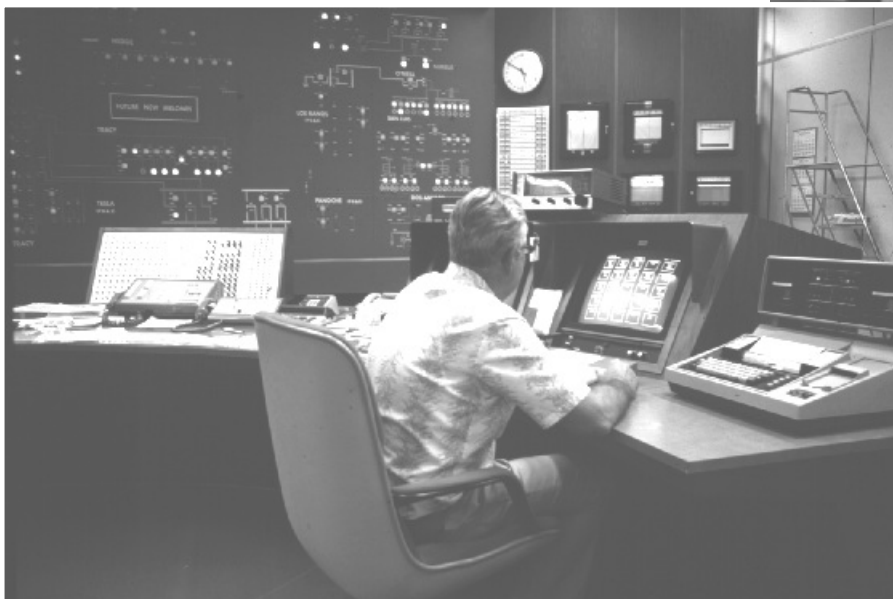
POWER ASSISTANCE

Low water conditions in the Upper Colorado River Basin continued into

FY 2001, affecting hydropower generation from the Colorado River Storage Project. Four main storage units make up the Colorado River Storage Project: (1) the Glen Canyon Unit in Arizona, (2) the Flaming Gorge Unit in Utah, (3) the Wayne N. Aspinall Unit in Colorado (with Blue Mesa, Crystal, and Morrow Point Dams), and (4) the Navajo Unit in New Mexico. Diminished hydroelectric generation, combined with power shortages in the Western United States, contributed to volatile prices and power system emergencies, as evidenced by power problems in the State of California.

During emergency events, Reclamation operates its power facilities under reliability criteria established by the North American Electric Reliability Council and the Western System Coordinating Council. The emergency events occurring in California were

Creative operations at several Reclamation facilities made it possible to assist California in its power crises.



unusual, and unique arrangements were necessary to help avert Stage III power blackouts. (Stage III events are emergencies that occur when power companies cannot obtain more power, and controlled blackouts result.)

Although utilities in California are not Colorado River Storage Project power customers and there is no transmission contract path to deliver Glen Canyon power to California, the potential risks to human health and safety during power blackouts prompted Reclamation to provide assistance. The combined efforts of Reclamation and the Western Area Power Administration in modifying system operations were successful in providing assistance to California during eight Stage III events.

CONTRACT RENEWAL

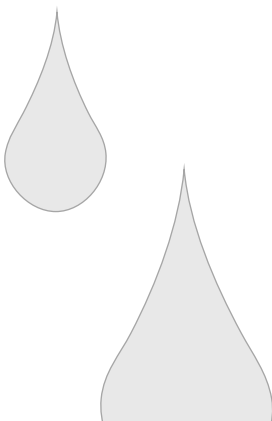
Many Reclamation water supply contracts are up for renewal. Reclamation is committed to expediting the renewal process, while meeting all legal and regulatory requirements.

Central Valley Project Contracts

In accordance with Section 3404(c) of the Central Valley Project Improvement

Act (CVPIA), Reclamation is continuing the process of renewing up to 114 Central Valley Project water service contracts. There are 69 interim renewal contracts and 43 existing long-term contracts subject to early renewal under CVPIA as well as two new contracts executed under CVPIA. These 114 contracts include an annual maximum quantity of approximately 5.6 million acre-feet of water and provide water service to approximately 3.2 million irrigable acres of land and an urban population of more than 4.3 million.

After completing a water needs analysis for the long-term contract negotiations, Reclamation released its initial draft long-term contract in November 1999. By the end of FY 2001, Reclamation had executed 27 long-term water service renewal contracts and negotiated an additional 22 long-term contracts. The remaining long-term contracts are in various stages of negotiation, and environmental documentation is underway. Lastly, three long-term contracts are being deferred until separate actions outside the scope of contract renewal are completed.



As well as ensuring operations, Reclamation must protect its facilities from deterioration due to age, natural disturbances, and threats to security. Proper maintenance is key to ensuring reliable and safe delivery of water and power to Reclamation's customers.

A forced outage rate measures the amount of time powerplants suffer unplanned shutdowns due to equipment failure and other operational or maintenance problems. The industry average forced outage rate is 3 percent of the total operating hours within a year. In FY 2001, Reclamation exceeded this target by attaining a 1.59-percent forced outage rate.

SAFETY OF DAMS PROGRAM

Reclamation fosters public safety by providing appropriate maintenance and necessary modifications at its facilities. This work includes activities under the Safety of Dams Program. In FY 2001, Reclamation achieved the following accomplishments:

- ▶ Completed 40 comprehensive facility reviews and 43 periodic facility reviews.
- ▶ Completed Safety of Dams modifications at Salmon Lake Dam, Okanogan Project, Washington, to address risks associated with seismic loads and seepage through the embankment.

- ▶ Completed Safety of Dams modifications at Casitas Dam, Ventura Project, California, to address risks associated with seismic loads on the embankment and foundation.
- ▶ Began Safety of Dams modifications to the following dams:
 - Wickiup Dam, Deschutes Project, Oregon
 - Clear Lake Dam, Klamath Project, California-Oregon
 - Avalon Dam, Carlsbad Project, New Mexico
 - Horsetooth Dam, Colorado-Big Thompson Project, Colorado
 - Caballo Dam, Rio Grande Project, New Mexico

Facility Maintenance and Rehabilitation

GPRA Goal for the Facility Maintenance and Rehabilitation Program Activity

Performance Goal - Attain a 3-percent or lower forced outage rate for Reclamation's hydropower generating units where cost/benefit analysis justifies expenditures.

Performance Measure - Number of hours out of service due to forced outage/8,760 hours per year. FY 2001 Plan: 3 percent.

Data Source - Power Operations and Maintenance Reports.

Result - Exceeds target. FY 2001 actual: 1.59 percent.

- ▶ Conducted a test filling of Senator Wash Dam, California, to determine the extent and effects of foundation seepage on the dam's operation.
- ▶ Decided to make no further modifications at Cedar Bluff Dam, Kansas, and Anita Dam, Montana.

Safety of Dams Highlight - Horsetooth Reservoir, Colorado

In FY 2001, Reclamation began Safety of Dams modifications to the four dams (Horsetooth, Soldier Canyon, Dixon Canyon, and Spring Canyon) that impound Horsetooth Reservoir. These modifications will ensure that continued long-term operation of the dams does not present unacceptable risks to public safety and welfare.

Total project costs are estimated at \$105 million. Through the end of FY 2001, Reclamation completed final designs, obtained public support of the proposed work plan, and awarded two major contracts. The first construction contract for work on Horsetooth Dam was awarded to Delhur Industries of Port Angeles, Washington, on February 9, 2001, for \$7.3 million. The second contract for work on Soldier Canyon, Dixon Canyon, and Spring Canyon Dams was awarded to Delhur Industries on September 13, 2001, for \$20.3 million.

ARROWROCK DAM OUTLET WORKS RESTORATION PROJECT

Reclamation began a multimillion-dollar project to rehabilitate outlet works at Arrowrock Dam near Boise, Idaho. The project, which will take nearly 3 years to complete, will upgrade a facility that still has its original Ensign valves, installed in 1915. RSCI, a contractor from Meridian, Idaho, was awarded the \$9.7-million construction contract, expected to be completed in March 2004. Construction will be performed during the winter months of each year to reduce impacts on dam and reservoir operation.

Reclamation completed Arrowrock Dam in 1915 as part of the Boise Project in southwest Idaho. Once new construction is completed, neither Arrowrock Reservoir nor Lucky Peak Lake, located directly downstream, will need to be drawn down to low water levels for maintenance, thus maintaining storage levels.

Construction crews are on location at Arrowrock Dam, building a new access bridge and preparing to replace Ensign valves in the nearly 90-year-old structure.



RECLAMATION SECURITY PROGRAMS

Reclamation manages a number of ongoing security programs designed to handle various types of emergencies and to ensure continuity of operations.

Site Security Program

Reclamation has 358 dams that could cause loss of life and property damage should failure occur. There are also 58 hydroelectric powerplants that are

critical to the national infrastructure. Together, these facilities receive millions of visitors annually. In addition to these facilities, Reclamation has office buildings that provide working space for approximately 6,000 employees as well as contractors and customers. Because of the possibility of sabotage and terrorism at these facilities, Reclamation conducts security reviews and assessments and has implemented security upgrades and enhancements.

In FY 2001, almost \$2.9 million was spent on physical security upgrades at Reclamation facilities. Approximately \$1.4 million was spent on program activities, which included:

- ▶ Providing periodic security reviews and vulnerability assessments of water and power facilities and employee-occupied office buildings.
- ▶ Providing guidance and assistance in the areas of employee security training and awareness.
- ▶ Providing technical advice on recommended security upgrades.



In FY 2001, Reclamation began Safety of Dams modifications at Caballo Dam (top) and completed them at Casitas Dam (bottom).



- ▶ Coordinating the execution and maintenance of law enforcement agreements with local jurisdictions.
- ▶ Participating in and providing support to the Denver FBI Joint Terrorism Task Force.

Emergency Planning and Disaster Response Program

The Emergency Planning and Disaster Response Program encompasses three major activities: (1) disaster response, (2) emergency notification systems, and (3) continuity of operations. In FY 2001, \$239,000 was spent to manage these activities.

Within the disaster response component, Reclamation has provided management and administration of Reclamation personnel to support the Federal Emergency Management Agency and the U.S. Army Corps of Engineers in disaster operations. Reclamation is designated to support these efforts for the Department of the Interior. Reclamation has supported 32 disaster response operations for other agencies on a reimbursable basis since 1993. This assistance also helps Reclamation staff prepare for potential emergencies.

The Emergency Notification System was established departmentwide to ensure that incident information can be transmitted expeditiously from the field

to the Department of the Interior on a 24-hour basis. The system is also used by area and regional offices to obtain emergency technical assistance from Reclamation's Technical Service Center in Denver, Colorado.

The continuity of operations program component develops overall guidance, provides technical assistance, and maintains oversight by developing plans and running test exercises at facilities throughout Reclamation. These plans and exercises help ensure Reclamation offices can continue essential functions if impacted by natural or human-caused disasters.

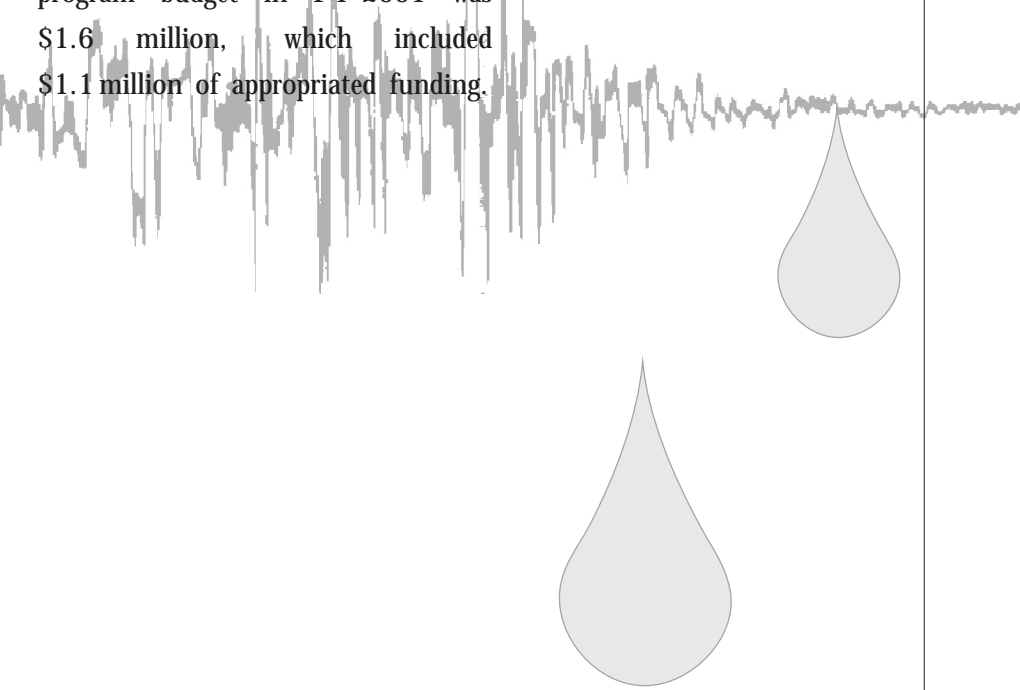
Water Quality Hazard Planning

Reclamation developed a process to facilitate the addition of a Water Quality Hazard Specific Appendix to existing Emergency Management Plans in response to the September 11, 2001, terrorist attacks on the United States. This process will improve Reclamation's ability to provide emergency notification to agricultural, municipal, and industrial water customers if a biological, chemical, or radiological water hazard terrorist attack is observed, detected, or suspected to have occurred in Reclamation-managed water supplies.

Seismic Safety Program

In response to a series of Executive orders and public laws, Reclamation's Federal Building Seismic Safety Program identifies those Reclamation-owned buildings that cannot provide minimum performance during anticipated earthquakes. Rehabilitation concepts, cost estimates, and risk reduction recommendations are prepared for high-risk, seismically deficient buildings. These recommendations are peer reviewed by independent experts. Nonreimbursable program funding is allocated for risk identification activities, and reimbursable program funding is made available for risk-reduction projects.

In FY 2001, the program continued the risk identification and reduction program by screening 109 buildings, evaluating 9 buildings, completing peer review and planning refinement on 4 buildings, completing rehabilitation action plans for 10 buildings, and starting or completing risk-reduction projects on 4 buildings. The total program budget in FY 2001 was \$1.6 million, which included \$1.1 million of appropriated funding.



Reclamation is committed to achieving organizational effectiveness and operating in the best interest of the American public. Reclamation's goals under this program activity include improving customer service and business and financial practices, while increasing workforce diversity and accessibility to the workplace and public areas.

TITLE TRANSFER

Reclamation is in the process of transferring title to facilities to non-Federal entities throughout the Western United States in accordance with the

promoting greater local control and more “citizen-centered” government. Some of Reclamation's title transfer accomplishments are discussed below.

Nampa & Meridian Irrigation District

Reclamation officially transferred title to certain water delivery systems in Idaho to the Nampa & Meridian Irrigation District (NMID) as part of an initiative to transfer title to those facilities that can be effectively managed by non-Federal entities. Commissioner John W. Keys, III attended the title transfer ceremony on August 14, 2001.

NMID diverts water from the Boise River into a system of canals and laterals, known as the Ridenbaugh Canal system, for delivery to district lands and provides drainage for district lands through a system of drainage ditches. No water rights or water storage facilities will be transferred or affected by the proposed action.

Since 1878, when the Ridenbaugh Canal was first constructed, NMID and its private predecessors have been responsible for operating and maintaining NMID's delivery and drainage systems. NMID's boundaries encompass approximately 125 square miles in Ada and Canyon Counties in southwestern Idaho, delivering water to about 64,000 irrigable acres. Most of the cities of Boise, Nampa, and Meridian fall within NMID boundaries.

GPRA Goal for the Policy and Administration Program Activity

Performance Goal - Complete four title transfer process agreements and four terms and conditions agreements with districts interested in owning and managing projects and transfer four titles authorized by the Congress.

Performance Measure -

- a) Number of projects, or parts of projects, for which an agreement on goals and process has been completed. FY 2001 Plan: 4.
- b) Number of projects, or parts of projects, for which title transfer agreements have been completed. FY 2001 Plan: 4.
- c) Number of titles transferred. FY 2001 Plan: 4.

Data Source - Agreements and titles.

Result -

- a) Below target. FY 2001 actual: 3.
- b) Exceeds target. FY 2001 actual: 5.
- c) Exceeds target. FY 2001 actual: 5.

U.S. Department of the Interior's management reform goals. Title transfer can play an important role in

The lands that NMID serves are located south of the Boise River in what is commonly called the Boise Valley.

NMID has met its repayment obligation to the United States for construction of the title transfer segments. Public meetings were held and comments were recorded as required for environmental compliance.

Palmetto Bend Project

Title to the Palmetto Bend Project near Corpus Christi, Texas, was transferred from the United States to the Lavaca-Navidad River Authority (LNRA) on June 26, 2001, at a signing ceremony in Austin, Texas. Public Law 106-512, enacted November 13, 2000, authorized the discounted prepayment of the district's repayment obligation and the transfer of title to LNRA. Prior to signing of the conveyance document, a discounted payment of over \$49 million was made to satisfy the State's remaining financial obligation to the United States. Facilities transferred included Palmetto Bend Dam, Lake Texana, and associated recreation facilities.

Title transfer of these facilities will provide greater local control, while reducing Reclamation's long-term obligations and liabilities for project benefits that are largely local in nature.

Robert B. Griffith Project

On July 3, 2001, Reclamation transferred title for the Robert B. Griffith Water Project in southern Nevada to the project operator, the Southern Nevada Water Authority.

Constructed jointly by the State of Nevada and Reclamation in the 1970s and early 1980s, the project pumps Colorado River water from Lake Mead, behind Hoover Dam, and delivers it to the Las Vegas metropolitan area, including Nellis Air Force Base and Boulder City, Nevada.

In completing the title transfer, Reclamation received \$121 million from the State of Nevada for project repayment. In addition, the transfer relieved Reclamation of the responsibility and liability for the facilities and appurtenant lands. Nevada taxpayers saved \$13 million in project repayment costs, and the water authority gained the ability to more effectively manage the system and perform routine system operations and maintenance activities without having to first obtain Reclamation's permission.

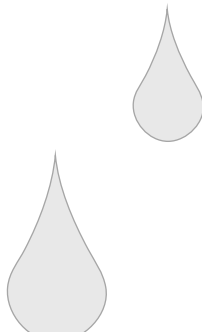
The transfer will relieve the United States from oversight responsibilities and long-term liability for operation and maintenance of the dam and reservoir, as well as associated project activities such as recreation.

Carlsbad Irrigation Project

Carlsbad Irrigation Project was transferred to the Carlsbad Irrigation District following passage of the Carlsbad Irrigation Project Acquired Land Transfer Act of June 26, 2000. The Act authorized transfer of mineral rights to certain preproject lands, as well as ownership of the irrigation and drainage system serving agricultural lands. An environmental assessment, an agreement with the State of New Mexico addressing cultural resources, and the transfer deed were all completed prior to a transfer ceremony held on

July 18, 2001, when the quitclaim deed was presented to the Carlsbad Irrigation District.

This transfer will relieve Reclamation from long-term liability and other obligations associated with ownership and management of project lands and facilities. In turn, the district will gain greater control over management decisions.



Reclamation believes that maintaining management and financial integrity and accountability in all programs and operations: (1) is critical for good government, (2) demonstrates responsible stewardship over assets and resources in its care, (3) ensures high-quality, responsible leadership, (4) ensures the sound delivery of services to customers, and (5) maximizes desired program outcomes. Reclamation has developed and implemented management, administrative, and financial system controls which reasonably ensure that:

- ▶ Programs and operations achieve their intended results efficiently and effectively.
- ▶ Resources are used in accordance with Reclamation's mission.
- ▶ Programs and resources are protected from waste, fraud, and mismanagement.

- ▶ Laws and regulations are followed.
- ▶ Reliable, complete, and timely data are maintained and used for decisionmaking at all levels.

Further, Reclamation firmly believes that the timely implementation of Inspector General and General Accounting Office audit recommendations is essential to improve efficiency and effectiveness in its programs and operations and to achieve integrity and accountability goals. As a result, Reclamation has instituted a comprehensive audit followup program to ensure that audit recommendations are implemented in a timely and cost-effective manner and that disallowed costs and other funds due from contractors and grantees are collected or offset.

Management Integrity and Accountability



fiscal year two thousand and one

Financial Section





United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

MAR 25 2002

Memorandum

To: Commissioner, Bureau of Reclamation

From: Roger La Rouché
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Bureau of Reclamation's Financial Statements for Fiscal Years 2001 and 2000 (No. 2002-I-0024)

We contracted with KPMG LLP, an independent certified public accounting firm, to audit the Bureau of Reclamation's (BOR) financial statements for fiscal year 2001. The contract required that KPMG conduct its audit in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States of America; Office of Management and Budget Bulletin (OMB) No. 01-02, *Audit Requirements for Federal Financial Statements*; and the General Accounting Office/President's Council on Integrity and Efficiency's *Financial Audit Manual*. The Office of Inspector General (OIG) is responsible for the opinion on the balance sheet and related notes for fiscal year 2000.

In connection with the contract, we monitored the progress of the audit at key points and reviewed KPMG's report and related working papers and inquired of their representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on the BOR's financial statements or on conclusions about the effectiveness of internal controls or on conclusions about compliance with laws and regulations. KPMG is responsible for the auditors' report on the fiscal year 2001 financial statements (Attachment 1) and for the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply in all material respects with the *Government Auditing Standards*.

In its audit report dated January 9, 2002 KPMG stated that in its opinion the BOR's financial statements for fiscal year 2001 present fairly, in all material respects, the financial position of the BOR as of September 30, 2001 and its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. In our report dated January 9, 2002 (Attachment 2) we stated that in our opinion the BOR's consolidated balance sheet presents fairly, in all material respects,

financial position of the BOR as of September 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

KPMG found two reportable material weaknesses and eight reportable conditions related to internal controls over financial reporting. With regard to compliance with laws and regulations, KPMG found BOR to be noncompliant with the *Debt Collection Improvement Act of 1996* and that BOR's financial management systems did not substantially comply with the OMB Circular A-130, *Management of Federal Information Resources*.

In its January 22, 2002 response to KPMG's draft audit report, the BOR concurred, or believed it had complied with, 19 of the 20 recommendations reported in KPMG's draft audit report. As a result of BOR's response, we consider 19 recommendations resolved but not implemented and 1 recommendation unresolved. All 20 recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for resolution and tracking of implementation.

The BOR did not concur with recommendation J.2, which recommended that BOR conduct quarterly reviews of its outstanding undelivered order balances. KPMG made this recommendation to assist BOR in the transition to the new reporting requirements of OMB. BOR's response stated that they would implement semiannual reviews of outstanding undelivered order balances in compliance with the Departmental direction issued from the Deputy Assistant Secretary for Budget and Finance.

Section 5(a) of the *Inspector General Act* (5 U.S.C App. 3) requires the OIG to list this report in its semiannual report to the United States Congress. The Independent Auditors' Report is intended for the information of management of the BOR, the Office of Management and Budget and the United States Congress. However, this report is a matter of public record, and its distribution is not limited.

Attachments (3)

cc: Chief Financial Officer, Bureau of Reclamation



15 West South Temple
Suite 1500
Salt Lake City, UT 84101

Independent Auditors' Report

Commissioner of the United States Bureau of Reclamation and Inspector General
U.S. Department of the Interior:

We have audited the accompanying consolidated balance sheet of the United States Bureau of Reclamation (Reclamation) as of September 30, 2001, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the year then ended (hereinafter referred to as financial statements). The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our audit, we also considered Reclamation's internal control over financial reporting and tested Reclamation's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that Reclamation's financial statements as of and for the year ended September 30, 2001 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

- A. Reclamation needs improved security and internal control over its information technology systems;
- B. Reclamation needs improved controls over its land inventory;
- C. Reclamation needs improved controls over its construction-in-progress account;
- D. Reclamation needs improved controls over accounting for investigations and development costs;
- E. Reclamation needs an improved financial reporting process related to its allowance for doubtful loans receivable account;
- F. Reclamation needs improved controls over its allowance for doubtful accounts receivable account;
- G. Reclamation needs improved controls over its accrued liabilities;
- H. Reclamation needs improved controls over its deferment of trust revenue;
- I. Reclamation needs an improved quality control program; and
- J. Reclamation needs improved controls over its accounting for undelivered orders.



KPMG LLP KPMG LLP a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.

We consider reportable conditions A and B, discussed above, to be material weaknesses.

The results of our tests of compliance with the laws and regulations disclosed instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on Reclamation's financial statements, our consideration of Reclamation's internal control over financial reporting, our tests of Reclamation's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheet of Reclamation as of September 30, 2001, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the year then ended.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Reclamation as of September 30, 2001, and its net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management Discussion and Analysis section, the Required Supplementary Stewardship Information in the Stewardship Assets section of Supplemental section, and Required Supplementary Information in the other sections of the Supplemental section are not a required part of the financial statements, but is supplementary information required by the Federal Accounting Standards Advisory Board or Office of Management and Budget Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the Combining Statement of Budgetary Resources is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Reclamation's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

We noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the following reportable conditions are material weaknesses:

A. Reclamation Needs Improved Security and Internal Control over Its Information Technology Systems

Condition

Security and general controls over Reclamation's financial management systems have not been fully implemented. Reclamation has made recent progress in implementing security and controls over its information systems. Reclamation has commenced developing policies, directives and standards, security mechanisms, and procedures to protect its information technology (IT) assets and has established priorities to correct known weaknesses. Many of the weaknesses being addressed were identified in independent IT security assessments conducted by the National Security Agency (NSA), Sandia National Laboratories (SNL), and Jarvis Automation and Engineering, Inc. that were initiated by Reclamation. However, controls need to be improved in the areas described below, as required by OMB Circular A-130, *Management of Federal Information Resources*. These conditions could affect Reclamation's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources.

Security Programs

Security programs, including security policies and a related implementation plan, for general support systems and major applications are the foundation of an entity's security control structure and a reflection of senior management's commitment to addressing security risks. As outlined in OMB Circular A-130, an effective security program includes a risk assessment process, a certification process, and an effective incident response and monitoring capability. Reclamation has developed a security program, which provides a high-level strategy for establishing a sound security framework. However, the supporting directives and standards that establish processes and procedures have just recently been finalized and have not been fully implemented.

Segregation of Duties

Reclamation has not ensured proper segregation of duties through its policies, procedures, and organizational structure to ensure that one individual cannot control key aspects of computer-related operations or financial transactions, and thereby conduct unauthorized actions or gain unauthorized access to assets or records.

Access Controls

Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected

against unauthorized modification, disclosure, loss, or impairment. The objectives of limiting access are to ensure that (1) users have only the access needed to perform their duties; (2) access to very sensitive resources, such as security software programs, is limited to very few individuals; and (3) employees are restricted from performing incompatible functions or functions beyond their responsibilities. Access controls over certain Reclamation systems, applications, and data have not been configured and/or developed to reduce the risk of unauthorized access. Reclamation has not fully implemented measures to minimize security risks on the Reclamation Data Communications Network. Network security configuration settings are not sufficiently robust and appropriate mechanisms have not been implemented to prevent and monitor unauthorized access to Reclamation's network.

Application Software Development and Change Controls

Establishing controls over the modification of application software programs helps to ensure that only authorized programs and authorized modifications are implemented. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or "turned-off" or that processing irregularities could be introduced. Reclamation does not consistently follow established procedures for controlling changes over application software that would prevent unauthorized programs or modifications to an existing program from being implemented.

Service Continuity

Losing the capability to process, retrieve, and protect information maintained electronically could significantly impact Reclamation's ability to accomplish its mission. Reclamation has not sufficiently tested information technology continuity controls to ensure that when unexpected events occur, operations continue without interruption or are promptly resumed and that data are adequately protected.

National Business Center

The Interior National Business Center (NBC) administers several of Reclamation's financial management systems, including: the Federal Personnel and Payroll System (FPPS), Federal Financial System (FFS), Hyperion, and the Interior Department Electronic Acquisitions System (IDEAS). Although NBC has recently improved the security and controls over these information systems, NBC needs to continue improvements in the areas of: entitywide security planning, configuration of operating systems, system software controls, software development and change controls, and service continuity. Weaknesses in these control areas could affect Reclamation's ability to prevent and detect unauthorized changes to its financial information and increases Reclamation's need for less efficient manual controls to monitor and reconcile financial information.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Continue to develop and implement a formal action plan to improve the security and general controls over the financial management systems. This plan should address each of the areas discussed above, as well as other areas that might impact the Electronic Data Processing (EDP) control environment to ensure adequate security and protection of Reclamation's financial management systems.
2. Take the necessary steps to improve network security, which would include the development of security standards for each platform type and procedures to implement and monitor those standards as part of its network security architecture.
3. Annually obtain assurance (similar to a SAS 70 Type II report) from NBC that adequate security and controls are in place over the financial management systems.

Response

- A.1 Concur. Reclamation recognized the potential risks related to its Information Technology (IT) security practices several years ago and contracted with consultants to assist with better defining those risks and recommending changes to improve IT security. At that time a formal action plan for implementing those recommendations was developed. Since then, Reclamation's Chief Information Officer has worked with Reclamation's executives to develop strategies for improving IT security Reclamation-wide and to fund and accomplish those efforts. In continuing these efforts, and in order to address each of the areas discussed in the audit report, Reclamation will add an addendum to this plan focusing on security programs, segregation of duties, access controls, application software development and change control, service continuity, and the National Business Center (NBC).

The responsible official is Reclamation's Chief Information Officer. The target date for completing the addendum to the existing action plan is July 1, 2002.

- A.2 Complied. Prior to and during the period of time encompassed by the audit, Reclamation management had taken steps to improve Reclamation's Data Communication Network that were necessary and reasonable and did not jeopardize mission accomplishment. Specifically, Reclamation management:
- Completed a comprehensive IT security risk assessment to evaluate critical vulnerabilities. The assessment was conducted by Sandia National Laboratories (a government-owned, contractor-operated division of the Department of Energy) in fiscal year 2000.
 - Published and began implementation of the IT Security Policy in December 2000 and Directives and Standards in September 2001.
 - Published the Network Systems Directives and Standards, which established the network security architecture, in September 2001.
 - Planned, funded, and began implementation of Reclamation's Data Communication Network Perimeter Security Architecture project during fiscal years 2000 and 2001.

Project tasks are proceeding and scheduled for completion by December 2002. Network security has and will continue to improve incrementally as each task is accomplished.

- Established an IT Security Steering Committee to provide executive-level management of the program in fiscal year 2001.
- Initiated the process of consolidating platform security standards in general support system security plans with the publication of the IT Systems Accreditation Directives and Standards in September 2001.
- Published and began implementation of the Configuration Management of Security Mechanisms Directives and Standards in 2001 that established standards for managing security mechanisms such as firewalls, screening routers, intrusion detection systems virtual private networks, etc.
- Published and began implementation of the IT Intrusion Detection System (IDS) Directives and Standards in 2001 which established guidelines for how and where to use IDS systems and defines the minimum requirements for operation. Improved intrusion detection measures have been implemented to monitor and prevent unauthorized access to key financial systems.
- Defined an IT security audit process in the Audits and System Logging Directives and Standards in September 2001 to ensure business practices comply with IT security requirements.
- Is in the process of developing and finalizing the Information/Data Security Directives and Standards that defines categories of information/data for the purposes of security and management. These directives and standards are targeted for completion in February 2002.

Although weaknesses were identified during the audit process, we believe the steps taken by management have and will continue to improve the security of Reclamation's systems.

- A.3 Complied. Reclamation has requested annual assurance from the NBC that adequate security and controls are in place over the financial management systems that they administer for Reclamation.

B. Reclamation Needs Improved Controls over Its Land Inventory

Condition

Reclamation did not have a complete and accurate inventory system to support the \$1.9 billion of land and land rights reported in the financial statements as a component of general property, plant, and equipment. The weakness occurred because Reclamation had not established adequate procedures for maintaining an accurate inventory of land and land rights and for reconciling its subsidiary records with its financial accounting system. Reclamation's financial accounting system support for land and land rights costs is detailed in a cost summary report that had not been reconciled with subsidiary records, including individual project plat book maps, which contain data from individual land purchase contracts.

In fiscal year 2000, Reclamation recognized the need for supporting records and issued a five-year action plan to develop a complete and accurate land inventory that supported the financial accounting system, issued interim guidelines and procedures for reconciling land records, and developed a schedule for completing the reconciliation within the five-year plan period. As of September 30, 2001, Reclamation has completed approximately 10 percent of the reconciliations required per the action plan, and expects to complete the requirements of the plan within the five-year plan period.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Continue to complete the reconciliation of the financial accounting system support for lands and land rights costs with the subsidiary records, including individual project plat book maps, which contain data from individual land purchase contracts.
2. Continue to include a material land inventory system internal control weakness in Reclamation's Federal Managers' Financial Integrity Act (FMFIA) report to the Department of the Interior until resolved.

Response

- B.1 Concur. Reclamation will continue the reconciliation of the financial accounting system support for lands and land rights costs with subsidiary records, including individual project plat book maps in accordance with the 5-year corrective action plan.

The responsible officials are the Director, Management Services, and the Director, Operations.

- B.2 Concur. Reclamation included the land inventory material weakness in the Commissioner's fiscal years 2000 and 2001 Annual Assurance Statements and will continue to report this weakness until corrective actions are implemented.

The responsible official is the Director, Management Services. The target date for reporting this weakness is October 1 of each year until resolved.

We noted the following reportable conditions that are not considered to be material weaknesses:

C. Reclamation Needs Improved Controls over Its Construction-in-Progress Account

Condition

Reclamation did not sufficiently implement internal controls to ensure that the general ledger control account for Construction-in-Progress (CIP) was accurate. In Reclamation's fiscal year 2000 audit, the Office of Inspector General (OIG) reported a material weakness and a reportable condition related to Reclamation's CIP account. Despite new policy and procedures established in response to the OIG finding, Reclamation continued to include in the CIP account \$21.2 million in assets that should have been expensed as incurred. Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Implement and follow sufficient procedures, including management oversight, to ensure that the CIP account only includes costs for items meeting the definition of capitalizable general property, plant, and equipment, and that costs which should be expensed are reported in the proper accounting periods.

Response

- C.1 Concur. Reclamation will implement existing quality assurance procedures, including management oversight, to ensure that the Construction on Progress (CIP) account only includes costs meeting the definition of general property, plant, and equipment and that costs which should be expensed are reported in the proper accounting periods in accordance with existing Reclamation Manual guidance. In fiscal year 2001, Reclamation issued Reclamation Manual Supplements on construction in progress, plant accounting responsibilities, construction in abeyance and nontraditional assets which provide guidance for the analysis of the CIP and CIP-related accounts to ensure that costs are properly accounted for.

The responsible officials are the Director, Management Services, and the Director, Operations. The quality assurance procedures, including management oversight, will be implemented by September 30, 2002.

D. Reclamation Needs Improved Controls over Accounting for Investigations and Development Costs

Condition

Reclamation did not sufficiently implement internal controls to ensure that the general ledger control account for investigations and development costs (Investigations) were accurate. In the fiscal year 2000 financial statements, Reclamation disclosed a change in accounting principle related to the accounting for Investigations. Despite draft policies and procedures established governing these types of transactions, Reclamation recorded in the investigations control account approximately \$51.6 million that should have been expensed and \$1.7 million that should have been transferred to CIP. When informed of the inconsistencies in the account, Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Implement and document sufficient procedures, including formalized policy, quality assurance at the regional office level, and management oversight at the Finance and Accounting Services level, to ensure that the Investigations and development balances are clearly defined and properly and consistently accounted for throughout Reclamation.
2. These procedures should include sufficiently documented reviews of these account balances to ensure proper and consistent accounting treatment.

Response

- D.1 Concur. Reclamation will finalize and implement its draft policy and procedures to ensure that the Investigations and Development account balances are properly and consistently accounted for throughout Reclamation.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for Reclamation's Finance and Accounting Services to issue final policy and procedures is May 31, 2002. The target date for the implementation of policy, procedures, and reviews of account balances is September 30, 2002.

- D.2 Concur. Reclamation will sufficiently document reviews of the Investigations and Development account balances to ensure proper and consistent accounting treatment.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for the implementation of the review of account balances is September 30, 2002.

E. Reclamation Needs an Improved Financial Reporting Process related to its Allowance for Doubtful Loans Receivable Account

Condition

Reclamation did not have sufficient internal controls to ensure that the general ledger control account for the allowance for doubtful loans receivable was accurate. Reclamation's financial statements differentiate between Credit Reform Loans, which are loans made after 1991 subject to the provisions of the Credit Reform Act of 1990, and those loans made prior to the requirements of the Credit Reform Act (pre-credit reform loans). While an allowance for subsidy costs is recorded on the Credit Reform Loans to present the present value of these loans in the financial statements, an allowance for uncollectible amounts were not established for pre-credit reform loans. When informed of the deficiencies, Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Establish procedures to consider the need for an allowance for doubtful loan receivables in each reporting period. In so doing, Reclamation should apply the following five factors listed in Statement of Federal Financial Accounting Standards (SFFAS) No. 2 to both pre-credit reform loans and credit reform loans:
 - (1) Current and forecasted international, national or regional economic conditions that may affect the performance of the loans.
 - (2) Financial and other relevant conditions of borrower.
 - (3) Value of collateral to loan balance.
 - (4) Changes in recoverable value of collateral.
 - (5) Newly developed events that would affect the loans' performance.

Response

- E.1 Concur. For the fiscal year 2001 financial statements, Reclamation followed the criteria in SFFAS No. 2 for Credit Reform Loans and properly recorded the associated allowance. Reclamation has also recorded an adjusting entry to properly record the allowance for Pre-Credit Reform Loans. In addition, Reclamation will issue procedures for the recording of an allowance for both Credit Reform and Pre-Credit Reform loans.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for Finance and Accounting Services to issue procedures for the allowance for Credit Reform and Pre-Credit Reform loans is May 31, 2002. The procedures will be implemented by September 30, 2002.

F. Reclamation Needs Improved Controls over Its Allowance for Doubtful Accounts Receivable Account

Condition

Reclamation did not have sufficient internal controls to ensure that the general ledger control account for the allowance for doubtful accounts receivable was adequate. The accounts receivable account included a significant amount of aged balances where collectibility is uncertain, which were not reserved for as an allowance for doubtful accounts. When informed of the deficiencies, Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Further, two regional offices within Reclamation are not notifying on a timely basis the Secretary of the Treasury of all eligible receivables aged greater than 180 days for referral to Treasury Cross Servicing, as required by the Debt Collection Improvement Act of 1996.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Improve quality assurance over the allowance for doubtful accounts receivable at the regional offices and Finance and Accounting Services levels.
2. Record an adequate allowance for doubtful accounts where collectibility is uncertain.
3. Ensure collection efforts regarding these past due account receivable balances, notify the Secretary of the Treasury of all eligible accounts aged greater than 180 days, and write off the balances considered uncollectible, if necessary.

Response

- F.1 Concur. Reclamation will ensure implementation of existing quality assurance procedures at the regional office and Finance and Accounting Services levels for the process of recording the allowance for doubtful accounts receivable.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the procedures is September 30, 2002.

- F.2 Concur. For fiscal year 2001 financial statement reporting, Reclamation analyzed accounts receivable balances and recorded an allowance for doubtful accounts where

collectibility was uncertain. Reclamation will evaluate the process of determining sufficient balances for the Allowance for Doubtful Accounts account. If necessary, Finance Accounting Services will issue additional guidance on the reporting of allowance for doubtful accounts.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of guidance and procedures is September 30, 2002.

- F.3 Concur. Reclamation will emphasize the need to implement and follow existing procedures, including the transfer of debts aged greater than 180 days to the Department of the Treasury for collection and the writeoff of balances considered uncollectible, if necessary.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the procedures is September 30, 2002.

G. Reclamation Needs Improved Controls over Its Accrued Liabilities

Condition

Reclamation did not implement or enforce controls sufficient to ensure that its regional offices are making the proper accruals for accounts payable and the associated asset or expense. Exceptions were noted related to improper or incomplete accruals at each regional office, and included such things as accruals not made, accruals made for the obligation balances rather than the amount that should be recognized during the current fiscal year, accruals made and reversed in the same fiscal year prior to payment, resulting in no accruals at year-end, accruals made for insufficient balances, lack of sufficient documentation supporting the accrual amounts, accruals made but not being reviewed at year-end to determine if the accrual balance still exists, and accruals not reversed in the fiscal year payments are made. Certain accruals were found to be significantly aged, and upon further review were determined to be invalid. Improperly accounting for expenses in the appropriate period results in a misstated accounts payable balance and associated asset or expense balance. Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Implement and follow quality controls to ensure that accruals are complete, exist, are accurately recorded, and are adequately supported by documentation.
2. Implement oversight procedures to ensure compliance with current Reclamation policies and improved coordination within Reclamation's finance and program organizations.

Response

- G.1 Concur. Reclamation will implement and follow existing quality controls as stated in Reclamation's Manual Supplement, Estimating Contract Earnings (Accruals) and in the Fiscal Year 2001 Closing Procedures to ensure that accruals are accurately recorded and adequately supported by documentation.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the procedures is September 30, 2002.

- G.2 Concur. Reclamation will implement a management oversight process to ensure compliance with current Reclamation policies and improve coordination within Reclamation's finance and program organizations for accounts affected by accruals.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the management oversight process is September 30, 2002.

H. Reclamation Needs Improved Controls over Its Deferment of Trust Revenue

Condition

Reclamation did not establish an appropriate accounting model to ensure that the general ledger control accounts for revenue and deferred revenue were accurate. Reclamation has established several trust accounts whereby Reclamation receives advance payments for services to be provided in the future. However, Reclamation has not established posting routines in its accounting system that allow for the deferral of revenue not applicable to the current fiscal year. Accordingly, \$7.3 million was recorded as fiscal year 2001 revenue, which should be deferred to future periods. When informed of the deficiencies, Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Establish procedures to ensure that trust accounts and similar transactions are monitored, such that revenue not applicable to the current fiscal year is properly deferred and appropriately amortized.

Response

- H.1 Concur. Reclamation will establish accounting models and sufficient procedures to ensure that all available receipts (trust and special receipts accounts) are recorded as advances (unearned revenue) for the portion of cash receipts not yet earned. Reclamation has made all the necessary adjustments to ensure all revenue not applicable to fiscal year 2001 was properly deferred.

The responsible official is the Director, Management Services. Finance and Accounting Services will establish accounting models and procedures by May 31, 2002. The target date for implementation of these procedures is September 30, 2002.

I. Reclamation Needs an Improved Quality Control Program

Condition

Reclamation did not have a sufficient quality control program to ensure that previously established Reclamation Manual supplements are completely and consistently implemented among the various regional offices. Reclamation Manual supplements establish accounting policies and procedures based on appropriate authoritative literature, and are created by the Finance and Accounting Services Group, housed in the Management Services Office of

Reclamation. However, Finance and Accounting Services, or another group, does not perform compliance review procedures to ensure that the Reclamation Manual supplements are implemented fully and consistently at each regional office. As a result, certain balances, including CIP and Investigations discussed above, did not properly and consistently reflect the requirements of the Reclamation Manual supplements.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Implement a practice whereby Reclamation's policy making body is empowered to ensure compliance with the Reclamation Manual supplements among the regions.
2. Establish procedures to address the completeness, accuracy, and consistency of implementation of Reclamation Manual supplements among the various regional offices.

Response

- I.1 Concur. Reclamation has recognized the need for an improved financial oversight function; Reclamation management formed the Chief Financial Officer (CFO) Audit Projects Team to address various financial management issues, including oversight.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for developing a plan for the oversight and quality assurance function is July 1, 2002. The target date for implementation of an oversight program is September 30, 2003.

- I.2 Concur. Existing Reclamation Manual supplements provide procedures to address completeness, accuracy, and consistency of financial information for each financial-management topic addressed. For example, the Reclamation Manual Supplement, Plant Accounting-Responsibilities, establishes procedures for the consistent application and accuracy of Reclamation's general property, plant, and equipment accounts. However, as mentioned above, Reclamation has recognized the need for an improved financial-oversight function to ensure implementation of the Reclamation Manual guidance. Reclamation will establish additional procedures as necessary.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for establishing procedures, as necessary, to address the completeness, accuracy, and consistency of implementation of Reclamation Manual supplements among the various regional offices is July 1, 2002. The target date for implementation of an oversight program is September 30, 2003.

J. Reclamation Needs Improved Controls over Its Accounting for Undelivered Orders

Condition

Reclamation has a process in place to review outstanding undelivered orders to ensure validity of the outstanding balance, especially those items greater than one year old. However, Reclamation did not fully implement the controls identified in the Reclamation Manual supplement Fin 03-20-20-100-B, Reconciliation of SGL Accounts, and the Finance and Accounting Services year-end memorandum to ensure that the remaining balances represent valid undelivered orders. We reviewed a sample of the outstanding undelivered orders account at year-end and determined that

Reclamation continued to account for balances that were no longer valid. Further, Reclamation has not established policies and procedures to ensure that recovered undelivered orders are accounted for in accordance with the guidance in the OMB Budget Accounting Guide. When informed of the deficiencies, Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Improve the process for reviewing undelivered orders by implementing formal review requirements, both at Finance and Accounting Services and regional office levels, and following established criteria to ensure objectivity and financial statement accuracy.
2. Although the current departmental guidance requires that these amounts be reviewed semi-annually, we recommend quarterly reviews of outstanding balances to assist in the transition to semi-annual and quarterly reporting for fiscal years 2002 and 2003, respectively.
3. Establish policies and procedures to ensure that recovered undelivered orders are accounted for in accordance with the guidance in the OMB Budget Accounting Guide.

Response

- J.1 Concur. Reclamation will improve its formal review process for outstanding undelivered orders to follow established criteria.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the formal review process is September 30, 2002.

- J.2 Nonconcur. Reclamation will implement semiannual reviews of outstanding undelivered orders balances in compliance with direction issued June 15, 2001, by the Department of the Interior's Deputy Assistant Secretary for Budget and Finance.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the semiannual reviews of outstanding undelivered orders balances is September 30, 2002.

- J.3 Concur. Reclamation will establish and improve its existing process for tracking recovered undelivered orders (prior year recoveries) and will implement policies and procedures to ensure that recovered undelivered orders are accounted for in accordance with the guidance in the OMB Budget Accounting Guide.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for establishing and implementing the policies and procedures is September 30, 2002.

A summary of the status of prior year reportable conditions is included as Exhibit I. We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of Reclamation in a separate letter dated January 9, 2002.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with the laws and regulations described in the Responsibilities section of this report, exclusive of the *Federal Financial Management Improvement Act* (FFMIA) of 1996, disclosed one instance of noncompliance that is required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

Condition

Reclamation is not in compliance with the requirements of the Debt Collection Improvement Act of 1996. We noted instances where the Secretary of the Treasury had not been notified of eligible account receivable balances that are aged greater than 180 days.

Recommendation

Our recommendations are addressed in the reportable condition discussed in the Internal Control over Financial Reporting section of our report.

The results of our tests of FFMIA disclosed instances, described below, where Reclamation's financial management systems did not substantially comply with the Federal financial management systems' requirements.

Condition

Reclamation is not in compliance with OMB Circular A-130, *Management of Federal Information Resources*. We noted weaknesses in Reclamation's computer security controls including entitywide security, access controls, segregation of duties, system software controls, software development and change controls, service continuity, and network security.

Recommendation

Our recommendations are addressed in the material weakness discussed in the Internal Control over Financial Reporting section of our report.

The results of our tests disclosed no instances in which management did not substantially comply with accounting standards and the United States Government Standard General Ledger at the transaction level requirements.

RESPONSIBILITIES

Management's Responsibility

The Government Management Reform Act (GMRA) of 1994 requires federal agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet the GMRA reporting requirements, Reclamation prepares annual financial statements.

Management is responsible for:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting; required supplementary stewardship information and performance measures; and
- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibility

Our responsibility is to express an opinion on the fiscal year 2001 financial statements of Reclamation based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2001 audit, we considered Reclamation's internal control over financial reporting by obtaining an understanding of Reclamation's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on internal controls over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

**Bureau of Reclamation
 Summary of the Status of Prior Year Reportable Conditions
 September 30, 2001**

Ref	Condition	Status
A	Reclamation Needs Improved Controls over Land Inventory	This condition has not been corrected and is repeated in FY 2001.
B	Reclamation Needs Improved Controls over Construction-in-Progress Account	This condition has not been corrected and is repeated in FY 2001.
C	Inconsistent Accounting Treatment	This condition has been corrected.
D	Reclamation Needs Improved Controls over Prior Period Activity	This condition has been corrected.
E	Reclamation Needs Improved Controls over Undelivered Orders	This condition has not been corrected and is repeated in FY 2001.
F	Reclamation Needs Improved Controls over Prior Period Revenue Recognition	This condition has been corrected.

As required by OMB Bulletin No. 01-02, we considered Reclamation's internal control over the Required Supplementary Stewardship Information in the Stewardship Assets section of the Supplemental section by obtaining an understanding of Reclamation's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information, and accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures, and accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether Reclamation's fiscal year 2001 financial statements are free of material misstatement, we performed tests of Reclamation's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to Reclamation. Providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether Reclamation's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

This report is intended for the information and use of Department of the Interior's management, Department of the Interior's Office of the Inspector General, OMB, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 9, 2002



United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

Independent Auditors' Report

To: Commissioner, Bureau of Reclamation

Subject: Bureau of Reclamation's Financial Statements for Fiscal Year 2000

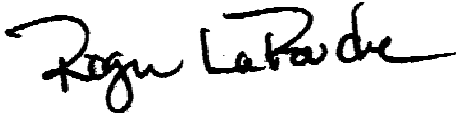
We have audited the Bureau of Reclamation's (BOR) consolidated balance sheet and related notes as of September 30, 2000. The objective of our audit was to express an opinion on the fair presentation of the consolidated balance sheet. This financial statement is the responsibility of the BOR, and our responsibility is to express an opinion, based on our audit, on this financial statement.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and with Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. These standards and OMB Bulletin No. 01-02 require that we plan and perform our audit to obtain reasonable assurance as to whether the accompanying balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the consolidated balance sheet and the accompanying notes. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit of the consolidated balance sheet provides a reasonable basis for our opinion.

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of the BOR as of September 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 and Notes 2, 4, 5, 6, 8 and 9 BOR has restated its balance sheet for FY 2000 for accounting changes and corrections of errors. These changes were made to: (a) remove the \$2.8 billion in unmatured repayment contracts and related liability; (b) remove \$170.4 million of capitalized assets which should have been expensed; (c) remove the \$204.6 million receivable related to water service contracts which will be recovered through the rate setting process; and (d) other corrections.

In our report dated June 8, 2001, we expressed an opinion that the BOR's consolidated statement of net cost for the year ended September 30, 2000 presented fairly, in all material respects, its net cost of operations in conformity with accounting principles generally accepted in the United States of America. The BOR has restated its consolidated statement of net cost for the year ended September 30, 2000 to conform with the presentation of net cost for the year ended September 30, 2001. We did not audit the restated consolidated statement of net cost for the year ended September 30, 2000, and accordingly, we do not express an opinion on this statement.

A handwritten signature in black ink that reads "Roger LaRouche". The signature is written in a cursive, flowing style.

Roger La Rouche
Assistant Inspector General for Audits
June 8, 2001, except for Notes 2, 4, 5, 6, 8, 9, and 15
as to which the date is January 9, 2002

**U.S. Department of the Interior
Bureau of Reclamation
Consolidated Balance Sheets
As of September 30, 2001 and 2000**

(In Thousands)	FY 2001	FY 2000 (As Restated)
ASSETS (Note 2)		
Intragovernmental Assets		
Fund Balance with Treasury (Note 3)	\$ 933,064	\$ 909,174
Unavailable Funds at Treasury (Note 3)	2,993,679	2,319,831
Accounts Receivable, Net (Note 4)	211,846	23,315
Advances and Prepayments	15,247	175
Total Intragovernmental Assets	4,153,836	3,252,495
Cash and Other Monetary Assets	107	95
Advances and Prepayments	4,515	3,225
Accounts Receivable, Net (Note 4)	41,703	89,427
Loans Receivable, Net (Note 5)	140,968	164,856
Other Assets, Net (Note 6)	229,712	245,482
Assets Constructed for Others (Note 7)	110,295	93,760
General Property, Plant, and Equipment, Net (Note 8)	12,812,125	13,023,320
Total Assets	\$ 17,493,261	\$ 16,872,660
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 9)	\$ 28,499	\$ 23,137
Debt (Note 10)	85,331	103,332
Other Intragovernmental Liabilities (Note 9)	27,714	20,845
Total Intragovernmental Liabilities	141,544	147,314
Accounts Payable (Note 9)	180,403	173,393
Environmental Cleanup Costs and Other Contingent Liabilities (Note 11)	30,664	5,534
Other Liabilities (Note 9)	402,364	389,628
Total Liabilities	754,975	715,869
NET POSITION		
Unexpended Appropriations (Note 13)	168,397	204,694
Cumulative Results of Operations	13,340,903	13,517,144
Unavailable Capital	3,228,986	2,434,953
Total Net Position (Note 15)	16,738,286	16,156,791
Total Liabilities and Net Position	\$ 17,493,261	\$ 16,872,660

The accompanying notes are an integral part of these statements.

**U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statements of Net Cost
For the Years Ended September 30, 2001 and 2000**

(In Thousands)	FY 2001	FY 2000 (Unaudited)
Water and Energy Management and Development:		
Segment Expenses	\$ 837,204	\$ 530,285
Segment Exchange Revenues	(514,418)	(358,467)
Segment Net Cost of Operations	<u>322,786</u>	<u>171,818</u>
Land Management and Development:		
Segment Expenses	34,493	34,302
Segment Exchange Revenues	(1,014)	(818)
Segment Net Cost of Operations	<u>33,479</u>	<u>33,484</u>
Fish and Wildlife Management and Development:		
Segment Expenses	172,227	154,405
Segment Exchange Revenues	(59,706)	(54,019)
Segment Net Cost of Operations	<u>112,521</u>	<u>100,386</u>
Facilities Operations:		
Segment Expenses	425,300	432,438
Segment Exchange Revenues	(275,935)	(200,792)
Segment Net Cost of Operations	<u>149,365</u>	<u>231,646</u>
Facilities Maintenance and Rehabilitation:		
Segment Expenses	93,638	96,726
Segment Exchange Revenues	(13,115)	(3,248)
Segment Net Cost of Operations	<u>80,523</u>	<u>93,478</u>
Policy and Administration:		
Segment Expenses	58,860	62,249
Segment Exchange Revenues	0	0
Segment Net Cost of Operations	<u>58,860</u>	<u>62,249</u>
Non-Program Activities:		
Segment Expenses	325,867	315,482
Segment Exchange Revenues	(302,031)	(306,011)
Segment Net Cost of Operations	<u>23,836</u>	<u>9,471</u>
Elimination of Intrabureau Activity:		
Intrabureau Expenses	(265,663)	(283,975)
Intrabureau Exchange Revenues	265,663	278,298
Intrabureau Net Cost of Operations	<u>0</u>	<u>(5,677)</u>
Total Expenses	1,681,926	1,341,912
Total Exchange Revenues	<u>(900,556)</u>	<u>(645,057)</u>
Total Net Cost of Operations	<u>\$ 781,370</u>	<u>\$ 696,855</u>

The accompanying notes are an integral part of these statements.

**U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2001**

(In Thousands)	
Net Cost of Operations	\$ (781,370)
Financing Sources:	
Appropriations Used	173,924
Royalties and Other Revenue Transfers	959,601
Donations and Other Non-exchange Revenue	51,739
Imputed Financing Sources	109,091
Transfers, Net	104,807
Net Results of Operations	617,792
Decrease in Unexpended Appropriations	(36,297)
Change in Net Position	581,495
Net Position - Beginning of Fiscal Year, as Restated (Note 15)	16,156,791
Net Position - End of Fiscal Year	\$ 16,738,286

The accompanying notes are an integral part of these statements.

**U.S. Department of the Interior
Bureau of Reclamation
Combined Statement of Budgetary Resources
For the Year Ended September 30, 2001**

(In Thousands)

Budgetary Resources:

Budget Authority	\$ 935,889
Unobligated Balances - Beginning of Fiscal Year	236,779
Transfer of Prior Authority	(123)
Spending Authority From Offsetting Collections	691,120
Adjustments (Note 16)	57,250
Total Budgetary Resources	<u>\$ 1,920,915</u>

Status of Budgetary Resources:

Obligations Incurred	\$ 1,620,301
Unobligated Balances - Available	299,968
Unobligated Balances - Unavailable	646
Total, Status of Budgetary Resources	<u>\$ 1,920,915</u>

Outlays:

Obligations Incurred	\$ 1,620,301
Less: Spending Authority From Offsetting Collections and Adjustments	(791,291)
Obligated Balance, Net - Beginning of Fiscal Year	643,091
Obligated Balance, Transferred, Net	0
Less: Obligated Balance, Net - End of Fiscal Year	(580,070)
Total Outlays	<u>\$ 892,031</u>

The accompanying notes are an integral part of these statements.

**U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Financing
For the Year Ended September 30, 2001**

(In Thousands)

Obligations and Nonbudgetary Resources

Obligations Incurred	\$ 1,620,301	
Less: Spending Authority From Offsetting Collections and Adjustments	(791,291)	
Donations	47	
Financing Imputed for Cost Subsidies (Note 1.L.)	97,100	
Transfers In-Out, Net	(1,222)	
Exchange Revenue Not in the Budget	(507,543)	
Total Obligations as Adjusted, and Nonbudgetary Resources		417,392

Resources That Do Not Fund Net Cost of Operations

Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided	50,146	
Cost of Capitalized Assets on the Balance Sheets	(37,238)	
Change in Credit Reform Loans Receivable	10,582	
Financing Sources That Fund Costs of Prior Periods	(36,294)	
Other	(200)	
Total Resources That Do Not Fund Net Cost of Operations		(13,004)

Costs That Do Not Require Resources

Depreciation and Amortization	165,940	
Bad Debt Expense	5,198	
Loss on Disposition of Assets	159,033	
Other	10,879	
Total Costs That Do Not Require Resources		341,050

Changes in Financing Sources Yet to Be Provided 35,932

Net Cost of Operations \$ 781,370

The accompanying notes are an integral part of these statements.

U.S. Bureau of Reclamation

Notes to the Financial

Statements for the Years Ended

September 30, 2001 and 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The U.S. Bureau of Reclamation (Reclamation) was created by the Reclamation Act of June 17, 1902 (32 Stat. 388), to reclaim the arid and semiarid lands in the Western United States and to provide economic stability in the newly annexed portion of the United States. Since 1902, Reclamation's mission has expanded to include such activities as providing water for municipal and industrial (M&I) uses, controlling floods, and supplying energy through the operation of hydroelectric generating facilities. Today, Reclamation's original mission has essentially been completed, and the agency is evolving to accommodate a redefined role. Its focus is shifting from building new structures to improving the management and environmental integrity of resources already developed. Reclamation is one of eight programmatic bureaus administratively housed within the U.S. Department of the Interior (Department).

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, and reconciliation of net cost of operations to budgetary obligations of Reclamation as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements have been prepared from Reclamation's books and records in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09, dated September 25, 2001, as required for fiscal year (FY) 2001. Furthermore, the financial statements have been prepared in accordance with Reclamation's accounting policies that are summarized in this note.

The books are kept, and these financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP), as prescribed by the Federal Accounting Standards Advisory Board (FASAB), recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish GAAP for the Federal Government under Rule 203 of the AICPA's Code of Professional Conduct. Transactions are recorded on

an accrual accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The accounts are maintained in accordance with the Department of Treasury's (Treasury) U.S. Standard General Ledger. Certain prior year balances have been reclassified to conform to current year financial statement presentation.

The Balance Sheets, the Statements of Net Cost, the Statement of Changes in Net Position, and the Statement of Financing are presented on a consolidated basis. Accordingly, all intrabureau transactions and balances have been eliminated. These transactions pertain to intrabureau use of Reclamation's Working Capital Fund, which provides support services and equipment for Reclamation programs and activities, as well as for other Federal agencies.

Intragovernmental assets and liabilities arise from transactions with other Federal agencies. Non-entity assets are those not available to finance Reclamation's operations. Non-entity assets consist of various receivables, which, when collected, must be deposited into Treasury's General Fund, and Assets Constructed for Others (See Notes 2 and 7).

C. Budgets and Budgetary Accounting

Reclamation receives the majority of its required funding to support its programs through appropriations authorized by the Congress. Additional FY 2001 budgetary resources have been provided by permanent authority, contributed funds, revolving funds, operation and maintenance (O&M) reimbursements from water users, and transfers from other agencies. These financial statements include all funds and accounts under the control of Reclamation, as well as allocations from other Federal agency appropriations transferred to Reclamation under specific legislative authority.

Reclamation is responsible for administering or posting transactions to 45 separate Treasury symbols, excluding miscellaneous receipt accounts managed by Treasury. These funds fall into a variety of classes, including general appropriation, revolving (permanent), contributed funds, working capital, and special receipt accounts. Reclamation finances its activities from several sources: Treasury's General Fund, the Reclamation Fund, and contributed funds. The Reclamation Fund is a special receipt fund into which a substantial portion of Reclamation's revenues (mostly repayment of capital investment costs) and deposits by other Federal agencies (mostly revenues from certain Federal mineral royalties and hydropower transmission) are made. No expenditures are made directly from the Reclamation Fund; a specific appropriation is required from the Congress in order to transfer funds out of the Reclamation Fund into expenditure funds. As of September 30, 2001, and 2000, the Reclamation Fund had a balance of \$2.99 billion and \$2.32 billion, respectively, reported as Unavailable Funds at Treasury on the Consolidated Balance Sheets.

To facilitate compliance with the reporting requirements of the Government Performance and Results Act (GPRA) of 1993, all funding for Reclamation is allocated to seven major program segments for budget and financial reporting purposes. Five of these major program segments are under the umbrella of Water and Related Resources (i.e., Water and Energy Management and Development, Land Management and Development, Fish and Wildlife Management and Development, Facility Operation, and Facility Maintenance and Rehabilitation). The “Water and Energy Management and Development” segment covers all aspects of decisionmaking processes, including water and energy resource management, utilization, and development of water supplies and energy resources, water conservation, and applied science and technology development. The “Land Management and Development” segment involves work related to land resource administration, recreation management, and legal compliance. The “Fish and Wildlife Management and Development” segment includes conservation, enhancement, and restoration of fish and wildlife populations and their habitats. The “Facility Operation” segment includes operation of Reclamation projects. The “Facility Maintenance and Rehabilitation” segment ensures the reliability and operational readiness of Reclamation’s storage reservoirs, distribution systems, powerplants, recreation facilities, and other federally funded investments. The last two major program segments are “Policy and Administration” and “Non-Program.” The “Policy and Administration” segment consists of the development of Reclamation policy and direction of daily operations. The “Non-Program” segment is primarily the working capital fund and other incidental activities; the working capital fund provides service for other segments within Reclamation.

D. Fund Balance with Treasury

All Reclamation receipts and disbursements are processed by Treasury. The balance in Treasury represents all available undisbursed balances in Reclamation’s accounts, including funds awaiting disbursement for goods and services received.

E. Accounts Receivable

Accounts receivable consist of net amounts owed to Reclamation by other Federal agencies (intragovernmental) and the public. Accounts receivable are stated net of an allowance for uncollectible accounts. The allowance is determined by reviewing accounts receivable aging reports to identify receivables that are considered uncollectible based on various factors, including age, past experience, present market and economic conditions, and characteristics of debtors.

F. Loans Receivable

Reclamation operates loan programs which provide Federal assistance to non-Federal organizations for constructing or improving water resource projects in the West. Reclamation's loan programs are authorized under the Small Reclamation Projects Act of 1956 (Public Law [P.L.] 84-984), the Distribution System Loans Act (P.L. 84-130), and the Rehabilitation and Betterment Act (P.L. 84-130). The loan programs are classified into two major categories. The first category is Credit Reform loans, which are loans made after FY 1991 that have been accounted for under the provisions of the Credit Reform Act of 1990 (Credit Reform) (P.L. 101-508).

The second category is Other Loans, which pertains to those loans made prior to the requirements of Credit Reform and consist primarily of drought relief and repayment loans. The other loans receivable balances shown represent amounts due to Reclamation, net of an allowance for estimated uncollectible loan balances. The allowance is determined by reviewing a loans receivable aging report to identify loan balances that are considered uncollectible based on various factors, including age, past experience, present market and economic conditions, value of collateral to loan balance, and characteristics of debtors.

Loan interest rates vary depending on the applicable legislation; and, in some cases, there is no stated interest rate on agricultural and Native American loans. Interest on applicable loans does not accrue until the loan enters repayment status.

Credit Reform Loans

Credit Reform required extensive changes in accounting for loans to the public. Prior to Credit Reform, funding for loans was provided by congressional appropriation from the general or special funds. Under Credit Reform, loans contain two components, the first of which is borrowed from Treasury. These Treasury borrowings, which will be repaid from loan repayments, are authorized by Credit Reform.

The second component represents the subsidized portion of the loan and is funded by a congressional appropriation. This component represents the estimated cost to the Federal Government resulting primarily from the difference between the loan interest rate and the Treasury interest rate, estimated defaults, and fees associated with making a loan.

G. Other Assets

Other Assets consist primarily of costs for power rights. Net power rights represent the original cost less the accumulated amortization of the right or

privilege to use the facilities of others or the right to future power generation or power revenues when such rights are not subject to early liquidation. Amortization is calculated by using the straight-line method over the contract life of the agreement.

Other assets included in this category are costs for preliminary Safety of Dam work studies that may lead to construction.

H. General Property, Plant, and Equipment

General Property, Plant, and Equipment (PP&E) consists of that property which is used in Reclamation's operations. General PP&E includes the following categories: Structures and Facilities, Land, Construction in Abeyance, Construction in Progress, Investigations and Development, Equipment, Buildings, Information Technology Software, and Other General PP&E (which is comprised mainly of unique physical assets such as levee systems).

Structures and facilities, comprised primarily of Reclamation's investment in its multipurpose water facilities, are recorded at acquisition cost, net of accumulated depreciation. Costs include direct labor and materials, payments to contractors, and indirect charges for engineering, supervision, and overhead. Power and M&I water facilities are interest-bearing Federal investments, and their costs also include capitalized interest during construction.

In general, structures and facilities are depreciated based on the composite service life of each project, using the straight-line method of depreciation. The composite service life is based on the weighted-average estimated useful life of a project's components. Project composite service lives range from 25 to 100 years.

The land balance is comprised of the acquisition cost of land and land rights, as well as the costs of relocating the property of other parties and clearing the land. Lands which were withdrawn from the public domain do not have an acquisition cost and, accordingly, are not represented in this category. Such lands are accounted for as stewardship land, which is discussed in the "Supplemental Section" under "Stewardship Assets."

The structures and facilities category is primarily comprised of Reclamation's investment in its multipurpose water facilities. In accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 16, "Measurement and Reporting for Multi-Use Heritage Assets," structures and facilities that are included on the National Register of Historic Places are considered multi-use heritage assets. Reclamation's multi-use heritage assets are included in the balances presented here and are further discussed in the "Supplemental Section" under "Stewardship Assets."

In past years, Reclamation began the planning of, and construction on, various features included in nine projects located in California, Colorado, and North and South Dakota, for which activities have either been placed in abeyance or intended benefits have never been provided. These projects were authorized to provide various benefits, among them irrigation, fish and wildlife conservation and enhancement, recreation, municipal water supplies, and flood control. Until congressional disposition of these assets is determined, maintenance costs have been and will continue to be budgeted and expended to minimize the erosive effects of weather and time and to keep the asset ready for potential completion.

Investigations and development costs represent funds appropriated by the Congress that have been expended for such activities as general engineering studies and surveys that are directly related to project construction. Reclamation capitalizes investigation and development costs that are incurred after the decision is made to pursue construction or after construction authorization. Reclamation's accounting treatment for investigation and development costs not related to project construction, incurred prior to the decision being made to pursue construction, or incurred before construction authorization results in these costs being expensed as incurred.

Project costs are transferred from construction in progress to structures and facilities when a project or feature of a project is deemed to be substantially complete, is providing benefits and services for the intended purpose, and is generating project purpose revenue, where applicable. Until these three criteria are met, accumulated costs are retained in construction in progress.

Equipment is recorded at acquisition cost less depreciation which accumulates over its estimated useful life using the straight-line method. The estimated useful lives used for calculating depreciation on equipment generally range from 5 to 20 years. The capitalization threshold is currently \$15 thousand. All costs under the threshold are expensed as incurred. When equipment is transferred from one project to another, the transfer is made at the net book value of the property.

Buildings consist of houses, garages, and shops owned by Reclamation and used in electric, irrigation, M&I, or multipurpose operations and are not included in structures and facilities of a specific project. Buildings are valued at acquisition cost and are depreciated over their estimated useful lives using the straight-line method. The estimate used for calculating depreciation on buildings ranges from 30 to 75 years.

The capitalization threshold for software is currently \$100 thousand. Capitalized software includes Commercial Off-the-Shelf (COTS) purchases, contractor-developed software, or internally developed software. For COTS software, the capitalized costs include the amount paid to the vendor for the software; and for contractor-developed software, it includes the amount

paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The average estimated useful life used for calculating amortization of software is 3.7 years.

I. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by Reclamation as the result of a transaction or event that has already occurred. However, no liability can be paid by Reclamation unless budgetary resources are made available through an appropriation or other funding source. These statements include liabilities for which an appropriation has not been enacted and, thus, are presented as liabilities not covered by budgetary resources, for there is no certainty that an appropriation will be enacted. Contingent liabilities are recorded in the accounting records when an event leading to the recognition of a liability is probable, and a reasonable estimate of the potential liability is available.

J. Accrued Leave

Annual leave is accrued as earned, and sick leave is recorded when used. Annual and sick leave are funded as used through a surcharge assessment added to direct labor costs. An unfunded liability is recognized for earned but unused annual leave and will be paid from future appropriations when the leave is used in appropriated and contributed funds.

K. Retirement and Other Benefits

Reclamation employees belong to either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Reclamation and its employees contribute to these systems. Both are contributory pension plans. Although Reclamation funds a portion of pension benefits under CSRS and FERS relating to its employees and makes the necessary payroll withholdings from them, it does not report assets associated with these benefit plans. Such amounts are maintained and reported by the Office of Personnel Management. In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Reclamation recorded the FY 2001 and FY 2000 estimated cost of pension and other future retirement benefits and the associated imputed financing sources which are paid by the Office of Personnel Management on its behalf.

The Department of Labor (DOL) administers the Workers' Compensation Program on behalf of the Federal Government, and all payments to Workers'

Compensation Program beneficiaries are made by DOL. Reclamation has two types of liabilities related to workers' compensation. First, Reclamation records a liability to DOL for the amount of actual payments made by DOL but not yet reimbursed by Reclamation. Reclamation reimburses DOL for these payments as funds are appropriated for this purpose. There is generally a 2- to 3-year time period between payment by DOL and receipt of appropriations by Reclamation. Second, Reclamation records a liability for the estimated actuarial liability for future payments of workers' compensation benefits. This actuarial liability represents the present value of the total expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. This unfunded liability is recognized in accordance with SFFAS No. 4, "Managerial Cost Accounting: Concepts and Standards for the Federal Government."

L. Revenues and Financing Sources

Exchange Revenues

Exchange revenues earned by Reclamation are classified according to their appropriate GPRA responsibility segments and are presented on the Statements of Net Cost, in order to match these revenues with their associated costs. Primary examples of exchange revenues are those received from water and power sales, as well as revenue from services provided on a reimbursable basis to governmental and public entities. Exchange revenues are recognized at the time goods or services are provided.

In the case of water sales, customers advance funds to Reclamation for their share of the O&M costs pertaining to the facility delivering the water. Generally, a cost allocation process is used to allocate these O&M costs to water customers. As services are provided, revenue related to O&M reimbursements is recognized as these costs are allocated and transfers are made from advance accounts.

Non-Exchange Revenues

Non-exchange revenues are presented as financing sources on the Statement of Changes in Net Position. Non-exchange revenues are inflows of resources that the Government demands by its sovereign power or receives by donation or transfer. The largest category of these non-exchange revenues, Royalties and Other Revenue Transfers, is accretions to the Reclamation Fund, received due to legislative requirement and for which no matching costs were incurred by Reclamation. Donations and transfers, both monetary and non-monetary, are also classified as non-exchange revenues and are recognized when received.

Appropriations used is the current period reduction of unexpended appropriations (component of net position), which is recognized as a financing

source when goods and services are received and budgetary expenditures are recorded. This type of financing source is only recorded for activities which are funded by Treasury's General Fund, not those funded by other sources such as the Reclamation Fund, revolving, permanent, or special receipt funds.

Imputed financing sources are a type of non-exchange revenue recognized when operating costs of Reclamation are incurred by funds appropriated to other Federal agencies. For example, by law, certain costs of retirement programs are paid by the Office of Personnel Management and certain legal judgments against Reclamation are paid from the Judgment Fund maintained by Treasury.

When costs that are identifiable to Reclamation and directly attributable to Reclamation's operations are paid by other agencies, Reclamation recognizes these amounts as operating expenses of Reclamation. Generally, Reclamation is not obligated to repay these costs. Because some of these costs, namely interest during construction (IDC), are capitalized, the total imputed cost, included in the Statements of Net Cost and the Statement of Financing, will not equal the total imputed financing source as shown on the Statement of Changes in Net Position.

Revenue from Recovery of Reimbursable Capital Costs

To repay a portion of the Federal investment allocated to the construction of reimbursable irrigation and M&I water facilities, Reclamation enters into long-term repayment contracts and water service contracts with non-Federal (public) water users that convey the rights to use these facilities in exchange for annual payments. Also, power marketing agencies enter into agreements with power users, on Reclamation's behalf, to recover capital investment costs allocated to power. Costs associated with multipurpose plants are allocated to the various purposes (principally power, irrigation, M&I water, fish and wildlife enhancement, recreation, and flood control) through a cost allocation process. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. Costs associated with purposes such as fish and wildlife enhancement, recreation, and flood control can be non-reimbursable.

The typical repayment contract is for up to 40 years but may extend to 50 years or more if authorized by the Congress. Prior to FY 2001, Reclamation recognized the amount of unmatured repayment contracts on the balance sheets as unmatured receivables (asset) and a corresponding deferred revenue from unmatured receivables (liability).

For the FY 2001 and the comparative FY 2000 (as restated) financial statements, unmatured repayment contracts have been removed from the balance sheets and are not recognized until the annual amount becomes due each year, at which time a current accounts receivable and a current period exchange revenue are recorded. As of September 30, 2001, and 2000, the

amounts owed to Reclamation under unmatured repayment contracts were \$2.6 billion and \$2.8 billion, respectively.

Under water service contracts and power sales, reimbursable capital costs are recovered through water and power ratesetting processes. Such rates include capital cost factors, among other components, for recovering the reimbursable capital cost over the applicable future payment period. For sales of water and power, a receivable and corresponding exchange revenue is recognized when the water or power has been delivered and billed to the customer.

M. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenses during the reporting period. Actual results will invariably differ from those estimates.

NOTE 2. NON-ENTITY ASSETS

Non-entity assets are not available to finance Reclamation's operations. These items consist of various receivables due from the public that, when collected, are deposited into Treasury's General Fund, and assets related to the Navajo Indian Irrigation Project (NIIP), which will be transferred to the Bureau of Indian Affairs (BIA) upon completion. Non-entity assets as of September 30, 2001, and 2000, (as restated) are shown in the following table. The restatement of FY 2000 non-entity assets incorporates the removal of unmatured receivables (\$1.5 billion) and the addition of assets related to the NIIP (\$119 million).

Non-Entity Assets (In Thousands)		
	FY 2001	FY 2000 (As Restated)
Intragovernmental		
Fund Balance with Treasury	\$ 19,048	\$ 16,868
Public		
Accounts and Loans Receivable, Net	20,494	31,921
Advances	1,738	1,186
Other Assets	48	48
Assets Constructed for Others	110,295	93,760
General Property, Plant and Equipment, Net	6,500	7,219
Total Public Non-Entity Assets	139,075	134,134
Total Non-Entity Assets	158,123	151,002
Total Entity Assets	17,335,138	16,721,658
Total Assets	\$17,493,261	\$16,872,660

NOTE 3. FUND BALANCE WITH TREASURY

The fund balance with Treasury and the status of fund balance with Treasury as of September 30, 2001, and 2000, are shown in the following table.

**Fund Balance and Status of Fund Balance with Treasury
(In Thousands)**

	FY 2001	FY 2000
Fund Balances		
Revolving Funds	\$ 250,102	\$ 227,222
Appropriated Funds	682,962	681,952
Total Fund Balance with Treasury	<u>\$ 933,064</u>	<u>\$ 909,174</u>
Status of Fund Balances with Treasury		
Unobligated - Available Budget Authority	\$ 299,968	\$ 235,302
Unobligated - Expired Budget Authority	646	1,477
Obligated Balance not yet Disbursed	580,070	643,091
Fund Balance without Budget Authority	52,380	29,304
Total Status of Fund Balance with Treasury	<u>\$ 933,064</u>	<u>\$ 909,174</u>
Unavailable Funds at Treasury (Unappropriated)	\$2,993,679	\$2,319,831

Reclamation receipts and disbursements are processed by Treasury. The fund balance with Treasury represents all undisbursed balances in Reclamation accounts. The available fund balance with Treasury as of September 30, 2001, and 2000, was \$933.1 million and \$909.2 million, respectively. The \$933.1 million is available in FY 2002 to pay current liabilities and to pay outstanding obligations. The unavailable funds at Treasury represent unappropriated collections in the Reclamation Fund.

NOTE 4. ACCOUNTS RECEIVABLE, NET

The following tables show the status of accounts receivable as of September 30, 2001, and 2000 (as restated). The restatement of FY 2000 accounts receivable reflects a decrease to water service contract receivables (\$204.6 million), an increase in other revenue receivables (\$15.3 million), and an overall increase in allowance for doubtful accounts (\$10.6 million).

**Accounts Receivable – FY 2001
(In Thousands)**

	Gross Amount Due	Allowance for Doubtful Accounts	Net Amount Due
Intragovernmental			
Accounts Receivable	\$ 212,622	\$ (776)	\$ 211,846
Public			
Accounts Receivable	56,645	(15,605)	41,040
Interest Receivable	663	0	663
Total Public Receivables	57,308	(15,605)	41,703
Total	\$ 269,930	\$ (16,381)	\$ 253,549

**Accounts Receivable – FY 2000 (As Restated)
(In Thousands)**

	Gross Amount Due	Allowance for Doubtful Accounts	Net Amount Due
Intragovernmental			
Accounts Receivable	\$ 23,315	\$ 0	\$ 23,315
Public			
Accounts Receivable	99,693	(11,008)	88,685
Interest Receivable	742	0	742
Total Public Receivables	100,435	(11,008)	89,427
Total	\$ 123,750	\$ (11,008)	\$ 112,742

Unmatured Repayment Contracts

Based upon additional research performed by Reclamation on the proper recognition of the previously classified unmaturred repayment contracts and the effects on the financial statements, it was concluded that these unmaturred repayment contracts do not meet the criteria prescribed under GAAP for the recognition of a receivable. Therefore, these unmaturred repayment contracts receivables, \$2.6 billion in FY 2001 and \$2.8 billion in FY 2000, have been removed from the balance sheets, and revenue will not be recognized until the annual amount becomes due each year.

NOTE 5. LOANS RECEIVABLE, NET

Entity and non-entity loan balances are combined and presented together here and in the financial statements. Non-entity loans are disclosed in Note 2, "Non-Entity Assets." The following table shows the status of the loans receivable and associated interest receivable as of September 30, 2001, and 2000 (as restated). The restatement of FY 2000 loans receivable includes net allowance adjustments of \$7.2 million.

Loans Receivable (In Thousands)		
	FY 2001	FY 2000 (As Restated)
Credit Reform Loans	\$ 117,030	\$ 132,053
Allowance for Subsidy	(36,934)	(41,375)
Total Credit Reform Loans, Net	80,096	90,678
Other Loans	73,365	86,934
Allowance for Doubtful Other Loans	(12,493)	(12,756)
Total Other Loans, Net	60,872	74,178
Total, Net	\$ 140,968	\$ 164,856

Loans made after FY 1991 are accounted for under the provisions of Credit Reform. Reclamation currently has eight Credit Reform loans outstanding, totaling \$117 million. Of this amount, \$24.6 million was expended during FY 2001 including \$6.8 million of loan subsidy, along with related administrative expenses of \$216 thousand. For FY 2000, Reclamation had eight credit reform loans outstanding, totaling \$132.1 million with expenditures of \$21.5 million during FY 2000 including \$7.9 million of loan subsidy, along with related administrative expenses of \$274 thousand.

NOTE 6. OTHER ASSETS, NET

Total Other Assets primarily include the costs for power rights and the costs for preliminary Safety of Dam work studies that may lead to construction. Other Assets as of September 30, 2001, and 2000, (as restated) total \$229.7 million and \$245.5 million, respectively. The restated FY 2000 amount reflects a prior period adjustment of \$69.1 million to expense previously capitalized costs. Additionally, the remaining Investigations and Development balance of \$84.1 million is now presented in Note 8, "General Property, Plant, and Equipment, Net."

In 1969, Reclamation entered into an agreement with five other entities for the construction of the Navajo Generating Station, in Page, Arizona. This agreement entitled Reclamation to a firm 24.3 percent of the generation of electricity for the Central Arizona Project for a term of 42 years. Reclamation's costs of \$101.8 million and \$100.8 million for FY 2001 and FY 2000, respectively, associated with the Navajo Generating Station were subject to respective annual amortization amounts of \$10.8 million and \$10.7 million.

NOTE 7. ASSETS CONSTRUCTED FOR OTHERS

The balances of \$110.3 million and \$93.8 million as of September 30, 2001, and 2000 (as restated), respectively, represent capitalized construction costs associated with NIIP. This project was authorized by P.L. 87-483 (June 13, 1962), and construction began in 1964. Project facilities are being constructed in 11 blocks of approximately 10,000 acres each. As of September 30, 2001, the project is 65 percent complete with eight blocks under irrigation. Completion may require an additional 10 to 15 years of construction and development. Under this law, the Congress appropriated funding for the project to BIA, which transferred funding to Reclamation for construction and cost accounting of the facilities. Subsequently, Reclamation and BIA entered into a formal Memorandum of Agreement that provides for the transfer of the book value costs of the project facilities to BIA upon completion. As such, upon completion of construction of designated segments of project facilities, agreed upon by both bureaus, the book value costs of the completed facilities will be transferred to BIA by formal document.

Reclamation transferred \$47.8 million during FY 2000 in capitalized costs associated with completed segments of the project to BIA. In FY 2001, no transfers occurred.

NOTE 8. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

Reclamation's general PP&E categories, with corresponding accumulated depreciation, as of September 30, 2001, and 2000 (as restated), are shown in the tables on the following page.

**General Property, Plant, and Equipment, Net – FY 2001
(In Thousands)**

Categories	Acquisition Cost	Accumulated Depreciation	Net Book Value
General PP&E			
Structures and Facilities	\$ 17,121,721	\$ (7,335,066)	\$ 9,786,655
Land	1,848,706	0	1,848,706
Construction in Abeyance	553,906	0	553,906
Construction in Progress	445,814	0	445,814
Investigations and Development	95,227	0	95,227
Equipment	99,879	(56,980)	42,899
Buildings	48,899	(21,324)	27,575
Information Technology Software	28,241	(17,018)	11,223
Other General PP&E	120	0	120
Total General PP&E	\$ 20,242,513	\$ (7,430,388)	\$ 12,812,125

**General Property, Plant, and Equipment, Net – FY 2000 (As Restated)
(In Thousands)**

Categories	Acquisition Cost	Accumulated Depreciation	Net Book Value
General PP&E			
Structures and Facilities	\$ 17,267,632	\$ (7,316,766)	\$ 9,950,866
Land	1,883,369	0	1,883,369
Construction in Abeyance	640,941	0	640,941
Construction in Progress	380,940	0	380,940
Investigations and Development	84,115	0	84,115
Equipment	93,758	(51,621)	42,137
Buildings	51,886	(22,461)	29,425
Information Technology Software	26,158	(14,751)	11,407
Other General PP&E	120	0	120
Total General PP&E	\$ 20,428,919	\$ (7,405,599)	\$ 13,023,320

Construction in Abeyance

The investment in these projects held in abeyance through FY 2001 ranges from \$59.1 thousand to \$278.3 million per project and through FY 2000 ranges from \$59 thousand to \$303.6 million per project, including investigations costs, and covers a period from 1965 to the present. Continued planning or construction on these assets has been held in abeyance for various reasons that include such concerns as the execution of cost-share agreements with non-Federal entities, environmental, international treaty, and economic issues. The Congress and local interests continue to pursue acceptable alternatives for the completion of those projects in which there has been a substantial investment. For some of these projects, bills have either been recently introduced into, or are under consideration by, the Congress to reformulate the project or provide funding for continued work.

As it is uncertain when construction will resume on or benefits will be provided by these assets, classification into this account provides a more meaningful and accurate status of their disposition. The Congress has not yet deauthorized any of these assets, nor should it be inferred from this classification that the future viability of them is necessarily in doubt.

Construction in Progress

In FY 2001 and FY 2000, \$12 million and \$16.5 million, respectively, of interest during construction (IDC) was capitalized. The authority for charging IDC is included in the authorizing legislation for a particular project or administrative policy established pursuant to the law. Generally, the costs allocated to reimbursable functions, except irrigation, are subject to IDC unless otherwise provided by law. The interest rates used in computing IDC are the rates specified in the authorizing legislation or, if rates are not specified, the rates established by Reclamation laws or administrative policy. Rates used for IDC are based on the rates established for the fiscal year in which construction began. The interest rates applied during the current year ranged from 2.5 percent to 12.375 percent.

The FY 2000 restated Construction in Progress balance includes prior period adjustments of \$58.9 million to expense previously capitalized costs, \$34.9 million correction of prior years IDC, and \$9.7 million in other prior period adjustments. Additionally, prior period adjustments were recorded to expense costs previously capitalized in structures and facilities of \$5.6 million.

Deauthorization of Project Features – Garrison Diversion Unit

On December 21, 2000, P.L. 106-554 enacted the Dakota Water Resources Act of 2000. Among the many provisions of this Act are amendments to P.L. 89-108 (79 Stat. 433; 100 Stat. 418) which deauthorized certain project features and irrigation service areas, including the Taayer Reservoir, Sykeston

Canal, and the Lonetree Dam and Reservoir. Accordingly in FY 2001, \$62.2 million of costs were written off from construction in abeyance for these deauthorized features.

Transfer of Facilities

During FY 1995, Reclamation initiated a program to transfer title to, and responsibility for, certain single purpose projects and facilities to non-Federal governmental entities. Before a project can be transferred, Reclamation policy requires that it must meet the following criteria: protect the Treasury and taxpayer's financial interests; comply with applicable Federal laws; protect interstate compacts and interests; meet Native American trust responsibilities; and protect public aspects of the project. Any proposed transfer would require congressional authorization. The tables on page 86 present the status of transfer of facilities for FY 2001 and FY 2000.

NOTE 9. LIABILITIES

Liabilities covered by budgetary resources and liabilities not covered by budgetary resources are combined and presented together in the balance sheets. These categories as of September 30, 2001, and 2000, (as restated) are detailed in the tables on pages 87 and 88. The restatement of FY 2000 liabilities includes a decrease in accounts payable (\$26.8 million), an increase in advances (\$28.6 million), and a reclassification of accrued unfunded annual leave to other liabilities (\$24.5 million).

NOTE 10. DEBT

Reclamation makes loans which are subject to the provisions of Credit Reform. Under Credit Reform, loans consist of two components—the part borrowed from the Treasury and the appropriated part to cover the estimated subsidy. The maturity dates for these loans range from 2012 to 2047. The weighted average interest rate used to calculate interest owed to Treasury ranges from 5.85 percent to 6.86 percent. The liabilities shown in the tables on page 89 represent amounts borrowed from Treasury to fund Credit Reform loans as of September 30, 2001, and 2000.

**Transfer of Facilities – FY 2001
(In Thousands)**

Project Name	Net Book Value Including Land Costs	Land Costs Associated with Transfer
Pending Transfer		
Gila Project, Wellton-Mohawk Division, Arizona	\$ 2,557	\$ 2,557
Middle Loup Division, Pick-Sloan Missouri Basin Project, Nebraska	21,545	7,457
North Poudre Supply Canal and Diversion Works, Colorado-Big Thompson Project, Larimer County, Colorado	721	111
Sly Park Dam and Reservoir, Central Valley Project, California	1,836	1,563
Sugar Pine Dam and Reservoir, Central Valley Project, California	32,325	3,523
Transfer Completed		
Carlsbad Project, New Mexico	173	173
Clear Creek Distribution System, California	423	123
Nampa and Meridian Conveyance, Boise Project, Idaho ¹	0	0
Palmetto Bend Reclamation Project, Texas	59,991	27,600
Robert B. Griffith Water Project, Southern Clark County, Nevada	97,983	3,691

¹ These facilities were completed in 1926 and were fully depreciated at the time of title transfer (net book value of zero). There were no lands withdrawn from public domain involved in the transfer.

**Transfer of Facilities – FY 2000 (As Restated)
(In Thousands)**

Project Name	Net Book Value Including Land Costs	Land Costs Associated with Transfer
Pending Transfer		
Carlsbad Project, New Mexico	\$ 173	\$ 173
Clear Creek Distribution System, California	651	123
Gila Project, Wellton-Mohawk Division, Arizona	2,557	2,557
Middle Loup Division, Pick-Sloan Missouri Basin Project, Nebraska	22,003	7,457
Nampa and Meridian Conveyance, Boise Project, Idaho ¹	0	0
North Poudre Supply Canal and Diversion Works, Colorado-Big Thompson Project, Larimer County, Colorado	836	111
Palmetto Bend Reclamation Project, Texas	62,606	27,600
Robert B. Griffith Water Project, Southern Clark County, Nevada	97,983	3,691
Sly Park Dam and Reservoir, Central Valley Project, California	2,124	1,516
Sugar Pine Dam and Reservoir, Central Valley Project, California	32,558	3,504
Transfer Completed		
Southside Pumping Division, Minidoka Project, Idaho	1,383	1

¹ These facilities were completed in 1926 and were fully depreciated at the time of pending transfer (net book value of zero). There were no lands withdrawn from public domain involved in the pending transfer.

**Liabilities – FY 2001
(In Thousands)**

	Current Liabilities	Non-Current Liabilities	Total
Liabilities Covered by Budgetary Resources			
Intragovernmental			
Accounts Payable	\$ 28,499	\$ 0	\$ 28,499
Debt	0	85,331	85,331
Other			
Accrued Funded Payroll and Benefits	5,898	0	5,898
Deposit Funds	478	0	478
Advances	5,248	0	5,248
Unearned Revenue	0	4	4
Total Intragovernmental	40,123	85,335	125,458
Public			
Accounts Payable	180,403	0	180,403
Other			
Accrued Funded Payroll and Benefits	19,023	0	19,023
Deposit Funds	717	0	717
Advances	81,947	0	81,947
Unearned Revenue	0	142,164	142,164
Total Public	282,090	142,164	424,254
Total Liabilities Covered by Budgetary Resources	322,213	227,499	549,712
Liabilities Not Covered by Budgetary Resources			
Intragovernmental			
Accrued Unfunded Workers' Compensation	0	11,481	11,481
Treasury Judgment Fund Liability	4,605	0	4,605
Total Intragovernmental	4,605	11,481	16,086
Public			
Environmental Cleanup Costs and Other Contingent Liabilities	0	30,664	30,664
Other			
Accrued Unfunded Annual Leave	0	19,820	19,820
Workers' Compensation Actuarial	0	93,729	93,729
Liability for Non-Entity Receivables and Other	0	44,964	44,964
Total Public	0	189,177	189,177
Total Liabilities Not Covered by Budgetary Resources	4,605	200,658	205,263
Total Liabilities	\$ 326,818	\$ 428,157	\$ 754,975

**Liabilities – FY 2000 (As Restated)
(In Thousands)**

	Current Liabilities	Non-Current Liabilities	Total
Liabilities Covered by Budgetary Resources			
Intragovernmental			
Accounts Payable	\$ 23,137	\$ 0	\$ 23,137
Debt	0	103,332	103,332
Other			
Accrued Funded Payroll and Benefits	6,285	0	6,285
Deposit Funds	1,031	0	1,031
Advances	2,067	0	2,067
Unearned Revenue	0	2	2
Total Intragovernmental	32,520	103,334	135,854
Public			
Accounts Payable	173,393	0	173,393
Other			
Accrued Funded Payroll and Benefits	18,024	0	18,024
Deposit Funds	4,440	0	4,440
Advances	65,092	0	65,092
Unearned Revenue	0	136,967	136,967
Total Public	260,949	136,967	397,916
Total Liabilities Covered by Budgetary Resources	293,469	240,301	533,770
Liabilities Not Covered by Budgetary Resources			
Intragovernmental			
Accrued Unfunded Workers' Compensation	0	11,407	11,407
Treasury Judgment Fund Liability	53	0	53
Total Intragovernmental	53	11,407	11,460
Public			
Environmental Cleanup Costs and Other Contingent Liabilities	0	5,534	5,534
Other			
Accrued Unfunded Annual Leave	0	19,679	19,679
Workers' Compensation Actuarial	0	84,564	84,564
Liability for Non-Entity Receivables and Other	0	60,862	60,862
Total Public	0	170,639	170,639
Total Liabilities Not Covered by Budgetary Resources	53	182,046	182,099
Total Liabilities	\$ 293,522	\$ 422,347	\$ 715,869

**Debt — FY 2001
(In Thousands)**

	Beginning Balance	New Borrowing	Repayments	Ending Balance
Intragovernmental Debt:				
Borrowing from Treasury	\$ 103,332	\$ 13,294	\$ 31,295	\$ 85,331

**Debt — FY 2000
(In Thousands)**

	Beginning Balance	New Borrowing	Repayments	Ending Balance
Intragovernmental Debt:				
Borrowing from Treasury	\$ 81,549	\$ 21,897	\$ 114	\$ 103,332

NOTE 11. ENVIRONMENTAL CLEANUP COSTS AND OTHER CONTINGENT LIABILITIES

Reclamation is currently involved in various environmental cleanup actions and legal proceedings. Disclosure and recognition of these contingent liabilities have been made in accordance with SFAS No. 5, "Accounting for Liabilities of the Federal Government."

A. Environmental Cleanup Costs

Reclamation has several potential environmental cleanup liabilities associated with hazardous waste removal, containment, or disposal. Reclamation's hazardous waste sites include abandoned mines, vehicle maintenance facilities, and landfills. These sites have various types of contamination, including heavy metal contamination from acid mine drainage and soil contamination from waste petroleum, heavy metal, and other regulated toxic waste.

Reclamation's cumulative liability for environmental cleanup is estimated from \$5.5 million to \$21 million for eight sites for both FY 2001 and FY 2000. The \$5.5 million has been recorded as a liability in Reclamation's financial records. Most of Reclamation's cleanup sites fall under the purview of the Resources Conservation and Recovery Act of 1976 (five sites) and the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980 (one site), which created the Superfund Program. The Clean Water Act and the Endangered Species Act each govern one site.

In addition to the 8 sites for which a liability was recognized, there are 14 other cleanup sites that did not meet the criteria for recognizing a liability. For these, either the sufficient probability of loss was not present, or a reasonable estimate of the potential loss could not be determined.

B. Other Contingent Liabilities – Legal Claims and Assertions

Reclamation is party to a number of lawsuits and other actions where monetary amounts are sought from Reclamation. Reclamation is a defendant in various types of litigation and legal claims including construction cost claims, lawsuits over repayment of certain project costs, and water rights claims. As of September 30, 2001, Reclamation is a party to 17 legal cases which have potential to exceed \$1 million should unfavorable outcomes occur. It is the opinion of Reclamation management and legal counsel that a reasonable estimate of a potential liability resulting from adverse outcomes on certain cases would be \$25.2 million, of which \$1.5 million could be paid by Reclamation and the remainder by Treasury's Judgment Fund. There are seven reasonably possible claims with a total payment range of \$1 million to \$106 million.

NOTE 12. OPERATING LEASES

Most of Reclamation's facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. For federally owned property, Reclamation generally does not execute an agreement with GSA, nor is there a formal expiration date. Reclamation, however, is normally required to give 120 to 180 days' notice to vacate, and the amount of these leases remains constant from year to year. These leases are included in the estimated future lease for FY 2002 through FY 2006. The FY 2001 amount of these leases is \$20.6 million. For non-federally owned property, an occupancy agreement is executed; and, again, Reclamation may normally cancel these agreements with 120 days' notice. The estimated rent payments to GSA for both federally owned and publicly owned buildings are presented in the table that follows.

The aggregate of Reclamation's estimated real property rent payments to GSA for FY 2002 through FY 2006 and future years is as follows:

GSA Operating Leases (In Thousands)	
Fiscal Year	Lease Payments
2002	\$ 19,887
2003	20,856
2004	21,863
2005	22,295
2006	22,185
After 5 Years	12,780
Total Future Lease Payments	<u>\$ 119,866</u>

In addition to the above leases with GSA, Reclamation had FY 2001 operating lease payments to non-Federal entities which totaled \$2.7 million. These leases were primarily for office space and office equipment. Reclamation has an option to renew many of its operating leases at terms similar to the initial terms.

The following is a schedule by year of future minimum lease payments to non-Federal entities required under noncancellable operating leases that have initial or remaining lease terms in excess of one year as of September 30, 2001.

**Non-GSA Operating Leases
(In Thousands)**

Fiscal Year	Lease Payments
2002	\$2,052
2003	1,955
2004	555
2005	525
2006	451
Total Future Minimum Lease Payments	<u>\$5,538</u>

NOTE 13. UNEXPENDED APPROPRIATIONS

Unexpended appropriations consist of undelivered orders, unobligated funds, and unavailable authority. Undelivered orders represent amounts designated for payment of goods and services ordered but not received.

Unobligated funds, depending on budget authority, are generally available for new undelivered orders in current operations; however, there may be restrictions placed on the availability of these amounts for obligation.

Unobligated funds include amounts made available for multiple fiscal years and no-year appropriations that are available for an indefinite period of time.

Unavailable authority includes amounts appropriated to Reclamation in prior fiscal years, which may not be used for current operations.

Unexpended appropriations as of September 30, 2001, and 2000, are as follows:

**Unexpended Appropriations
(In Thousands)**

	FY 2001	FY 2000
Unexpended Appropriations		
Unobligated		
Available	\$ 49,296	\$ 71,595
Unavailable	611	586
Undelivered Orders	118,490	132,513
Total Unexpended Appropriations	<u>\$ 168,397</u>	<u>\$ 204,694</u>

NOTE 14. NET COST BY GPRA REPORTING SEGMENTS AND REGIONAL ORGANIZATIONS

During the year ended September 30, 2001, Reclamation revised the presentation of the Consolidated and the Consolidating Statements of Net Cost and related disclosures to present gross costs, earned revenues, and net costs by program and by responsibility segment. Reclamation's presentation is consistent with the strategic goals included in Reclamation's *Strategic Plan* and in accordance with GPRA.

Reclamation restated the Consolidated and Consolidating Statements of Net Cost and related disclosures for the year ended September 30, 2000, to conform to the current year presentation. The restated Consolidated and Consolidating Statements of Net Cost and disclosures for the year ended September 30, 2000, have not been audited.

The Statements of Net Cost by GPRA reporting segments, described in Note 1.C., and regional organizations as described in the "Supplemental Section" for the years ended September 30, 2001, and 2000 are presented on the following pages (pages 74-77).

NOTE 15. NET POSITION RESTATEMENT

As part of the financial statement process for FY 2001, certain balances as of September 30, 2000, have been restated, and the effect on net position is presented in the following table.

Restatements primarily consist of the following:

- Asset adjustments to expense previously capitalized costs,
- Revenue adjustments to appropriately match revenue and related costs,

- Adjustments to increase the allowance for doubtful loans and accounts receivable and to amortize the loan subsidy,
- Accrued and other expense adjustments to accrue for expenses in the appropriate accounting period, and
- Water service contract revenue adjustments to reverse revenue previously recognized which is being recovered through the ratesetting process.

**Net Position Restatement
(In Thousands)**

Net Position – Originally Reported for September 30, 2000		\$ 16,533,369
Cumulative Results		
Asset Adjustments	(170,434)	
Revenue Adjustments	(13,345)	
Loan Allowance and Subsidy Adjustments	14,973	
Accrued and Other Expense Adjustments	14,740	
	(154,066)	
Unavailable Capital		
Water Service Contracts Revenue	(204,600)	
Accrued and Other Expense Adjustments	(17,912)	
	(222,512)	
Net Position – Restated for September 30, 2000		\$ 16,156,791

NOTE 16. ADJUSTMENTS

The Adjustments line on the Combined Statement of Budgetary Resources is comprised of the following:

Adjustments (In Thousands)	
	FY 2001
Recoveries of Prior Year Obligations	\$ 100,170
Permanently Not Available (Cancelled Authority)	(893)
Capital Transfers and Redemption of Debt	(40,377)
Rescissions Pursuant to Public Law	(1,650)
Total Adjustments	\$ 57,250

**U.S. Department of the Interior
Bureau of Reclamation
Consolidating Statement of Net Cost
For the Year Ended September 30, 2001**

(In Thousands)	Pacific Northwest Region	Mid-Pacific Region	Lower Colorado Region
Water and Energy Management and Development:			
Segment Expenses	\$ 64,217	\$ 88,108	\$ 257,771
Segment Exchange Revenues	(36,527)	(140,556)	(172,209)
Segment Net Cost of Operations	27,690	(52,448)	85,562
Land Management and Development:			
Segment Expenses	7,169	6,255	3,760
Segment Exchange Revenues	(23)	(196)	(2)
Segment Net Cost of Operations	7,146	6,059	3,758
Fish and Wildlife Management and Development:			
Segment Expenses	6,532	115,368	13,379
Segment Exchange Revenues	0	(45,389)	(240)
Segment Net Cost of Operations	6,532	69,979	13,139
Facilities Operations:			
Segment Expenses	81,010	91,525	129,291
Segment Exchange Revenues	(62,436)	(1,333)	(172,511)
Segment Net Cost of Operations	18,574	90,192	(43,220)
Facilities Maintenance and Rehabilitation:			
Segment Expenses	7,445	10,835	32,763
Segment Exchange Revenues	0	(838)	(4,332)
Segment Net Cost of Operations	7,445	9,997	28,431
Policy and Administration:			
Segment Expenses	3,847	3,862	6,041
Segment Exchange Revenues	0	0	0
Segment Net Cost of Operations	3,847	3,862	6,041
Non-Program Activities:			
Segment Expenses	29,796	42,299	42,571
Segment Exchange Revenues	(31,433)	(42,823)	(53,933)
Segment Net Cost of Operations	(1,637)	(524)	(11,362)
Elimination of Intrabureau Activity:			
Intrabureau Expenses			
Intrabureau Exchange Revenues			
Intrabureau Net Cost of Operations	0	0	0
Total Expenses	200,016	358,252	485,576
Total Exchange Revenues	(130,419)	(231,135)	(403,227)
Total Net Cost of Operations	\$ 69,597	\$ 127,117	\$ 82,349

Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Elimination of Intrabureau Activity	Consolidated Total
\$ 96,412	\$ 273,926	\$ 56,770	\$ 837,204	\$	\$ 837,204
(20,909)	(109,722)	(34,495)	(514,418)		(514,418)
75,503	164,204	22,275	322,786	0	322,786
10,327	5,577	1,405	34,493		34,493
(560)	(233)	0	(1,014)		(1,014)
9,767	5,344	1,405	33,479	0	33,479
27,244	6,660	3,044	172,227		172,227
(14,077)	0	0	(59,706)		(59,706)
13,167	6,660	3,044	112,521	0	112,521
55,028	66,042	2,404	425,300		425,300
(32,610)	(7,045)	0	(275,935)		(275,935)
22,418	58,997	2,404	149,365	0	149,365
12,581	8,642	21,372	93,638		93,638
(5,652)	(2,293)	0	(13,115)		(13,115)
6,929	6,349	21,372	80,523	0	80,523
3,960	3,933	37,217	58,860		58,860
0	0	0	0		0
3,960	3,933	37,217	58,860	0	58,860
29,774	29,184	152,243	325,867		325,867
(32,945)	(28,946)	(111,951)	(302,031)		(302,031)
(3,171)	238	40,292	23,836	0	23,836
			0	(265,663)	(265,663)
			0	265,663	265,663
0	0	0	0	0	0
235,326	393,964	274,455	1,947,589	(265,663)	1,681,926
(106,753)	(148,239)	(146,446)	(1,166,219)	265,663	(900,556)
\$ 128,573	\$ 245,725	\$ 128,009	\$ 781,370	\$ 0	\$ 781,370

**U.S. Department of the Interior
Bureau of Reclamation
Consolidating Statement of Net Cost
For the Year Ended September 30, 2000
(Unaudited)**

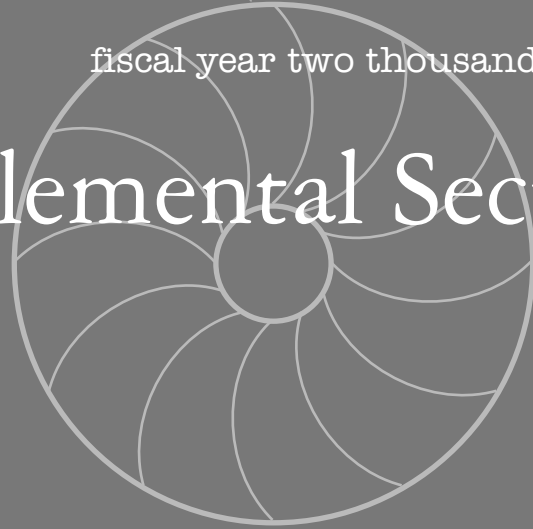
(In Thousands)	Pacific Northwest Region	Mid-Pacific Region	Lower Colorado Region
Water and Energy Management and Development:			
Segment Expenses	\$ 51,930	\$ 80,334	\$ 161,898
Segment Exchange Revenues	(25,378)	(140,260)	(62,395)
Segment Net Cost of Operations	26,552	(59,926)	99,503
Land Management and Development:			
Segment Expenses	9,337	5,139	3,814
Segment Exchange Revenues	(8)	(158)	1
Segment Net Cost of Operations	9,329	4,981	3,815
Fish and Wildlife Management and Development:			
Segment Expenses	7,942	107,649	8,931
Segment Exchange Revenues	0	(45,732)	(141)
Segment Net Cost of Operations	7,942	61,917	8,790
Facilities Operations:			
Segment Expenses	70,853	98,794	146,213
Segment Exchange Revenues	(56,877)	(667)	(101,038)
Segment Net Cost of Operations	13,976	98,127	45,175
Facilities Maintenance and Rehabilitation:			
Segment Expenses	10,123	10,029	31,697
Segment Exchange Revenues	0	(187)	2,740
Segment Net Cost of Operations	10,123	9,842	34,437
Policy and Administration:			
Segment Expenses	4,694	4,671	7,828
Segment Exchange Revenues	0	0	0
Segment Net Cost of Operations	4,694	4,671	7,828
Non-Program Activities:			
Segment Expenses	26,801	39,479	38,738
Segment Exchange Revenues	(26,678)	(40,748)	(56,275)
Segment Net Cost of Operations	123	(1,269)	(17,537)
Elimination of Intrabureau Activity:			
Intrabureau Expenses			
Intrabureau Exchange Revenues			
Intrabureau Net Cost of Operations	0	0	0
Total Expenses	181,680	346,095	399,119
Total Exchange Revenues	(108,941)	(227,752)	(217,108)
Total Net Cost of Operations	\$ 72,739	\$ 118,343	\$ 182,011

Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Elimination of Intrabureau Activity	Consolidated Total
\$ 57,959 (31,895)	\$ 106,644 (59,286)	\$ 71,520 (39,253)	\$ 530,285 (358,467)	\$	\$ 530,285 (358,467)
26,064	47,358	32,267	171,818	0	171,818
9,740 (314)	5,540 (339)	732 0	34,302 (818)		34,302 (818)
9,426	5,201	732	33,484	0	33,484
20,122 (8,146)	6,071 0	3,690 0	154,405 (54,019)		154,405 (54,019)
11,976	6,071	3,690	100,386	0	100,386
51,188 (39,991)	63,138 (2,308)	2,252 89	432,438 (200,792)		432,438 (200,792)
11,197	60,830	2,341	231,646	0	231,646
12,729 (4,914)	12,466 (887)	19,682 0	96,726 (3,248)		96,726 (3,248)
7,815	11,579	19,682	93,478	0	93,478
4,867 0	3,769 0	36,420 0	62,249 0		62,249 0
4,867	3,769	36,420	62,249	0	62,249
31,000 (36,607)	27,139 (26,726)	152,325 (118,977)	315,482 (306,011)		315,482 (306,011)
(5,607)	413	33,348	9,471	0	9,471
			0	(283,975)	(283,975)
			0	278,298	278,298
0	0	0	0	(5,677)	(5,677)
187,605 (121,867)	224,767 (89,546)	286,621 (158,141)	1,625,887 (923,355)	(283,975) 278,298	1,341,912 (645,057)
\$ 65,738	\$ 135,221	\$ 128,480	\$ 702,532	\$ (5,677)	\$ 696,855



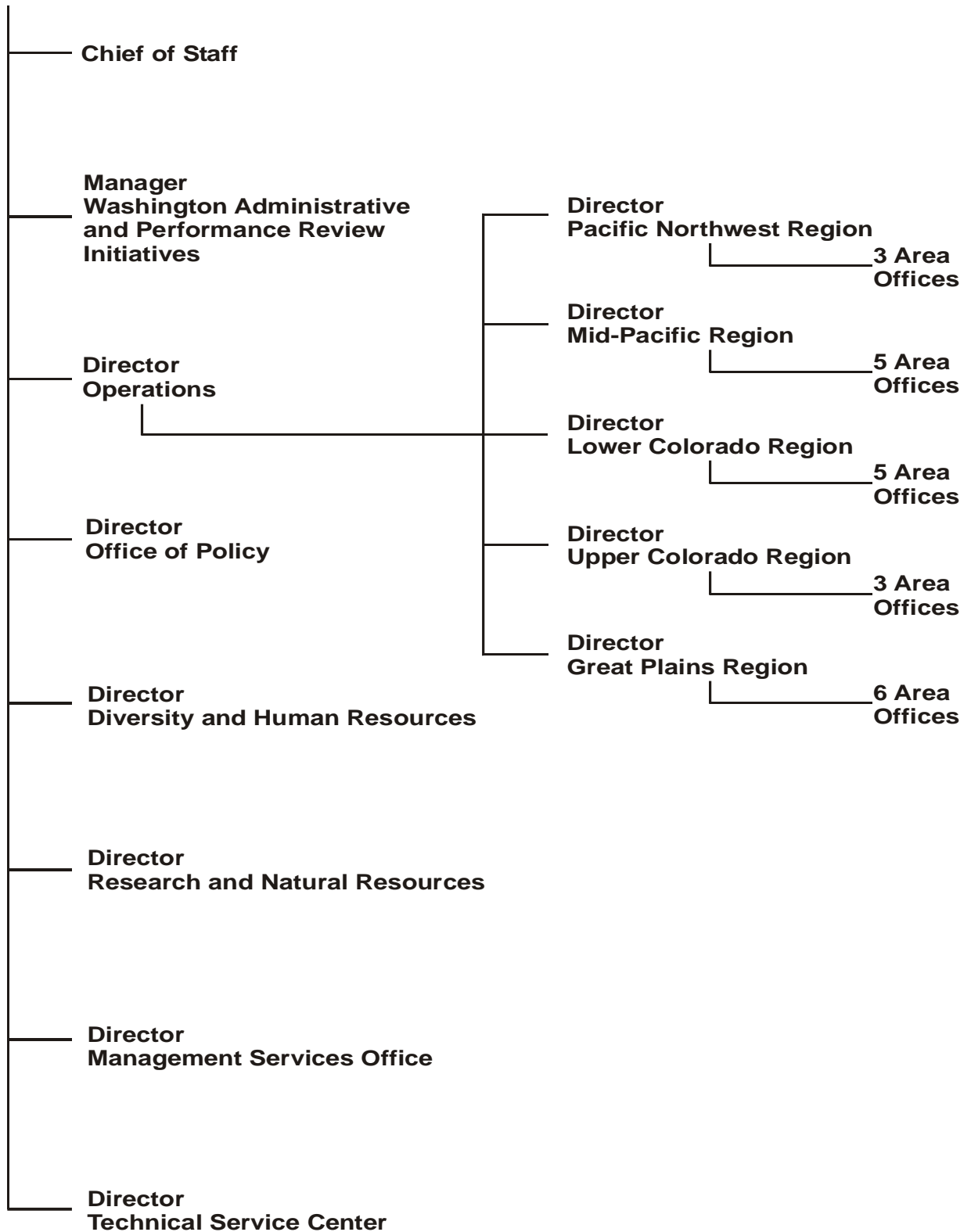
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Supplemental Section



Bureau of Reclamation Organization Chart

**Commissioner
Bureau of Reclamation**





INTERNAL REVIEWS AND AUDITS OF RECLAMATION PROGRAMS

Reclamation continues to strengthen and improve the performance of its programs and activities by regularly conducting internal management control reviews and by effectively implementing Office of Inspector General (OIG) and General Accounting Office (GAO) recommendations.

During FY 2001, Reclamation completed three management control reviews. The functional areas reviewed were: (1) Revenues Management Internal Review Program; (2) Associated Facility Review of Operation and Maintenance Program; and (3) Administration and Enforcement of the Reclamation Reform Act of 1982. These reviews did not identify any material weaknesses.

During FY 2001, 11 corrective actions from previous management control reviews were implemented. As of September 30, 2001, there are 88 outstanding corrective actions.

During FY 2001, the OIG completed three audits and the GAO completed four audits of Reclamation's programs and activities. The following is a summary of the status of audit recommendations.

	FY 2001 Recommendations	Recommendations Implemented/Closed in FY 2001 ¹	Outstanding Recommendations ²
OIG	12	13	24
GAO	1	2	4

¹ Recommendations may have resulted from audits in previous years.

² Outstanding recommendations may have resulted from prior year audits.

SAFETY OF DAMS PROGRAM

The goals and major accomplishments of Reclamation's Safety of Dams Program were described in the "Management Discussion and Analysis" section. More detail concerning specific Safety of Dams modification activities is presented in table 1.

Table 1.—Safety of Dams Modifications Completed or Underway in FY 2001

Dam Name and Location	Estimated Total Project Cost (\$ In Millions)	Major Modification Features
Modifications Substantially Completed		
Salmon Lake Dam, Washington	8.5	Strengthened foundation and built stability berm to increase stability during earthquakes. Installed filters that collect and control seepage to reduce the risk of dam failure from internal erosion.
Casitas Dam, California	37.4	Strengthened foundation, built stability berm, and modified the outlet works to reduce the risk of dam failure resulting from earthquakes.
Caballo Dam, New Mexico	0.2	Strengthened gate arms to reduce risk of gate failure due to static loads and seismic events.
Anita Dam, Montana	0.3	Performed the necessary risk analysis activities. The Report of Findings for the Risk Analysis completed for this dam concluded, "The estimates of seismic, static, and hydrologic risk for Anita Dam are very low and indicate very little justification for further risk reduction." Therefore, on this basis, it was concluded that no dam safety modification is required at this time.
Modifications Underway		
Wickiup Dam, Oregon	46.1	Strengthening foundation and building stability berm to increase stability during earthquakes.
Clear Lake Dam, California-Oregon	10.3	Modifying the dam to reduce risk of failure from seepage through the embankment.
Avalon Dam, New Mexico	0.7	Modifying the dam to reduce risk due to erosion failure during large floods.
Horsetooth Dam, Colorado	98.7	Strengthening foundation and improving drainage to increase stability during earthquakes.

STEWARDSHIP ASSETS

Stewardship assets—officially known as Stewardship Property, Plant, and Equipment (PP&E)—are resources owned by the Federal Government that involve substantial investment for the long-term benefit of the Nation and meet one of the following definitions from the Federal Accounting Standards Advisory Board:

- **Heritage assets** are PP&E that are unique because they have historical or natural significance; are of cultural, educational, or artistic importance; or have significant architectural characteristics. Heritage assets are expected to be preserved indefinitely.
- **Stewardship lands** include land and land rights owned by the Federal Government and not acquired for, or in connection with, general PP&E. Examples include parks, wildlife reserves, forests, and grazing lands. All withdrawn lands are stewardship lands.
- **Stewardship investments** are substantial investments made to yield long-term public benefits in certain specific categories.

As shown in table 2 and discussed in sections that follow, Reclamation has identified stewardship assets in the heritage assets and stewardship lands categories.

Heritage Assets

Heritage assets are divided into two major groups: cultural and natural.

Cultural Heritage Assets

Cultural resources laws mandate that Reclamation identify and evaluate all cultural resources (historic, prehistoric, and ethnographic sites) on its lands. Located sites are evaluated against criteria to determine eligibility for listing in the National Register of Historic Places. Sites of unusual merit are also listed as National Historic Landmarks. As shown in table 2, some sites on Reclamation land have been listed, some have been determined ineligible for listing, and some have not yet been evaluated.

Some historic properties are used by Reclamation to carry out its mission and are considered to be multi-use heritage assets. The Statement of Federal Financial Accounting Standard No. 6 defines multi-use heritage assets as “heritage assets whose predominant use is general government operations.” Thirty of the 57 individual properties and districts have been determined to be multi-use heritage assets; these include dams, water distribution systems, a bridge, and office buildings. Capital investment costs for multi-use heritage assets are capitalized as general property, plant, and equipment in the principal financial statements and depreciated over their service life, as discussed in the Notes to the Financial Statements. Deferred maintenance reported on these multi-use heritage assets is disclosed and discussed under “Deferred Maintenance,” later in this report.

Table 2.—Summary of Reclamation Stewardship Assets

Number and Condition of Heritage Assets				
Cultural Heritage Assets	Additions FY 2001	Withdrawals FY 2001	Unit Balance as of September 30, 2001	Condition
National Register of Historic Places Properties	1	1	Listed: 49 properties; 8 districts (30 multi-use) Eligible: 964 properties; 7 districts ¹	Safeguarded ³
Sites Determined Not Eligible for Listing in NRHP	11	0	146	N/A
Unevaluated Archeological and Historic Sites	1,246	0	² 12,182	Safeguarded ³
Sites Destroyed	0	0	1 (FY 2000)	N/A
National Historic Landmarks	0	0	5	Safeguarded ³
Museum Property	96,444	⁶ 0	7,946,126 objects ⁴ (5,535,476 catalogued ⁵ and 2,410,650 uncatalogued)	Safeguarded ³

Natural Heritage Assets

32 Paleontological Sites, Including 6 Reservoir Sites⁷ Safeguarded³

Number and Condition of Stewardship Lands

Stewardship Lands	Additions FY 2001	Withdrawals FY 2001	Unit Balance as of September 30, 2001	Condition
Lands Withdrawn for Project Purposes in 15 of the 17 Western States	0	4,953.6 acres ⁸	5,769,422 acres ⁸	Safeguarded

¹ The number of listed properties remained at 49, as did districts at 8, with 1 site transferred to the National Park Service and 1 site added. The number of eligible properties increased from 821 to 964.

² The number of unevaluated sites increased as a result of research and new field work.

³ The condition of these resources varies, depending on the type, location, and use. However, the condition of these heritage assets is listed as "safeguarded," due to the reasonable and prudent efforts Reclamation takes to protect these resources as a result of normal resource management activities. Condition of multi-use heritage assets is discussed and disclosed under "Deferred Maintenance," later in this report.

⁴ These totals are for individual objects. An "object" is an individual unit of museum property. An object may be representative of one item or multiple items if the items were acquired from an archeological context. Archeological materials are collected by provenience (a unit of geospatial measure). For example, an excavation unit defined by provenience may contain 5 stone flakes, 14 pieces of plainware pottery, and 2 soil samples; these items (21 "things") would be reported as 1 object in this table. Reclamation has control of all objects reported in its accession records.

Reclamation also reports historic documents and associated records, as well as objects in other units (such as cubic feet), to the Department of the Interior (Interior). Interior's Office of Acquisition and Property Management converts the linear feet (ln ft) of documents and associated records using the conversion of 1,600 objects = 1 ln ft. The totals shown in the Interior report reflect this conversion. For FY 2001, Reclamation's number of objects presented in Interior's report is 9,390,749. This number reflects an addition of 96,444 objects from the number reported in FY 2000.

⁵ This figure is an increase of 1,120,166 objects and 2,150.4 cubic feet catalogued over that reported in FY 2000. The term "catalogued" means the assignment and application of a unique identification number to an object and the completion of descriptive documentation related to that object.

⁶ Reclamation does not have authority to dispose of, or deaccession, museum property.

⁷ Six "sites" are reservoir areas known to contain many paleontological locales. The Upper Colorado Region has contracted for paleontological surveys of two reservoirs to identify *in-situ* fossil and trace fossil resources. The report will be available in FY 2003. A case of vandalism to trace fossils occurred at Red Fleet Reservoir in Utah during August 2001. This case has been resolved and mitigated to Reclamation's satisfaction.

⁸ The reduction in numbers of acres of stewardship lands from that reported in FY 2000 is a result of Reclamation's improved reconciliation process for land records in FY 2001.

Of the remaining 27 non-multiuse individual properties and districts, 17 are archeological properties and 10 are historic properties. In FY 2002, Reclamation is developing a process to identify and report deferred maintenance for its 10 non-archeological, nonmultiuse heritage asset properties. These consist of three districts and seven individual historic properties.

Museum Property.—Over the last 6 years, Reclamation has made giant strides in identifying, accessioning, and cataloging its museum property. Major collections are now properly housed and being made available for exhibit and for use by researchers. These accomplishments are the result of completing action items in *Reclamation’s Museum Property Collections Management Plan (PLAN)* and other activities. The detailed PLAN, revised in FY 2001, identifies six major goals and specific actions necessary to reach accountability for Reclamation collections.

In addition to guiding Reclamation’s actions, the PLAN is used to track progress in correcting Reclamation’s portion of the departmentwide material weakness in accountability for artwork and artifacts. More information concerning stewardship assets is included in Reclamation’s *Bureau Museum Property Management Summary Report* to the Interior for FY 2001.

During FY 2001, all Interior bureaus prepared milestones for tracking progress in reaching accountability. These milestones are being reviewed by Interior and will become the standard in FY 2002. The PLAN will continue to guide actions to the meet the milestones.

Generally, there is no deferred maintenance applicable to museum property assets. Deferred maintenance is disclosed, however, on the buildings used to store and safeguard museum property, if the buildings are owned by Reclamation. This deferred maintenance information is disclosed and discussed under “Deferred Maintenance,” later in this report.

Native American Graves and Repatriation Act.—Reclamation’s collection also includes “objects identified as cultural items under the Native American Graves and Repatriation Act of 1990 (NAGPRA).” Items collected prior to November 1990 have been determined to be museum property; Reclamation’s museum property numbers do not include all cultural items at this time because these have been tracked separately. As required by law, Reclamation is consulting with tribes on the repatriation or disposition of all NAGPRA items. Table 3 shows the number of human remains known at this time.

Table 3.—Summary of NAGPRA Completion Status

Total Funds Expended on NAGPRA	Total				Number of Inventory Completion/ Intent to Repatriate Notices
	Number of Human Remains Subject to NAGPRA	Number of Culturally Affiliated Human Remains	Number of Human Remains Repatriated	Number of Culturally Unidentifiable Human Remains	
\$280,125	1,727 individuals	908 individuals	8 individuals	811 individuals	4/1

Interior GPRA Goals.— As part of its goals under the Government Performance and Results Act (GPRA), Interior is seeking to increase the ability of the public to access information about museum property, as measured against a baseline established in FY 1998. Reclamation contributed to meeting this goal by tracking visitation at New Melones Visitor Center at New Melones Lake, California, and at the Guernsey Museum at Guernsey Lake, Wyoming.

Another Interior GPRA goal is to increase the number of museum objects available for research or public interpretation by improving basic accountability for these resources as measured against a baseline established in 1998. Reclamation contributed to meeting this goal by increasing its number of catalogued items by 1.1 million over its FY 2000 figure (table 2).

Finally, Interior set a GPRA goal to develop Internet access to all Interior museum collection sites in Federal facilities by September 30, 2002. Reclamation contributed to meeting this GPRA goal by developing a website for its fine art collection, www.usbr.gov/art. The site displays images from Reclamation's fine art collection, along with biographical information about the artists. During FY 2001, the site received 21,100 visits. In FY 2001, Reclamation also developed a website for its museum property program, www.usbr.gov/cultural/mp. The Mid-Pacific Region also completed a museum property website, www.mp.usbr.gov/mp150/mp153.

Natural Heritage Assets

At this time, two regions are reporting numbers of paleontological sites. Other regions are actively surveying and researching records for information. One region has contracted for a paleontological survey, with results to be available in FY 2003. Of the 32 paleontological sites under the natural heritage assets category, 6 are reservoir areas. Nine non-Federal repositories hold paleontological collections from Reclamation lands.

Stewardship Lands

Reclamation operates largely as a business-type entity, whose primary stated mission is to manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public. Reclamation provides water and power throughout the 17 Western States.

Reclamation lands are integral to project purposes, such as constructing and operating dams, power facilities, or water projects. The lands were either acquired at a cost or withdrawn from the public domain in support of Reclamation's mandate to provide irrigation water, municipal and industrial water, flood control, and power. While Reclamation's lands are acquired or withdrawn for specific project purposes, other multipurpose uses of the land occur. For example, if it does not interfere with the primary purpose for which land was withdrawn, activities such as boating and camping, fish and wildlife management, or livestock grazing on the land may be authorized. The term,

“withdrawn lands,” with respect to Reclamation, refers to those lands withdrawn from public entry, set aside for authorized Reclamation project purposes, and contributed to the project by the United States. Of Reclamation’s 7,989,904 total acres of land, 5,769,422 acres of withdrawn land were transferred from the Bureau of Land Management and the U.S. Forest Service at no cost for use in constructing authorized Reclamation projects.

From a land management point of view, Reclamation’s projects consist of plots of withdrawn lands directly adjacent to, or intermingled with, acquired lands. They are managed exactly the same and are both used in connection with authorized project purposes. Therefore, Reclamation’s project lands most closely resemble general PP&E rather than stewardship assets. However, in an effort to provide the most comprehensive and useful information to readers of financial statements, Reclamation is reporting acreage of its withdrawn lands that does not have an acquisition cost and, so, is deemed to fall within the category of stewardship assets.

Reclamation safeguards its withdrawn lands to protect them against waste, loss, and misuse. Withdrawn lands are managed consistent with their intended purposes in accordance with Federal laws and regulations and are not materially degraded while under Government care. Site reviews are performed on Reclamation lands, and all areas receive field reviews every 5 years. Reviews for hazardous waste, improper dumping or trespass, and onsite reviews of concessions further safeguard the lands’ condition. While periodic reviews are performed, it is not feasible or cost effective to do full condition assessments of all Reclamation’s lands, a large portion of which lie under water or structures. Additionally, large tracts of inaccessible wilderness often surround the upper surface of the water’s edge, making them difficult and costly to assess. Nevertheless, the condition of Reclamation’s land, as a whole, is sufficient to support the mission of the agency and is consistent with the statutory purposes for which the lands were withdrawn.

Generally, there is no deferred maintenance applicable to stewardship lands. In some cases, there may be structural improvements constructed to maintain the lands in a certain condition. Any deferred maintenance on structural improvements is discussed and disclosed under “Deferred Maintenance,” later in this report.

FINANCIAL RESOURCES

Interior’s budget authority, about \$10.2 billion, was the third smallest of the 14 cabinet level agencies within the Executive Branch. Reclamation’s FY 2001 budget authority of \$935.8 million represents about 9 percent of Interior’s total budget authority.

Funding for Reclamation’s major program activities is provided from appropriations, revolving fund revenues, transfers from other Federal agencies,

and contributions from non-Federal entities. Table 4 provides a summary of Reclamation's major sources of FY 2001 new budget authority.

Table 4.—New Budget Authority – FY 2001
(\$ In Millions)

Water and Related Resources	\$ 639.8
California Bay-Delta Ecosystem Restoration	0.0
Central Valley Project Restoration Fund	38.4
Revolving Funds	40.1
Policy and Administration	50.2
Loan Program	25.7
Contributed Funds from Non-Federal Entities	28.0
Transferred Funds from Other Federal Agencies	47.0
Permanent Appropriations	66.6
Total	<u>\$ 935.8</u>

The Combined Statement of Budgetary Resources, which is included as a principal financial statement, presents information about Reclamation's total budgetary resources, including carryforward of unused, prior year funding and spending authority created by reimbursements from other Federal agencies and non-Federal entities. The total budgetary resources are \$1.9 billion. This includes \$327.8 million of Working Capital Fund budgetary resources received from other Reclamation funding sources.

The Combining Statement of Budgetary Resources (table 5) is broken down by account type. The General Accounts are comprised of appropriations made to Reclamation and appropriation transfers from other Federal agencies. The Revolving Accounts include the Lower Colorado River Basin Development Fund, the Upper Colorado River Basin Fund, and the Working Capital Fund. The Special Receipt Accounts are comprised of the Central Valley Project Restoration Fund, the Colorado River Dam Fund, contributions from non-Federal entities, and permanent appropriations. The permanent appropriations provide for the transfer without annual appropriation of revenues from various funds for construction, operation, maintenance, replacement, environmental studies, and other associated activities at various projects.

The California Bay-Delta Ecosystem Restoration account is included as part of Reclamation's budget for budget presentation purposes; these funds will be distributed among participating Federal agencies, based on a program recommended by the CALFED (State of California and Federal Agencies) group and approved by the Secretary of the Interior. The CALFED Bay-Delta Program was established in May 1995 to develop a comprehensive, long-term solution to the complex and interrelated problems in California's San Francisco Bay/Sacramento-San Joaquin Delta (Bay-Delta).

**Table 5.—Combining Statement of Budgetary Resources
for the Year Ended September 30, 2001
(In Thousands)**

	General Accounts	Revolving Accounts	Special Receipt Accounts	Loan Program Accounts	Combined Total
Budgetary Resources:					
Budget Authority	\$ 764,553	\$ 40,146	\$ 105,504	\$ 25,686	\$ 935,889
Unobligated Balances -					
Beginning of Fiscal Year	148,763	75,746	11,167	1,103	236,779
Transfer of Prior Authority	(136)	13	0	0	(123)
Spending Authority From Offsetting					
Collections	173,508	471,535	0	46,077	691,120
Adjustments (Note 16)	81,678	4,137	2,833	(31,398)	57,250
Total Budgetary Resources	1,168,366	591,577	119,504	41,468	1,920,915
Status of Budgetary Resources:					
Obligations Incurred	993,464	477,738	108,543	40,556	1,620,301
Unobligated Balances -					
Available	174,291	113,839	10,961	877	299,968
Unobligated Balances -					
Unavailable	611	0	0	35	646
Total Status of Budgetary Resources	1,168,366	591,577	119,504	41,468	1,920,915
Outlays:					
Obligations Incurred	993,464	477,738	108,543	40,556	1,620,301
(Less): Spending Authority From Offsetting Collections and Adjustments	(257,513)	(482,148)	(5,553)	(46,077)	(791,291)
Obligated Balance, Net - Beginning of Fiscal Year	427,397	151,475	45,063	19,156	643,091
Obligated Balance, Transferred, Net	0	0	0	0	0
(Less): Obligated Balance, Net - End of Fiscal Year	(377,344)	(136,263)	(44,148)	(22,315)	(580,070)
Total Outlays	\$ 786,004	\$ 10,802	\$ 103,905	\$ (8,680)	\$ 892,031

The Bay-Delta system provides habitat for 120 fish and wildlife species, some listed as threatened or endangered. The system is also critical to California's economy because the two rivers that flow into the Bay-Delta provide potable water for two-thirds of California's homes and businesses and irrigate more than 4 million acres of farmland on which 45 percent of the Nation's fruits and vegetables are grown.

CALFED is comprised of a consortium of Federal and State agencies. Federal agencies include Reclamation, the U.S. Fish and Wildlife Service, the

Environmental Protection Agency, and the National Marine Fisheries Service, with possible participation by other agencies in the future. State agency involvement includes oversight by the California Resources Agency and the participation of the State Department of Water Resources, the Department of Fish and Game, and the California Environmental Protection Agency.

WORKING CAPITAL FUND

Reclamation operates a Working Capital Fund (WCF) to efficiently finance support services and equipment for Reclamation programs and other various Federal and non-Federal agencies. Table 6 presents selected information on the financial position of the WCF in a balance sheet.

**Table 6.—Working Capital Fund Balance Sheet
As of September 30, 2001
(In Thousands)**

Assets	
Intragovernmental Assets	
Fund Balance with Treasury	\$ 41,593
Accounts Receivable	8,168
Loans Receivable	3,500
Advances	<u>5,230</u>
Total Intragovernmental Assets	58,491
Accounts Receivable, Net	72
General Property, Plant, and Equipment, Net	<u>36,490</u>
Total Assets	<u>\$ 95,053</u>
Liabilities	
Intragovernmental Liabilities	
Accounts Payable	\$ 3,154
Other Intragovernmental Liabilities	<u>10,156</u>
Total Intragovernmental Liabilities	13,310
Accounts Payable	3,774
Other Liabilities	<u>6,572</u>
Total Liabilities	23,656
Net Position	
Cumulative Results of Operations	<u>71,397</u>
Total Net Position	<u>71,397</u>
Total Liabilities and Net Position	<u>\$ 95,053</u>

Although the WCF is operated as a single entity, it has been subdivided into 58 activities to facilitate management of the fund. Among the largest of the activities is the Technical Service Center (TSC), which provides engineering and technical services to other Reclamation organizations, as well as other governmental and nongovernmental agencies.

As mentioned previously, the WCF operates as a revolving fund, fully recovering costs from its customers. The types of services provided by the WCF fall into three broad categories: (1) Engineering and Technical Services; (2) Administrative Services; and (3) Computer and Related Services. Table 7 presents a Statement of Net Cost for the WCF. The presentation by major category of services is intended to provide information on the relative composition of the WCF.

**Table 7.—Working Capital Fund Statement of Net Cost
for the Year Ended September 30, 2001
(In Thousands)**

	Engineering and Technical Services	Administrative Services	Computer and Related Services	Working Capital Fund Total
Expenses:				
Operating Expenses:				
Intragovernmental	\$ 14,282	\$ 58,366	\$ 538	\$ 73,186
With the Public	73,146	125,382	11,483	210,011
Total Operating Expenses	87,428	183,748	12,021	283,197
Depreciation and Amortization	2,628	1,353	2,839	6,820
Other Expenses	37	8,389	2	8,428
Total Expenses	90,093	193,490	14,862	298,445
Exchange Revenues:				
Sale of Goods and Services	(87,566)	(183,665)	(13,288)	(284,519)
Net Cost of Operations	\$ 2,527	\$ 9,825	\$ 1,574	\$ 13,926

The most significant activities in the Engineering and Technical Services category are technical services related to water resources management support provided by the Technical Service Center. Also included in this category are vehicles and aircraft used for engineering support.

DEFERRED MAINTENANCE

Reclamation owns a water resources management infrastructure with a combined total value of \$20.2 billion, as of September 30, 2001. This infrastructure consists of diversion and storage dams; hydroelectric powerplants; water conveyance facilities (canals, pipelines, siphons, tunnels, and pumps); recreational facilities; and associated buildings, bridges, and roads, as well as an inventory of related construction, maintenance, laboratory, and scientific equipment. The operation and maintenance of some of these assets is performed by Reclamation, using annual or permanent appropriations or other funding sources available to it. However, the operation and maintenance

of the remaining assets, which make up approximately one-half of the combined total value of all assets, is performed by Reclamation's water and power customers or by others (collectively, "contractors") at their expense pursuant to contracts with Reclamation.

As provided by the Federal Accounting Standards Advisory Board,¹ maintenance is "the act of keeping fixed assets in an acceptable condition." This excludes "activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended." Deferred maintenance is defined as "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period."

Reclamation employs a commercial, off-the-shelf maintenance management system on many of its larger, more complex facilities and performs condition assessment site reviews and other assessments to estimate the condition of, and determine the need for, any maintenance related to its assets. Under this program, essentially all of Reclamation's major assets, whether operated and maintained by Reclamation or its contractors, are assessed triennially. Although some degree of review is done annually on many of Reclamation's major facilities, it would not be physically feasible nor cost effective, given the number of assets and their geographic dispersion, to do full condition assessment reviews annually on all assets. However, monitoring/tracking of maintenance-related deficiencies/recommendations is generally conducted on an annual basis.

There are many factors that influence whether maintenance is performed as scheduled or deferred. These factors include, among others, limitations on access to facilities (e.g., due to water levels); intervening technological innovations or developments; seasonal or climatological considerations; reassessment of priorities; delays in the contract-award process; availability of, or delays related to, the contractor; and changes in funding priorities resulting, in some cases, from emergencies or unforeseen critical maintenance requirements. However, it is Reclamation's policy to give critical maintenance—that which addresses a threat to life, property, and safety—the highest priority in attention and resources.

Table 8 identifies Reclamation's estimate of deferred maintenance as of September 30, 2001, on **only** those facilities (Reserved) operated and maintained by it. The Reserved facilities, currently in operation and maintenance status, include heritage assets that are components of active project facilities.² Furthermore, the precision attributable to these estimates for the assets involved is based on current, available data.

¹ Statement of Federal Financial Accounting Standards Number 6.

² The deferred maintenance of heritage assets that are part of active project features is reported under this section, not under the Heritage Assets section of "Stewardship Assets." Heritage assets that may have been a part of an active project, but no longer serve that purpose, are reported under the Heritage Assets section of "Stewardship Assets."

Table 8.—Estimate of Deferred Maintenance as of September 30, 2001

Category	Asset Condition	Estimated Range of Cost by Category (\$ In Thousands)	Total Estimated Cost by Category (\$ In Thousands)
Dam Facilities ¹	Poor to Good	213-3,078	9,782
Power Facilities ¹	Poor to Good	82-3,820	8,046
Canal Facilities	Poor to Good	1-649	1,285
Fish Facilities	Fair to Good	3.6-7.5	11.1
Roads		0	0
Bridges	Fair	60	60
Other ²	Poor to Good	65-3,197	5,653
Code Compliance	Fair	21	21

¹ Because these are broad categories, the actual item on which maintenance has been deferred could be a relatively small component of an overall category (e.g., a siphon or drain in an overall water conveyance system). None of the individual maintenance items would affect the overall safety of the facility or personnel or impact the delivery of water or power.

² This category includes roof repairs, pond liners, communication systems, parking lot pavement, and miscellaneous equipment.

It is anticipated that the precision of Reclamation’s estimates will be refined considerably in the future as Reclamation improves its procedures and systems for tracking condition assessments and for reporting the scheduling and deferral of maintenance work. Reclamation continues to incorporate budget estimates, the Dam Safety Information System, Accessibility and Data Management System, and Reclamation Enterprise Maintenance System as tools in the process. It is expected that wide variations in the reporting of deferred maintenance will take place from year to year because of the kind of maintenance work that takes place across Reclamation.

In FY 1999, Reclamation began implementation of its “Plan for Improving the Reporting of Deferred Maintenance” (Plan). The purpose of the Plan is to establish the steps Reclamation intends to take to improve the reporting of deferred maintenance. Although Reclamation implemented the Plan in FY 1999, it will take several years before the Plan is fully achieved. It is also possible that additional deferred maintenance could be reported when all of the computerized management and documentation systems used for such reporting purposes become fully operational.

DIVERSITY ACCOMPLISHMENTS

Reclamation was presented the Department of the Interior’s 2001 Equal Opportunity and Diversity Management Award for Outstanding Equal Opportunity Office in August 2001. The award recognized Reclamation for its outstanding Equal Employment Opportunity Program, which showed overall leadership, vision, accomplishment, creativity, and top-quality customer service. A special award for supporting Hispanic employment was presented by the Office of Personnel Management to Reclamation’s Director, Diversity and Human Resources.

At the end of FY 2001, Reclamation's cadre of Senior Executive Service employees consisted of 37.5 percent female and 25 percent minority employees. This represents one of Interior's most diverse bureau executive teams.

The inaugural meeting of the Commissioner's Diversity Management Council took place on January 11, 2001, in Denver, Colorado. This council, comprised of the chairperson of each region/office Diversity Management Council, will work collaboratively toward achieving the goals contained in the Workforce Diversity Implementation Plan.

National Outreach and Recruitment Initiatives

In FY 2001, Reclamation supported numerous minority and women-based organizations that promote diversity. Various forms of support were provided, such as participating at national conferences; planning and participating in preconference training forums; purchasing booths and advertisements for outreach and recruitment; and volunteering as judges at youth events and guest speakers at local colleges.

Partnership Agreements

Reclamation established partnership agreements with five colleges and universities to increase minority hiring for student jobs and internships. These institutions are: Southwestern Indian Polytechnic Institute in Albuquerque, New Mexico; New Mexico Highlands University in Las Vegas, New Mexico; Langston University in Oklahoma City, Oklahoma; California State University at San Bernardino, California; and Southern University in Baton Rouge, Louisiana.

Reclamation Diversity Representation

At the end of FY 2001, Whites were the most represented race/national origin group, Hispanics were the next highest represented group, followed by Blacks, Indians, and Asians. All diversity groups increased in total numbers, beginning in the first quarter. Figure 1 shows the breakout per group and the progress made each quarter in FY 2001. Reclamation's total permanent workforce was 5,484 (figure 2); and the temporary workforce was 332 (figure 3).

Groups at Current Parity or Higher

Compared to the relevant civilian labor workforce, at the end of FY 2001, four groups were at current parity or higher: Hispanic men (5.2 percent versus 3.3 percent), Hispanic women (3.0 percent versus 1.8 percent), American Indian/Alaskan Native men (1.8 percent versus 0.3 percent), and American Indian/Alaskan Native women (1.5 percent versus 0.1 percent).

Reclamation's Permanent Workforce By Quarter

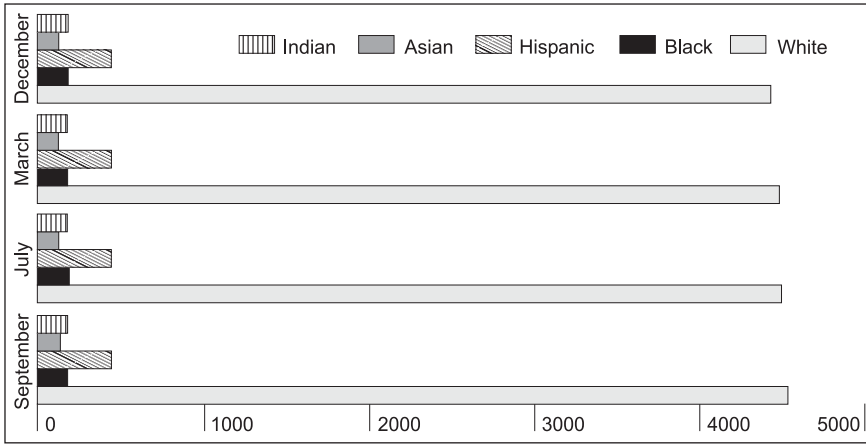


Figure 1.—Bars show quarterly change by race, national origin, and gender.

Reclamation's Total Permanent Workforce By Fiscal Year

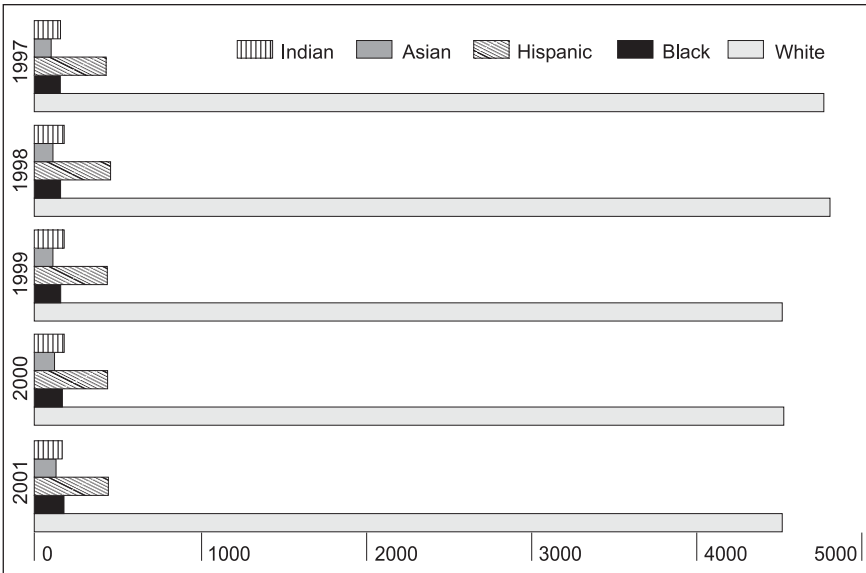


Figure 2.—Bars show annual change by race, national origin, and gender.

Reclamation's Temporary Workforce By Fiscal Year

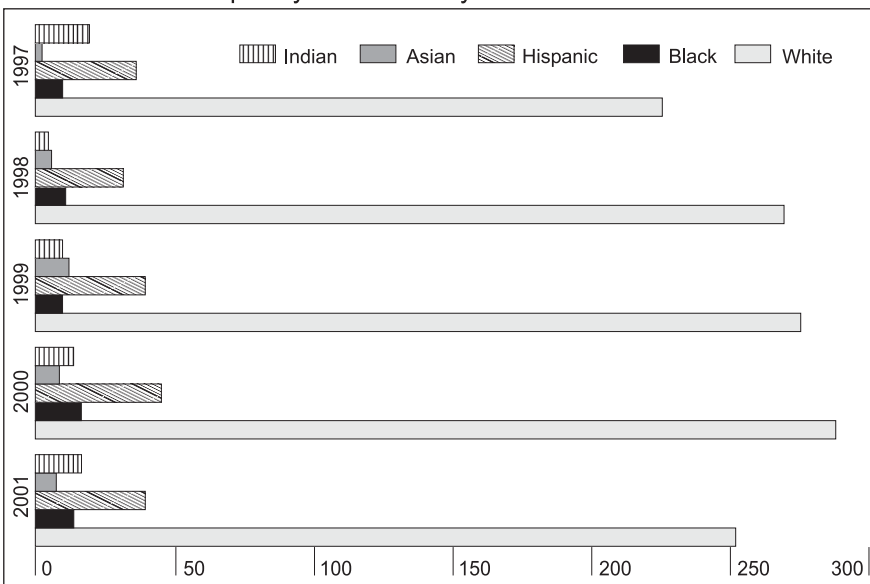


Figure 3.—Bars show annual change by race, national origin, and gender.

The *markedly under-represented groups* were Black men (3.6 percent versus 1.7 percent), Black women (3.3 percent versus 1.7 percent), and Asian Pacific men (2.6 percent versus 1.3 percent). Despite the under-representation, all groups gradually moved closer to parity compared to last fiscal year. Figure 4 compares Reclamation to the Relevant Civilian Labor Workforce (RCLF). (Note: RCLF is the Civilian Labor Force data that are directly comparable or relevant to the data looked at in the Federal Workforce. For example, when we analyze the representation of Black engineers employed in Reclamation’s workforce, we compare them with the Black engineers reported in the RCLF—as opposed to the number of Blacks in the overall Civilian Labor Force. Parity is defined as representation that is equivalent to the relevant civilian labor workforce.)

Relevant Civilian Labor Force - Parity Comparison

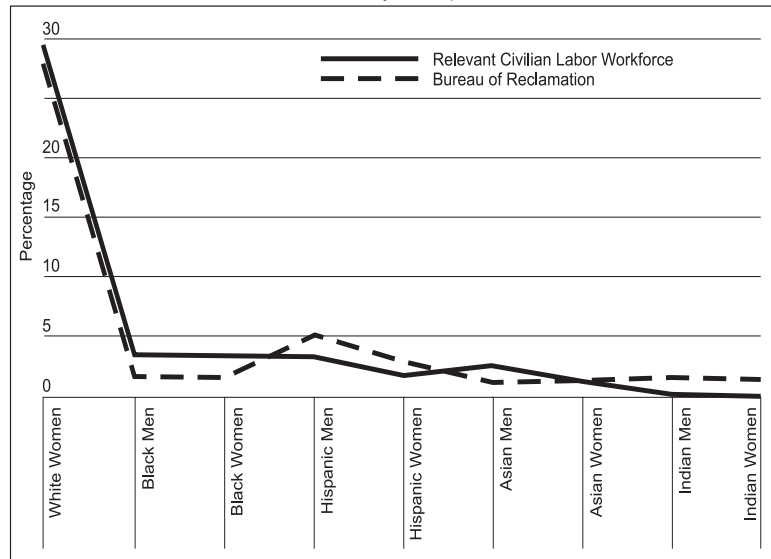


Figure 4.—Lines compare Reclamation’s employee diversity with that in the civilian workforce.

Representation of Most Diverse Occupations

“Most diverse” is defined as occupations with close to 100 or more employees with representation across all groups. The most diverse occupations in Reclamation are: 301 Miscellaneous Administration and Program, 334 Computer Specialist, 343 Management and Program Analysis, 810 Civil Engineer, 1101 General Business and Industry, and 1702 Education and Training Technician. Although White men and White women remain the most represented group in eight occupations, representation of other groups has increased. Figure 5 shows the most diverse occupations in Reclamation.

Most Diverse Occupations

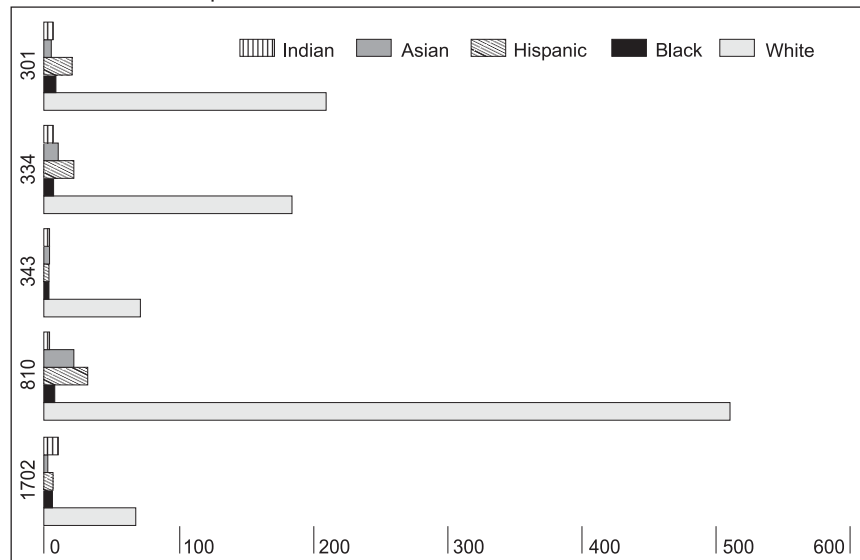


Figure 5.—Bars show comparison by race, national origin, and gender.

Targeted Disability by Quarter for FY 2001

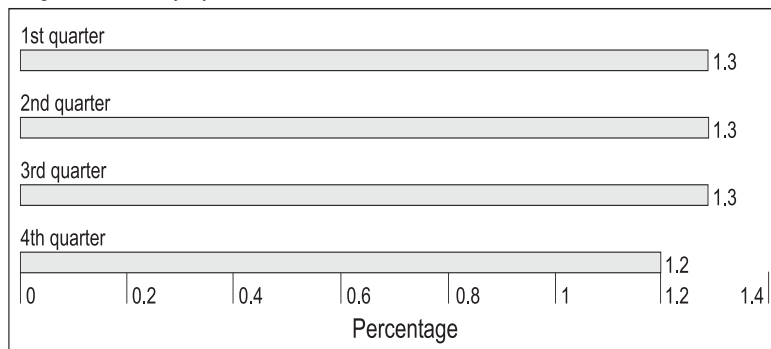


Figure 6.—Bars show percentage change on a quarterly basis.

Targeted Disability for FY 2001 Compared to Previous Years

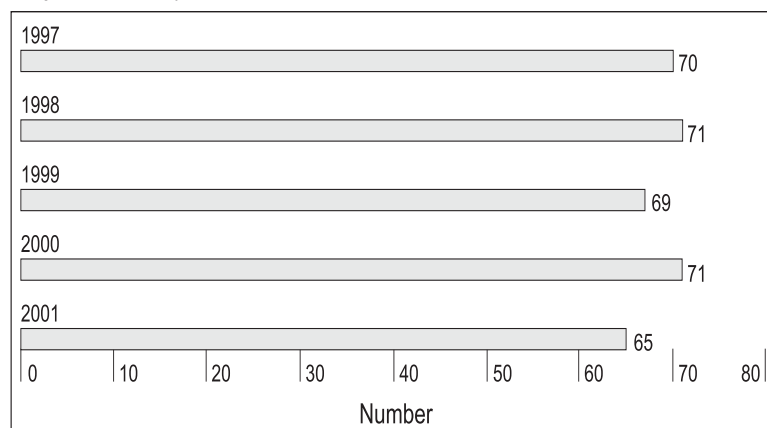


Figure 7.—Bars show the trend of targeted disability for the past 5 fiscal years.

Persons with Target Disabilities

The percentage of persons with disabilities dropped in FY 2001. Compared to the third quarter of FY 2001, the percentage decreased from 1.3 percent to 1.2; Government average is 1.2 percent. Figure 6 shows the percent of progress made per quarter. Targeted disabilities are those disabilities that make it difficult for an individual to perform one or more functional activities (e.g., deafness, blindness, missing extremities, etc.). Figure 7 shows the trend of hires for the past 5 years.

Diversity Training

Reclamation supported the Department of the Interior's Diversity Broadcast training, which took place in on April 19, 2001. Approximately 36 managers, supervisors, and employees from the Commissioner's Office and Denver Offices attended the broadcast. The regional offices received videotapes for their training library. Additionally, the Workforce Diversity and the Equal Employment Opportunity and Work Environment Groups each sponsored diversity dialogues this year.

Comments and questions about this report or its contents can be made to Ed Abreo, Bureau of Reclamation, Management Services Office, D-7710, P.O. Box 25508, Denver, CO 80225-0508.
Telephone: 303-445-3423

To receive additional copies of this report, please contact the Bureau of Reclamation, Technical Communications Group, D-8011, P.O. Box 25007, Denver, CO 80225.
Telephone: 303-445-2572

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