



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

Stronger Controls Needed Over the Bureau of Reclamation's Central Valley Project Cost Allocation and Ratesetting Processes

This is a revised version of the report prepared for public release.



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INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

AUG 12 2024

Memorandum

To: M. Camille Calimlim Touton
Commissioner, Bureau of Reclamation

Megan Olsen
Director, Office of Acquisition and Property Management

From: Nicki Miller *Nicki Miller*
Acting Assistant Inspector General for Audits, Inspections, and Evaluations

Subject: Final Audit Report – *Stronger Controls Needed Over the Bureau of Reclamation's Central Valley Project Cost Allocation and Ratesetting Processes*
Report No. 2022-WR-048

This memorandum transmits our audit report on the internal controls of the Bureau of Reclamation's (BOR's) Central Valley Project cost allocation and ratesetting processes.

We made 20 recommendations to help improve the internal controls over BOR's Central Valley Project cost allocation and ratesetting processes.

We will track open recommendations for resolution and implementation. We will notify Congress about our findings, and we will report semiannually, as required by law, on actions you have taken to implement the recommendations and on recommendations that have not been implemented. We will also post a public version of this report on our website.

If you have any questions about this report, please contact me at aie_reports@doioig.gov.

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Results in Brief

What We Audited

The Bureau of Reclamation's (BOR) Central Valley Project (CVP) is one of the largest water supply projects in the United States and provides irrigation and municipal water to much of California's Central Valley. The CVP consists of 20 dams and reservoirs, 11 power plants, and 500 miles of major canals as well as conduits, tunnels, and related facilities. Along with supplying water, the CVP has seven other authorized purposes: power, flood control, water quality, recreation, navigation, fish and wildlife enhancement, and fish and wildlife mitigation.¹ Decades ago, BOR established long-term contracts with contractors that receive water from the CVP. These contractors, which now number more than 200, consist of entities such as water, municipal, and irrigation districts; cities; counties; water companies; and farms.

These contractors are required to repay by 2030 the Federal investment to construct the CVP infrastructure; they are also required to pay for the annual cost to operate and maintain the CVP.² To facilitate repayment, BOR allocates billions of dollars in costs each year, then recoups the construction and operations and maintenance costs by establishing annual water rates that are charged to the contractors for each acre-foot³ of water used.

BOR's three area offices that primarily manage the CVP's vast infrastructure—Central California, Northern California, and South-Central California—acquire goods and services through purchase cards and contract awards to operate, maintain, and manage the land and water resources for the CVP. BOR annually allocates these costs, which are then used to calculate the annual water rate. The objective of our audit was to determine whether BOR effectively designed, implemented, and operated internal controls necessary to ensure the accuracy of the CVP cost allocation and ratesetting processes.⁴

What We Found

We found BOR did not effectively design, implement, and operate internal controls necessary to ensure the CVP's cost allocation and ratesetting processes are accurate. Specifically, BOR did not conduct oversight or develop standard operating procedures (SOPs) for the cost allocation process. We also found incomplete evidence that management performed required reviews of the ratesetting schedules, and we concluded that the ratesetting SOPs themselves were outdated and missing in some cases. In addition, we identified unsupported purchase card transactions and unprotected purchase card information. Lastly, at two of the area offices, supervisors or

¹ BOR, *Central Valley Project Final Cost Allocation Study*, Chapter 5.7 (January 2020).

² The authority for recovering the Federal investment in constructing, operating, and maintaining authorized water resources is found in the Reclamation Project Act of 1939, Pub. L. No. 76-260, 53 Stat. 1187 (1939). The Coordinated Operations Act of 1986, Pub. L. No. 99-546, 100 Stat. 3050 (1986), established a firm repayment deadline for contractors to repay all construction costs by 2030.

³ An acre-foot of water equals about 326,000 gallons, or enough water to cover an acre of land to a depth of 1 foot.

⁴ We did not conduct an independent assessment of the accuracy of the cost allocations or water rates.

managers in the field and budget analysts did not consistently approve the initiation of contract awards, which is contrary to Federal Green Book requirements.

Why This Matters

The cost to construct the CVP totaled approximately \$4.4 billion—\$1.3 billion of that amount is attributable to the authorized purpose of providing water. Currently, the contractors are responsible for repaying the unpaid balance of approximately \$7.8 million of that \$1.3 billion. In addition, the contractors must pay a proportional share of the CVP’s annual operations and maintenance costs, which is approximately \$54 million.

Given the significant Federal investment in the CVP, as well as ongoing charges to contractors, BOR must establish appropriate controls to ensure costs are accurately allocated and that water rates are established to sufficiently recoup the remaining construction costs and the ongoing costs to operate and maintain the CVP. Moreover, given outdated and, in some cases, nonexistent SOPs, BOR faces the risk that its employees will not follow existing practices and may lose institutional knowledge regarding how to perform the cost allocations and the ratesetting schedules. In addition, inadequate controls over micropurchases and the requisition process for contract awards put BOR at risk of improper, unnecessary, and fraudulent purchases.

What We Recommend

We make 20 recommendations that, if implemented, will help BOR improve its internal controls and ensure the accuracy of the CVP cost allocation and ratesetting processes.

Introduction

Objective

The objective of our audit was to determine whether the Bureau of Reclamation (BOR) effectively designed, implemented, and operated internal controls necessary to ensure the accuracy of the Central Valley Project (CVP) cost allocation and ratesetting processes.

See Appendix 1 for our audit scope and methodology.

Background

In 1937, BOR began construction on one of the largest water supply projects in the United States, the CVP, located in California. In 1978, BOR completed construction on this project. The CVP now provides irrigation and municipal water to much of California's Central Valley, and enough water to irrigate one-third of the agricultural land in California and to supply 1 million households with their water needs each year. The CVP consists of 20 dams and reservoirs, 11 power plants, 500 miles of major canals, as well as conduits, tunnels, and related facilities (see Figure 1 for a map of the CVP).⁵

For the authorized purpose of supplying water, BOR has established long-term contracts with over 200 contractors that receive water from the CVP; BOR refers to these contractors as irrigation and municipal and industrial (M&I) contractors.⁶ The contractors are responsible for repaying the portion of the CVP's construction costs dedicated to water supply and, thus far, have repaid all but \$7.8 million of the \$1.3 billion, as we describe in more detail subsequently.⁷ The contractors are also required to pay for the annual cost to operate and maintain the CVP.⁸ BOR recoups the remaining construction costs and the annual operations and maintenance costs from contractors by establishing annual water rates that are charged to the irrigation and M&I contractors for each acre-foot⁹ of water used. See Figure 3 and "Cost Allocation and Ratesetting Processes" for how the water rates are determined.

⁵ Along with supplying water, the CVP has seven other authorized purposes: power, flood control, water quality, recreation, navigation, fish and wildlife enhancement, and fish and wildlife mitigation. BOR, *Central Valley Project Final Cost Allocation Study*, Chapter 5.7 (January 2020).

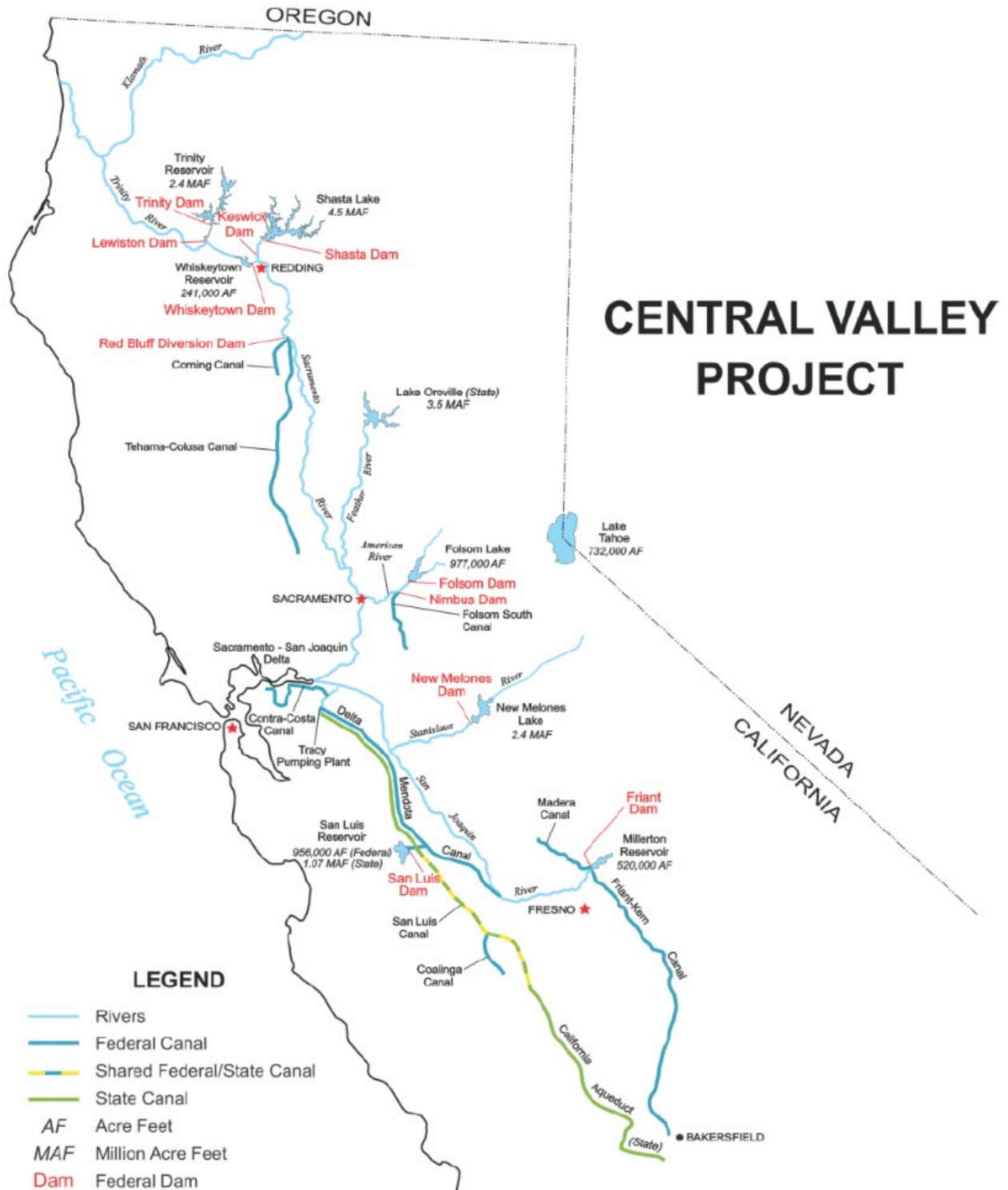
⁶ While irrigation contractors utilize CVP water to irrigate farms, M&I contractors supply water to cities and towns.

⁷ According to BOR draft data from September 30, 2022, which was finalized on December 30, 2023.

⁸ The authority for recovering the Federal investment in constructing, operating, and maintaining authorized water resources is the Reclamation Project Act of 1939, Pub. L. No. 76-260, 53 Stat. 1187 (1939). The Coordinated Operations Act of 1986, Pub. L. No. 99-546, 100 Stat. 3050-56 (1986), established a firm repayment deadline for contractors to repay all construction costs by 2030.

⁹ An acre-foot of water equals about 326,000 gallons, which is equivalent to the amount of water needed to cover an acre of land to a depth of 1 foot.

Figure 1: Map of the CVP



Source: BOR.

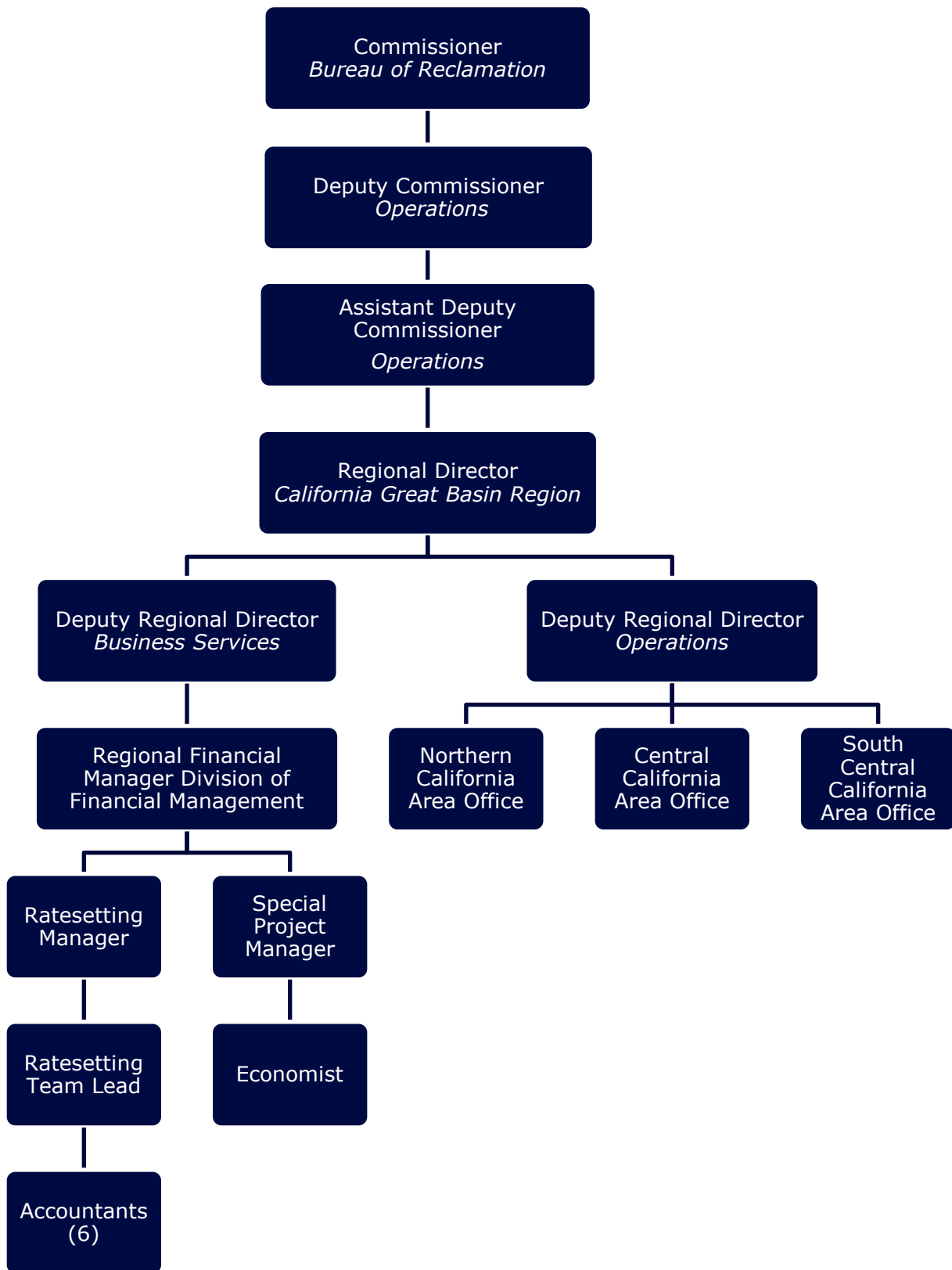
California Great Basin Region's Management of the CVP

Within the BOR California Great Basin Region, the Northern California, Central California, and South-Central California area offices are primarily responsible for operating, maintaining, and managing the land and water resources for the CVP's vast infrastructure. In doing so, these area offices incur costs by acquiring goods and services through purchase card transactions and contract awards. Such purchases include tools, materials, and equipment needed to maintain, repair, and replace the infrastructure; other purchases are information technology equipment, licensures, training courses, and personal protective equipment. Ultimately, the California Great Basin's Division of Financial Management (DFM) uses these and other costs, such as labor costs, to establish annual water rates.

The DFM is responsible for (1) allocating the total cost to construct and annually operate and maintain the CVP and (2) establishing annual water rates to recoup the costs from its contractors. The DFM has a designated ratesetting team that oversees the ratesetting process used to determine water rates; the team includes a Ratesetting Manager, Team Lead, and six accountants. The DFM also has a single Economist, who is responsible for the CVP annual cost allocations. According to the Economist, he uses the allocation percentages established in the January 2020 *Central Valley Project Final Cost Allocation Study*,¹⁰ among other factors, as well as his judgment to determine how costs are allocated. The Regional Financial Manager leads the DFM. Figure 2 shows the organization of the Great Basin Region's DFM and area offices.

¹⁰ BOR's study is available at: <https://www.usbr.gov/mp/cvp/docs/cvp-final-cost-allocation-study-2020.pdf>.

Figure 2: California Great Basin Region Organization

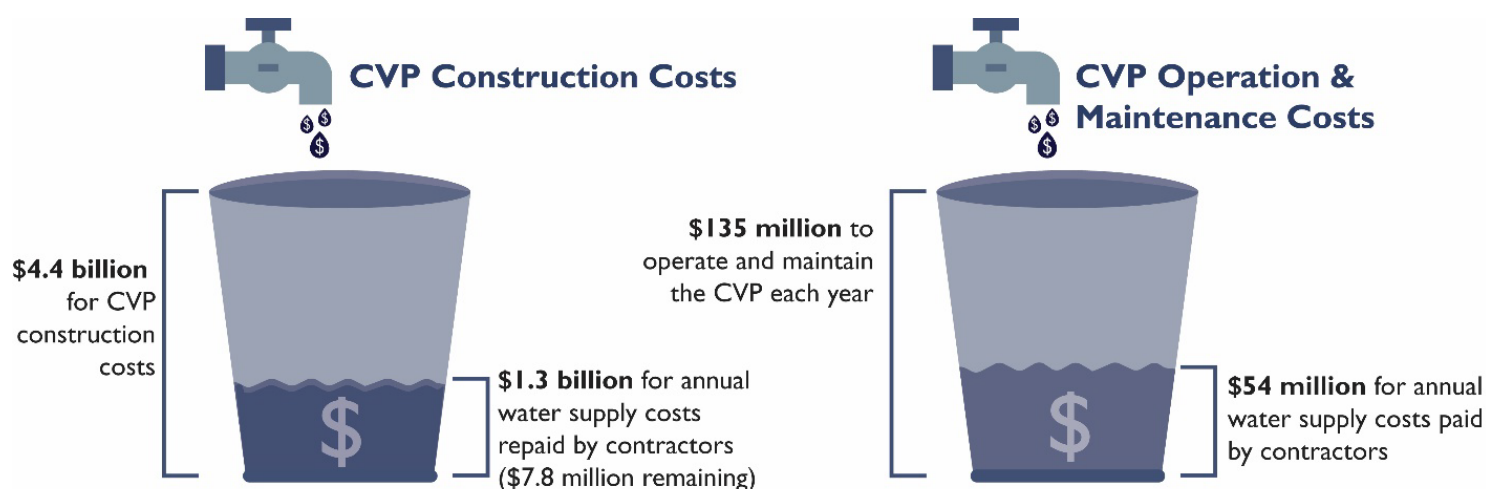


Cost Allocation and Ratesetting Processes

To determine water rates, BOR undergoes two processes annually: a cost allocation process and a ratesetting process. First, during the cost allocation process, the DFM Economist allocates the total CVP construction costs and the annual operations and maintenance costs to the CVP's eight authorized purposes. As part of this process, the Economist also allocates water supply costs¹¹—one of the eight authorized purposes—to BOR's irrigation and M&I contractors.

BOR reported that, from 2020 through 2022, it on average annually allocated approximately \$4.4 billion in total construction costs—\$1.3 billion of which was for the authorized purpose of water supply and was allocated to its irrigation and M&I contractors. CVP contractors must repay this \$1.3 billion by 2030; according to BOR data,¹² \$7.8 million remains to be paid. Additionally, from 2020 through 2022, BOR annually allocated approximately \$135 million in total projected¹³ operations and maintenance costs—\$54 million of which was for the authorized purpose of water supply and was allocated to its irrigation and M&I contractors.

Figure 3: Monetary Breakdown of Approximate Allocated CVP Construction and Operation and Maintenance Costs



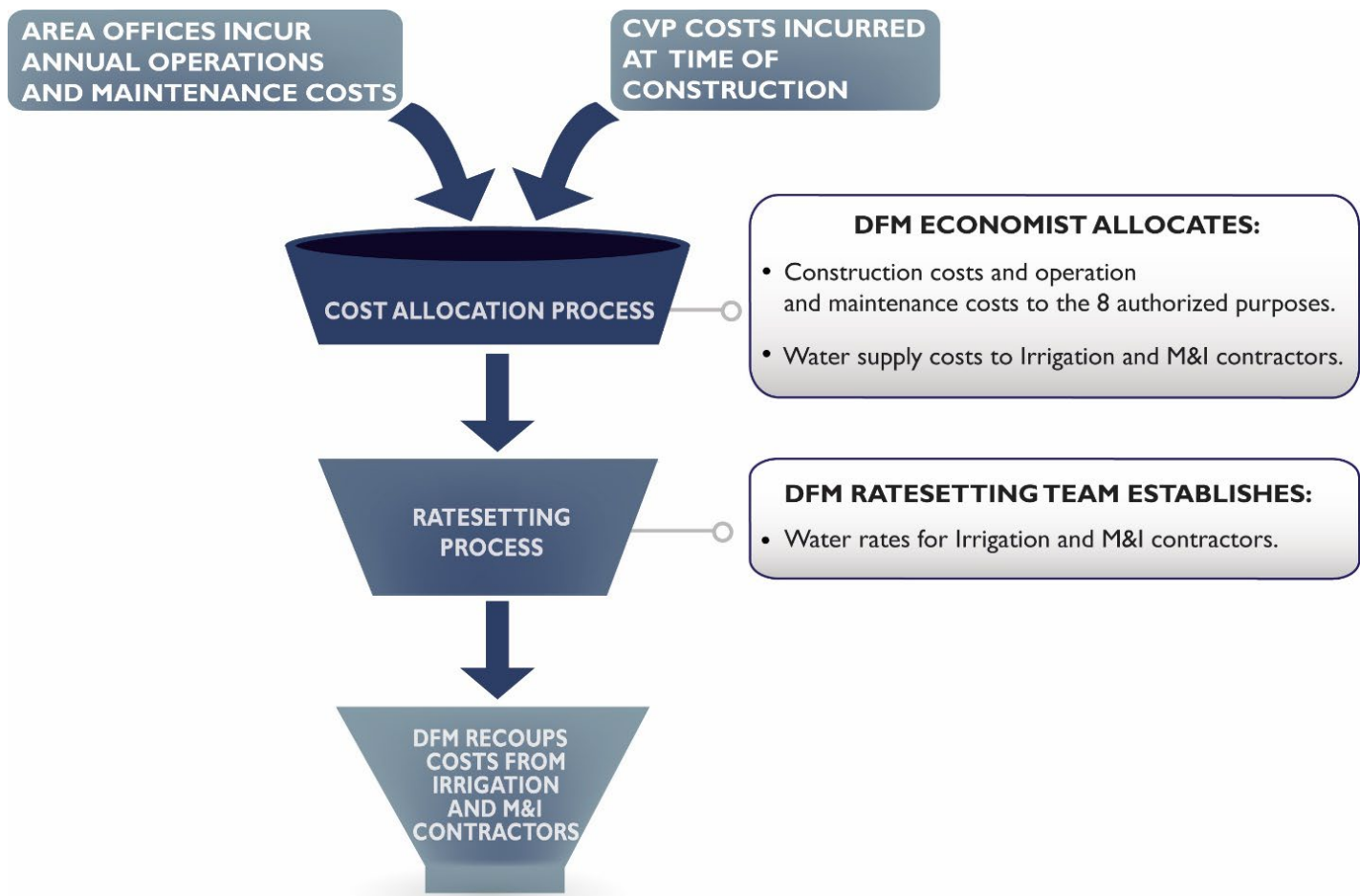
Once the costs have been allocated, the DFM ratesetting team establishes annual water rates. The ratesetting team uses the irrigation and M&I allocated costs to calculate a rate to charge contractors and recoup outstanding capital costs to construct the CVP and the annual cost to operate and maintain it. See Figure 4 for an overview of the cost allocation and ratesetting process.

¹¹ According to the Economist, the water supply costs include the cost of water and the power the CVP uses to move the water supply—both of which the irrigation and M&I contractors are responsible for paying.

¹² This draft data from September 30, 2022, was finalized on December 30, 2023.

¹³ According to DFM officials, BOR uses projected operations and maintenance costs to establish water rates and later adjusts those costs to reflect the actual operations and maintenance costs.

Figure 4: The CVP Annual Cost Allocation and Ratesetting Processes



Relevant Policies and Procedures

The U.S. Government Accountability Office's *Standards for Internal Control in Federal Government* (the "Green Book") provides criteria for designing, implementing, and operating an effective internal control system. As a Federal agency, BOR is required to establish internal controls in accordance with these standards. We therefore used the Green Book to evaluate the internal controls over the ratesetting and cost allocation processes to ensure it meets these Federal standards, which are intended to improve accountability in achieving an entity's mission.

BOR also developed 27 standard operating procedures (SOPs) for its ratesetting process to explain how to perform the calculations in the 55 ratesetting schedules that are used to calculate the annual water rates. Additionally, for purchase card transactions, which feed into the ratesetting process, BOR is subject to the Department's *Purchase Card Program Policy*,¹⁴ which establishes tools for procuring supplies and services under the micropurchase threshold, as well

¹⁴ U.S. Dep't of the Interior, *U.S. Department of the Interior Purchase Card Program Policy*, established by DOI-AAAP-0156, *Department of the Interior Acquisition, Arts, and Asset Policy* (2021).

as its own March 2023 *Purchase Business Line Requirement Handbook* (the “PURLBOOK”), which provides guidance specific to BOR to cardholders on the use of purchase cards.

Results of Audit

We found BOR did not effectively design, implement, and operate internal controls necessary to ensure the CVP cost allocation and ratesetting processes were accurate. Specifically, internal control deficiencies existed in both the cost allocation and ratesetting processes. We also identified weaknesses in the processes for incurring CVP costs through purchase card and contract awards.¹⁵ Such weaknesses could lead to inaccurate costs, which are factored into the cost allocation process and could therefore ultimately lead to inaccurate water rates. In particular, we noted:

- **Deficient internal controls over the cost allocation process.** Management did not review any work performed to calculate the annual cost allocations, and SOPs on how to perform the cost allocations did not exist.
- **Insufficient internal controls over the ratesetting process.** There was incomplete evidence that management performed reviews on the ratesetting schedules, and in some cases, the SOPs were outdated or non-existent.
- **Deficient internal controls over purchase card transactions.** BOR did not comply with U.S. Department of the Interior, BOR, and local area offices policies and procedures, as we found unsupported micropurchase transactions, unprotected purchase card information, as well as an improper payment that resulted in questioned costs of \$1,685.
- **Absences of approvals for contract awards.** The local area offices did not consistently require or use purchase requisition forms, resulting in supervisors and budget analysts not consistently approving contract awards to ensure purchases were allowed and justified and funds were available for the purchases.

BOR Did Not Establish Internal Controls Over the Cost Allocation Process

BOR did not effectively design, implement, and operate internal controls over the calculations for the annual allocations of construction costs and operations and maintenance costs. Specifically, we determined that BOR did not conduct management reviews over the cost allocations or develop SOPs providing instruction for how to perform the cost allocations. In fact, as to some key issues, BOR had no policies or procedures in place to provide guidance to its staff and instead relied solely on historical practice and individual employee determinations to make complex decisions regarding overall allocation decisions.

¹⁵According to Federal Acquisition Regulation (FAR) § 4.601, a contract means an oral or written action that results in the purchase, rent, or lease of supplies and equipment, services, or construction using appropriated dollars over the micropurchase threshold (\$2,000 for construction, \$2,500 for services, and \$10,000 for supplies). Unlike the water contracts, these contract awards are subject to the FAR.

No Reviews of the Annual Cost Allocations

According to the Green Book, Principle 10.03, an organization's management should design appropriate types of control activities for the entity's internal control system to include reviews of performance "at the functional or activity level." Reviews of performance help management fulfill responsibilities and address identified risk responses in the internal control system. Notwithstanding these requirements, we found that no one reviewed the work performed to calculate the annual cost allocations. In particular, the Economist manually generated the cost allocations primarily in two spreadsheets—one for construction and one for operations and maintenance—without anyone reviewing his work for accuracy or otherwise.

These annual cost allocation spreadsheets were very complex and contained extensive, detailed information, creating the potential for mistakes to occur. For example, the annual construction cost allocation spreadsheet had approximately 87 separate worksheets containing, in some cases, hundreds of line items. These worksheets required manual inputs from a variety of sources and contained numerous formulas within and between each worksheet. The construction allocation spreadsheet also incorporated the results of calculations from other CVP spreadsheets performed by the Economist. There was no management or peer review of any of this work.

Similarly, we found that no review—whether by manager or peer—occurred of the Economist's work on the operations and maintenance costs allocation spreadsheet, which contains 17 separate worksheets. For example, in one of those worksheets, the Economist manually went through the operations and maintenance costs for each line-item description and used his judgment and expertise to determine the best way to allocate the costs; no one reviewed, however, the Economist's rationales for these decisions, which were in the spreadsheets. Further, we found that, in 65 out of 300 line items for a single worksheet, the Economist included questions regarding his predecessor's rationale for how costs were allocated. The Economist explained that, when he inherited the spreadsheet, he maintained the allocation rationale that his predecessor used but highlighted the line items he wanted to research further to ensure the line items were allocated appropriately. For example, for one highlighted line-item description, "Folsom Public Safety, Protection of Land," the predecessor's basis for the associated allocation decision was that the cost was nonreimbursable and so should not be included in the calculation.¹⁶ While the predecessor's basis may be correct, the Economist explained that he was unsure why the line item was considered nonreimbursable. The fact that the Economist had questions regarding the basis for some of the allocations suggests that a management review of the Economist's rationales would be valuable. This is particularly true given that the Economist's allocations affect billions of dollars.

We acknowledge that the spreadsheets had numerous internal checks that were put in place in an effort to provide assurance that all numbers were accounted for and reconciled to source data. For example, in the operation and maintenance cost allocation spreadsheet, to ensure costs were entered correctly from the source document, the Economist included a formula that would subtract the detailed input of costs from the total costs; a zero would indicate that the detailed cost tied to the total costs and would visually confirm to the Economist that the input was

¹⁶ According to the BOR manual, *Directives and Standards* (BGT 04-02), nonreimbursable costs are the portions of the project costs the Federal Government pays that are not required to be repaid.

correct. However, such internal checks do not replace the need for work to be independently reviewed because, although the internal check verifies that equations are mathematically correct, the checks do not verify that the determinations made to allocate costs are accurate.

We found that the absence of reviews and the resulting reliance on the judgment of a single employee occurred, in part, because BOR did not have policies in place requiring management to review the cost allocations. This approach is inconsistent with the Green Book, which specifically states in Principle 12.01 that management should have policies that document responsibilities. When we asked the Economist's manager why no one reviewed the cost allocations, he told us that BOR has a vacancy for a junior economist that needs to be filled. Once the position is filled, the manager stated that the current Economist would review the junior economist's work. The manager added that, in the interim, he would start reviewing the Economist's annual cost allocations. While we acknowledge that additional staff would likely be beneficial and could help address the need for levels of review, it is also necessary to establish guidance for clear review processes and how, for example, questions or disagreements can be addressed and resolved. As it is, there is no defined process in place to address, for example, the questions the current Economist has raised regarding his predecessor's justifications.

Lack of Standard Operating Procedures

According to the Green Book, Principle 12.03, management for each unit should document the unit's responsibility in policies "for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness." Principle 12.04 also states, "Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process." Thus, having SOPs is important to provide detailed instruction on how to perform a specific task. Further, SOPs can help ensure critical institutional knowledge is documented and retained, despite staff fluctuations and turnover.

Despite the importance of such guidance, we found that BOR did not have any SOPs that provided instruction for performing the cost allocations. Additionally, the Economist is currently the only employee at BOR who knows how to perform the allocations. The Economist acknowledged that, if he were to leave BOR, his knowledge of how to perform the cost allocation would be lost because of the absence of written guidance.

As described previously, performing cost allocations involves intricate and complex calculations and relies on one official's judgment in making decisions how the costs are allocated. Also, as described previously, the construction cost allocation spreadsheet contains approximately 87 worksheets, with most of them feeding into one worksheet that is used to calculate the annual cost allocation. However, BOR currently has no written procedures or other guidance explaining how this process is or should be performed. There is, for example, no explanation regarding any of the worksheets that describes the purpose of the worksheet, the relevant calculations, or how the worksheets flow into the annual cost allocation worksheet. On this point, two worksheets documented a number of costs that needed to be removed from the allocation; however, there was no explanation as to why these costs needed to be removed or how to do so. Instead, BOR relies solely on the historical knowledge of the Economist to make and implement these decisions.

We asked the Economist's manager why there were no SOPs in place for the annual cost allocation process. The manager told us that staffing shortages have prevented BOR from formalizing SOPs for the cost allocation processes. Given the complexity of the allocation and the fact that a single employee currently has the knowledge to perform the allocations, developing written SOPs is of high importance and is necessary to define the cost allocation process. Further, when BOR hires a junior economist, having SOPs in place will assist that person in learning the cost allocation processes.

Impact of Lack of Internal Controls

Without proper internal controls, BOR is at risk of erroneously allocating millions of dollars, which could result in contractors paying either a higher or lower water rate than necessary. If contractor water rates are set too low, taxpayers would absorb the excess costs. If they are set too high, the contractors will be required to pay amounts beyond those that are properly required. Moreover, with no SOPs in place and only one official with knowledge of how to allocate costs, there is a significant potential for the loss of institutional knowledge, which could significantly disrupt BOR's processes for establishing the water rate and, ultimately, recovering costs.

Recommendations

We recommend that BOR:

1. Perform an independent review of future allocation calculations for construction costs and operations and maintenance costs to ensure the allocations are accurate and reasonable.
2. Develop and implement policies and procedures that require an independent review of all aspects of the allocation calculations for construction costs and operations and maintenance costs to ensure the allocations are accurate and reasonable.
3. Develop and implement standard operating procedures that provide detailed instructions on all aspects of calculating allocations for construction costs and operations and maintenance costs.

BOR Did Not Establish Sufficient Internal Controls Over the Ratesetting Process

We found that BOR should improve its internal controls over calculating the annual water rates charged to recover the Federal investment in constructing, operating, and maintaining the CVP. In order to calculate the annual water rates, BOR annually updates 55 ratesetting schedules¹⁷ that

¹⁷ Ratesetting schedules establish the official water rates applicable to all water contractors for the forthcoming year. For example, 2 of the 55 ratesetting schedules are updated to put the total construction costs into cost pools, such as storage, pumping, and conveyance.

are completed through various spreadsheets. Although BOR developed 27 SOPs to explain how to perform the calculations in these schedules, we found some of the SOPs were outdated, and SOPs did not exist for two schedules. We also found that there was only limited evidence demonstrating that a peer or supervisor reviewed the ratesetting spreadsheets as required in the SOPs.

Limited Evidence of Reviews Over Ratesetting Schedules

According to the Green Book, documentation is a necessary part of an effective internal control system.¹⁸ In particular, developing and maintaining appropriate documentation provides evidence that specific tasks were—or were not—completed, which can in turn help with identifying and addressing deficiencies or errors. Notwithstanding these requirements, we found that BOR kept only limited evidence documenting that it performed reviews for each ratesetting schedule to ensure that the input and calculation in the schedules were accurate; as a result, it was unclear whether all the schedules had been independently reviewed.

BOR SOPs require that first a peer and then a supervisor review all ratesetting schedules for accuracy. BOR staff used spreadsheets to document the completion of ratesetting schedules and who reviewed them and when. However, when we asked BOR for these review spreadsheets for 2019 through 2021, BOR was able to provide spreadsheets only for 2021 and part of 2019. Further, the spreadsheets that BOR did provide were not complete. For example, of the 55 ratesetting schedules listed to be reviewed on the 2021 review spreadsheet, 41 (75 percent) did not have any documentation demonstrating that a peer or supervisor reviewed the schedules.

We concluded that BOR did not have all review documentation because there was no established requirement to maintain this documentation. We note that, although the SOPs require a peer and a supervisor to review the schedules, the SOPs do not require that they document these reviews to show who performed the review and when. When we asked the former Ratesetting Manager why the reviews were not documented, he stated that staff did not consistently complete the review spreadsheets due to staffing shortages and the need to meet deadlines.

Outdated and Non-existent Operating Procedures

The Green Book, Principle 12.05, states that management should “periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity’s objectives or addressing related risks.” Notwithstanding this standard, we found that BOR’s ratesetting SOPs that describe how to calculate the various ratesetting often did not reflect BOR’s current practices. Specifically, we noted inconsistencies between BOR’s SOPs and the respective schedules. For example, in four of the six SOPs tested, we found two references to formulas or calculations that no longer existed in the schedules, and we identified seven instances where SOPs did not reflect worksheets that had been added to schedules. Additionally, BOR had not reviewed its SOPs to determine whether they needed to be updated, and we found that only 1 of its 27 ratesetting SOPs has been updated since 2010. Furthermore, BOR did not develop SOPs for two of the ratesetting schedules.

¹⁸ Green Book, Overview, OV4.08.

When we asked why SOPs were not updated or created, the former Ratesetting Manager told us that the SOPs did not require an update because significant changes did not occur year after year. However, based on the results of our testing, we concluded that, in fact, there have been significant changes that affect the ratesetting schedules. Furthermore, a relatively new ratesetting accountant stated that it would be helpful if the SOPs included more detail and that updating the SOPs should be a high priority because the accountants rely on the knowledge of just two or three people, one of whom is retiring. Similarly, other accountants in the ratesetting group confirmed that there were some inconsistencies between the SOPs and BOR's current processes and acknowledged that the SOPs needed to be updated.

Impact of Lack of Internal Controls

Without proper internal controls, BOR risks incorrectly calculating water rates, which could result in recovering an inadequate amount of funding from contractors to pay the Federal investment in constructing, operating, and maintaining the CVP. Alternatively, incorrect water rates could lead to the contractors paying more than necessary. In addition, without maintaining SOPs that accurately represent current ratesetting practices, BOR is relying on a small number of existing employees to maintain institutional knowledge regarding how to perform the calculations in the schedules. We note that a BOR official, who was aware of these issues, commented that the ratesetting team has experienced significant turnover and difficulties retaining staff, adding that some staff are nearing retirement. Current SOPs for all the ratesetting schedules will enable BOR to retain knowledge, maintain business continuity, and assist new staff in completing the schedules.

Recommendations

We recommend that BOR:

4. Update the ratesetting standard operating procedures to require documentation of peer and supervisor reviews that include the identity of the reviewer and the date of the review.
5. Establish and implement a policy to periodically conduct a review of the standard operating procedures and determine whether they need to be updated.
6. Update the ratesetting standard operating procedures to reflect the current process for calculating the ratesetting schedules.
7. Develop standard operating procedures for all schedules used in the ratesetting process.

BOR Did Not Establish Sufficient Internal Controls Over Purchase Card Transactions

The three area offices that primarily manage the CVP—Northern California, Central California, and South-Central California—did not effectively design, implement, or operate internal controls over their micropurchase¹⁹ transactions. Area offices made micropurchases such as warehouse lighting, safety training courses and material, trailers, and personal protective equipment. Ultimately, these costs feed into BOR’s cost allocation and ratesetting processes. Out of a population of 2,392 micropurchase transactions made in fiscal year (FY) 2022, which totaled approximately \$2.4 million, we tested 34 transactions valued at approximately \$165,000. Based on our testing, we found that:

- The area offices lacked the required documentation to sufficiently support their micropurchase transactions.
- The South-Central Area Office did not appropriately safeguard purchase card information.
- The Northern California Area Office overpaid a contractor for travel.

Unsupported Micropurchase Transactions

The Department’s *Purchase Card Program Policy* includes the following requirements for purchase card documentation:

Purchase cardholders will maintain copies of invoices, receipts, and relevant supporting documentation for all transactions to be used in the review and approval process. . . . Relevant supporting documentation for online purchases should include the packing list or shipping document, if the vendor provided, showing the items ordered were received. If no documentation was provided in the shipment, the cardholder can annotate on the receipt, purchase log, or other document the date the items were received, e.g. ‘Items received on 7/1/2021.’

BOR’s PURLBOOK requires staff to document the date of receipt for all transactions and confirm this date with the initiator of the request. The PURLBOOK also states that “receipt can be documented on any type of itemized receiving documentation such as an invoice or packing slip, e.g. ‘All items received by John Doe on MM/DD/YYYY’, on the purchase log, via email from the request initiator, or a separate memo to the file.”

The Central California Area Office’s *Micro-Purchase Standard Operating Procedures* and South-Central California Area Office’s *SCCAO Micro-Purchase Request Guide* also require direct supervisors to approve purchase requests.

¹⁹ According to FAR Subpart 2.1, a micropurchase is an acquisition of supplies or services using simplified acquisition procedures, the aggregate amount that does not exceed the micropurchase threshold of \$2,000 for construction, \$2,500 for services, and \$10,000 for supplies.

We found that BOR area office staff did not consistently maintain the required documentation to sufficiently support their micropurchase transactions. Of the 34 transactions tested, we identified deficiencies with 16 transactions (47 percent). Specifically, we found:

- For 10 transactions (approximately 30 percent of our sample selection) of shipped items, the cardholders did not maintain documentation—namely, packing lists or shipping documentation—to ensure they received ordered items. Also, for 8 of those 10 transactions, the area offices could not provide sufficient evidence documenting when the initiator of the request confirmed the receipt of the ordered items.
- For 2 transactions where items were retrieved in stores, BOR did not maintain sufficient evidence confirming the date when BOR officials retrieved the items.
- For 4 transactions where supervisory approval was required, supervisory approvals authorizing the purchase were missing.

BOR staff likely did not comply with Department policy regarding documentation because the BOR's PURLBOOK is inconsistent with the Department's own policy. While the Department's policy requires that cardholders maintain packing lists or shipping documentation, the PURLBOOK does not have such a requirement. That is, notwithstanding that BOR must comply with the Department's own policy, the lack of this detail within the PURLBOOK made it less likely that staff would abide by the Department's requirements.

In addition, BOR staff did not maintain sufficient evidence confirming the date when the purchase initiator received the items ordered because the Department and BOR's policies are unclear on how this should be documented. Specifically, both policies permit multiple ways to document the date of receipt of goods, such as through a receipt, email, purchase log, or other documents. BOR officials stated that they were adhering to policy by having the purchase cardholders document the date of receipt on the purchase log, which, according to both policies, was acceptable. However, there was no specific evidence that the recipients actually received the items, such as an email or annotation on a receipt.²⁰

Lastly, we concluded that approvals were missing because officials at the Central California and the South-Central Area Offices did not follow their own local procedures and guidelines in making requests for micropurchases. Specifically, for the Central California Area Office, supervisor approvals were missing because employees did not follow its purchase requisition process as set forth in its *Micro-Purchase Standard Operating Procedure* and properly complete the required purchase requisition form. For the South-Central California Area Office, the requesters' supervisors did not approve transactions because requesters did not use the office's required micropurchase request form as required by the South-Central Area Office's *SCCAO Micro-Purchase Request Guide*.

²⁰ According to the Department's Charge Card Program Manager, the Department's intention with its policy was not for BOR to use the purchase card log as the only evidence for supporting the date of receipt. Rather, the intention of the policy was for the bureaus and offices to maintain the highest level of documentation when it comes to date of receipt requirements, such as an email, notation on an invoice or packing slip, or memo to the file and using the purchase card log would only occur if those options failed.

Recommendations

We recommend that the Department of the Interior:

8. Revise the Department's *Purchase Card Program Policy* to clarify that the supporting documentation for the date of receipt of goods include evidence, such as an email or annotation on a receipt, that the recipient received the items purchased.

We recommend that BOR:

9. Implement the requirement for maintaining packing slips and shipping documentation to support micropurchase transactions as established in the Department's *Purchase Card Program Policy*.
10. Revise the *Purchase Business Line Requirement Handbook* to:
 - (a) Align with the requirement that cardholders maintain copies of packing lists or shipping documents for all micropurchase transactions as established in the Department's *Purchase Card Program Policy*.
 - (b) Reflect the changes made to the Department's *Purchase Card Program Policy* regarding supporting documentation requirements for the date or receipt.
11. Develop a mechanism to enforce the use of the Central California Area Office's micropurchase request form and ensure the form has the required approvals.
12. Develop a mechanism to enforce the use of the South-Central California Area Office's micropurchase request form and ensure the form has the required approvals.

Unprotected Purchase Card Information

According to the *Department of the Interior Charge Card Program Agreement of Responsibilities*, cardholders are required to certify that they will properly use and safeguard all Government purchase cards. Cardholders must also certify that they will take appropriate precautions comparable to those they would take to secure their own personal checks, credit cards, or cash. In addition, both the *Department of the Interior Charge Card Program Agreement of Responsibilities* and the PURLBOOK prohibit anyone other than the cardholder from using the purchase card.

Despite these requirements, the South-Central Area Office inappropriately allowed a store to keep Government purchase card information on file at the store for employees to make purchases—a practice that puts the Government at risk of fraudulent purchases and misuse of card information. In one transaction in our sample, we noted that someone other than the

purchase cardholder signed the receipt for protective footwear from a local store. In interviews with store managers, we learned that multiple purchase cards for BOR were kept on file at the store and that whichever BOR employee made a purchase at the store signed the receipt, regardless of whether the employee was the cardholder for the card on file. According to one store manager, BOR employees would bring an authorization form to the store, purchase the protective footwear, and store employees would simply charge one of BOR's purchase cards on file. Another store manager told us BOR employees would pick out their protective footwear and tell the store associate which card on file to charge the purchase, and the store employees would then call BOR and verify the use of the card on file.

This occurred because the Department's purchase card policy and, ultimately, the PURLBOOK do not expressly prohibit the storing of purchase card information at stores. However, the Department's Charge Card Program Manager told us that storing purchase card information at stores was not appropriate and puts the Government at too much risk.

Recommendations

We recommend that the Department of the Interior:

13. Revise the Department's *Purchase Card Program Policy* to expressly prohibit storing purchase card information at stores.

We recommend that BOR:

14. Discontinue the South-Central Area Office's current practice of allowing purchase card information to be kept at stores.
15. Notify all area office cardholders that storing purchase card information at stores is not permitted.
16. Revise the *Purchase Business Line Requirement Handbook* to reflect any future changes made to the Department's *Purchase Card Program Policy* regarding prohibiting the storage of purchase card information at stores.

Overpayment of Micropurchase Transaction

Out of the 34 micropurchase transactions we tested, we found 2 payments of \$1,685 that we question as potentially duplicative. BOR received two proposals and paid the corresponding two invoices—each for \$1,685, or \$3,370 total—for travel costs, including flights, hotel, meals, and car rental for instructors to conduct two separate trainings at the same location: an 8-hour training, and a 16-hour training. BOR officials informed us that they later decided to combine the training and use one instructor for both trainings. However, we determined that the costs were not adjusted accordingly. We therefore concluded that the travel charges on the invoices were at least partially duplicated, as the invoice reflected two separate trips, rather than a single trip by one instructor. BOR contacted the vendor, who stated that both \$1,685 charges were accurate, as

the total travel cost of \$3,370 for the one trip was split between the two invoices. However, we confirmed that the \$1,685 in charges on both invoices mirrored those on the proposals, which were created before the determination was made to combine the trainings. We accordingly question \$1,685 as a duplicate payment.

Insufficient Review of Micropurchase Card Transactions

Overall, we found that this overpayment as well as the unsupported micropurchases and unprotected purchase card information deficiencies described above occurred because none of the area offices routinely sampled micropurchase transactions to ensure that cardholders complied with applicable laws, regulations, policies, and procedures. The PURLBOOK requires regional purchase card coordinators to sample micropurchase transactions monthly and review them for compliance with laws, regulations, policies, and procedures. However, we found that the review that the regional purchase card coordinator performed did not consistently include verifying the documentation for the date of receipt and that shipping documentation and supervisory approvals existed to support the purchase card transactions. Given the regional purchase card coordinator's higher-level review, the number of deficiencies identified in our sample, and the fact that approving officials did not identify these issues themselves, having a requirement to routinely sample transactions at the area office level would help BOR identify deficiencies and ensure that approving officials are properly reviewing and approving transactions.

Recommendations
<p>We recommend that BOR:</p> <ul style="list-style-type: none">17. Resolve the \$1,685 in questioned costs for the two travel invoices.18. Implement routine sampling of micropurchase transactions at the Central California, Northern California, and South-Central California Area Offices to ensure compliance with applicable laws, regulations, policies, and procedures.

Impact of Lack of Internal Controls

Insufficient documentation and oversight over BOR's micropurchase transactions increase the risk that BOR may not be able to detect and appropriately respond to erroneous, improper, or illegal transactions. Because micropurchase transactions costs feed into BOR's ratesetting processes, inadequate internal controls can put BOR at risk of charging contractors an incorrect water rate.

BOR Officials Did Not Always Approve Its Contract Awards

According to the Green Book, Principle 10.10, management should build transaction control activities, such as approvals, into operational processes "to support the entity in achieving its objectives and addressing related risks." Although there are no Department-level policies

regarding approval requirements at the field level, in some instances, BOR area offices have developed their own approval processes for the initiation of contract awards, which would help to meet this Green Book requirement.

Established approval processes vary by office; for example, both the South-Central and Northern California Area Offices use a purchase requisition form to initiate and approve purchases of good and services. In these two area offices, when a need is identified, BOR field personnel, such as a mechanic or a biologist, fill out and digitally sign the purchase requisition form describing and justifying the need for a purchase. The respective field supervisor and a budget analyst then digitally approve the form.

However, notwithstanding these practices, we found that field supervisors and budget analysts within Central and South-Central California Area Offices did not always approve the initiation of contract awards. Specifically, we found that the Central California Area Office had not established an adequate approval process for contract awards, and the South-Central Area Office was not always following their approval process. Out of a population of 126 contracts awarded in FY 2022, valued at about \$25 million, we tested the purchase requisition controls in place at the area offices for 14 contracts that totaled approximately \$15 million. The sampled contract awards included awards for purchases such as laptops, replacing and repairing equipment, and diesel deliveries. These contract costs ultimately feed into BOR's cost allocation and ratesetting processes.

Of the 14 contracts tested, we found no evidence that the initiation of 6 contracts (4 from Central California and 2 from South-Central) were approved by a field supervisor or a manager to ensure the purchases were allowable or by an area office budget analyst to ensure funds were available. See Figure 5 for a summary of missing approvals by area office.

Figure 5: Awards with Missing Approvals

Area Office	Sampled Awards	Missing Approvals
Northern California	5	0
Central California	5	4
South-Central	4	2
Totals	14	6

For four of the six contract awards lacking approvals, Central California Area Office staff told us that management approves the contract awards at the beginning of each fiscal year through its annual workload planning for budget development. The process begins with first-line employees, their supervisors, and second-level managers identifying a list of anticipated contracts needed for the year. Senior managers then review this list prior to submission for the annual planning meeting. The entire management team and budget analyst review the final lists of contracts during the operating budget planning meeting; the Deputy Area Office Manager and Area Office Manager ultimately approve the list. However, none of non-information technology contracts at

the Central California Area Office in our sample were on the list of approved contract awards from the beginning of FY 2022.²¹

We determined that the Central California Area Office did not have the appropriate approvals for its purchases because, unlike the Northern California and South-Central California Area Offices, it did not have a mechanism, such as a purchase requisition form, to clearly document the description and justification for the purchase. Although BOR's Acquisition Assistance Management Division, which has the overall responsibility for acquisition policy for BOR, does not require area offices to have a purchase requisition form, such a form is a good internal control to prevent unnecessary, unauthorized, and fraudulent purchases. Using such a form helps ensure that an area office budget analyst and a supervisor in the field approve the purchase.

For two of the six contract awards lacking appropriate approvals, the South-Central Area Office in one case did not have the office's required requisition form documenting field supervisor and area office budget analyst approvals. In the other case, the requisition form did not have a budget analyst signature. Even though the South-Central Area Office used the requisition form, we found that officials did not properly follow its process for completing it.

Without proper internal controls in place over the purchase requisition process, BOR is at risk of improper, unnecessary, and fraudulent contract awards. Additionally, because contract award costs are the basis for determining the water rates charged to BOR's contractors, BOR is at risk of charging contractors an inaccurate water rate.

Recommendations

We recommend that BOR:

19. Develop and implement a mechanism, such as a purchase requisition form, to document supervisor and budget analyst approval for the initiation of contract awards at the Central California Area Office.
20. Develop a mechanism to enforce the use of the South-Central Area Office's purchase requisition form for contract awards and ensure the form has the required approvals.

²¹ While none of the sampled awards were on the FY 2022 list of approved contract awards, one sampled contract for an information technology purchase at Central California Area Office was approved because BOR has a formal requisition process in place for that category of purchases.

Conclusion and Recommendations

Conclusion

BOR needs to improve the controls over its cost allocation and ratesetting processes, as well as the controls over acquiring goods and services through purchase cards and contract awards. Control deficiencies such as missing SOPs, lack of oversight, and unsupported and unapproved purchases can impact the reliability of the cost allocation and ratesetting processes. Given the significant investment in the CVP and the significant costs associated with its operation, BOR should accordingly establish controls to ensure the accuracy of cost allocations and the costs that feed into those allocations, which in turn will ensure the appropriate water rate is established.

We make 20 recommendations to strengthen BOR's internal controls over its cost allocation and ratesetting processes, as well as its controls for acquiring goods and services. Our recommendations, if implemented, will help ensure BOR properly allocates costs and accurately establishes water rates to recoup the costs to construct the CVP and annually operate and maintain it.

Recommendations Summary

We provided a draft of this report to BOR and the Department's Office of Acquisition and Property Management (known as PAM) for review. We received management responses from four different BOR divisions:

1. The Division of Financial Management for the ratesetting and cost allocation recommendations (Recommendations 1 through 7).
2. The Acquisition Assistance Management Division for the purchase card recommendations (Recommendations 9 through 12 and 14 through 18).
3. The Central California Area Office for the recommendation related its contract awards (Recommendations 19).
4. The South-Central Area Office for the recommendation related to its contract awards (Recommendation 20).

PAM also provided comments related to the recommendations involving changes to the Department's Purchase Card Program Policy (Recommendations 8 and 13).

BOR and PAM concurred or "conditionally concurred" with 19 recommendations and did not concur with 1 recommendation. We consider Recommendations 1 through 13, 16, 17, and 20 resolved; Recommendations 14, 15, and 19 implemented, and Recommendation 18 unresolved. We determined that Recommendations 1, 3, 6, and 7 are significant and will be reported as such in our semiannual report to Congress in accordance with the Inspector General

Act.²² Below, we summarize BOR's and PAM's responses to our recommendations, as well as our comments on their responses. In its response, BOR requested several changes to the report. We reviewed the requests and determined that no changes to the report were necessary. See Appendix 3 for the full text of BOR's and PAM's responses; Appendix 4 lists the status of each recommendation.

We recommend that BOR:

1. Perform an independent review of future allocation calculations for construction costs and operations and maintenance costs to ensure the allocations are accurate and reasonable.

BOR Response: BOR concurred with the recommendation and stated that "internal review processes will be established for the annual cost allocation deliverables." BOR provided a target implementation date of March 31, 2025.

OIG Comment: Based on BOR's response, this recommendation is resolved and will be considered implemented once BOR provides documentation showing that it has performed an independent review of future allocation calculations for construction costs and operations and maintenance costs.

2. Develop and implement policies and procedures that require an independent review of all aspects of the allocation calculations for construction costs and operations and maintenance costs to ensure the allocations are accurate and reasonable.

BOR Response: BOR concurred with the recommendation and stated that "policies and procedures related to the review of the annual cost allocation processes will be developed." BOR provided a target implementation date of March 31, 2025.

OIG Comment: Based on BOR's response, this recommendation is resolved and will be considered implemented once BOR provides documentation showing that it has developed and implemented policies and procedures requiring an independent review of the allocations.

3. Develop and implement standard operating procedures that provide detailed instructions on all aspects of calculating allocations for construction costs and operations and maintenance costs.

BOR Response: BOR concurred with the recommendation and stated that it will develop SOPs for the annual cost allocation. BOR provided a target implementation date of March 31, 2025.

²² The Inspector General Act of 1978, 5 U.S.C. § 405(b), requires inspectors general to prepare semiannual reports summarizing OIG activities during the immediately preceding 6-month periods ending March 31 and September 30. It also states that these semiannual reports should include an identification of each "significant recommendation" described in previous semiannual reports on which corrective action has not been completed.

OIG Comment: Based on BOR's response, this recommendation is resolved and will be considered implemented once BOR provides us with the SOPs as described in our recommendation.

4. Update the ratesetting standard operating procedures to require documentation of peer and supervisor reviews that include the identity of the reviewer and the date of the review.

BOR Response: BOR concurred with the recommendation and stated that it will update the SOPs for all schedules while working on current accounting and rate schedules. BOR provided a target implementation date of March 31, 2025.

OIG Comment: Based on BOR's response, this recommendation is resolved and will be considered implemented once BOR provides us with updated SOPs that require documentation of peer and supervisor reviews that include the identity of the reviewer and the date of the review.

5. Establish and implement a policy to periodically conduct a review of the standard operating procedures and determine whether they need to be updated.

BOR Response: BOR concurred with the recommendation and stated that it will establish and implement a policy to periodically review SOPs. BOR provided a target implementation date of March 31, 2025.

OIG Comment: Based on BOR's response, this recommendation is resolved and will be considered implemented once BOR provides us with a policy that requires a periodic review of the SOPs.

6. Update the ratesetting standard operating procedures to reflect the current process for calculating the ratesetting schedules.

BOR Response: BOR concurred with the recommendation and stated that it will update SOPs while working on current accounting and rate schedules. BOR provided a target implementation date of March 31, 2025.

OIG Comment: Based on BOR's response, this recommendation is resolved and will be considered implemented once it provides us with updated SOPs that reflect the current process for calculating the ratesetting schedules.

7. Develop standard operating procedures for all schedules used in the ratesetting process.

BOR Response: BOR concurred with the recommendation and stated that it will develop SOPs for all schedules while working on the current accounting and rate schedules. BOR provided a target implementation date of March 31, 2025.

OIG Comment: Based on BOR's response, this recommendation is resolved and will be considered implemented once BOR provides us with SOPs for all schedules used in the ratesetting process.

We recommend that the Department of the Interior:

8. Revise the Department's *Purchase Card Program Policy* to clarify that the supporting documentation for the date of receipt of goods include evidence, such as an email or annotation on a receipt, that the recipient received the items purchased.

Department Response: PAM concurred with recommendation and stated that draft revisions have been made to the Department's *Purchase Card Program Policy* to clarify the supporting documentation requirements for the date of receipt of goods. PAM added the following language to the draft policy:

If the items purchased by a cardholder were shipped to another employee's different location (field site, remote work/telework site), the employee receiving the items should email the purchase cardholder when the items are received and attach a scanned copy of any packing lists or shipping documents, if the vendor provided. The purchase cardholder will then upload a copy of the email and any attachments into CTMS [the transaction management system] or the bureau-approved automated purchase card log.

PAM provided a target implementation date of August 1, 2024.

OIG Comment: Based on PAM's response, this recommendation is resolved and will be considered implemented once it provides us with the finalized *Purchase Card Program Policy*.

We recommend that BOR:

9. Implement the requirement for maintaining packing slips and shipping documentation to support micropurchase transactions as established in the Department's *Purchase Card Program Policy*.

BOR Response: BOR "conditionally concurred" with the recommendation. BOR acknowledged that the purpose of both shipping documentation and annotating the date of receipt is to confirm that the Government received its purchases. According to BOR, the Department's and BOR's policies offer multiple options for achieving this objective because of the innumerable purchasing scenarios, such as online, instore, self-generated, and shipping locations. BOR further stated that the current Departmental policy embodies the balance of Appendix B to OMB Circular A-123, *A Risk Management Framework for Government Charge Card Programs*, for improving efficiency and effectiveness of Government operations by establishing reasonable internal controls to reduce administrative cost and time for purchasing. BOR stated:

The current DOI policy embodies this balance by providing flexibility while understanding that the objective is to simply prove that the government received its purchase in whole. For example, DOI policy states “Relevant supporting documentation for online purchases should include the packing list **or** shipping document, if the vendor provided, showing the items ordered were received. If no documentation was provided in the shipment, the cardholder can annotate on the receipt, purchase log, or other document the date the items were received.”

BOR also stated that it did not concur with the finding that shipping documentation was missing for 10 micropurchase card transactions because (1) there was no requirement for cardholders to document if the purchase was made online or instore, so an outside party cannot verify if a packing list would have been expected; and (2) it was indeterminate if shipping documentation was provided, making this “an immaterial auditing point focused on assumption.” BOR stated that it confirmed the date of receipt for the 10 transactions in question, finding only 1 transaction missing confirmation of receipt on the cardholders’ purchase card log, which has since been corrected. Therefore, BOR stated it was in line with the Department’s policy when no shipping documentation is provided, and it also supports OMB Circular A-123’s direction for agencies to reduce administrative costs.

BOR states it:

will implement upon revision to the Departmental policy which clearly states that packing slips/shipping documentation is required to be maintained and provide examples of how it is a verifiable audit point. [Current DOI policy states, “if vendor provided”] Prior to the revision of the DOI policy the bureau will implement as a best practice.

BOR provided a target implementation date of September 30, 2024.

OIG Comment: We consider this recommendation resolved based on BOR’s response that it will implement this recommendation once the Department issues its updated policy and will implement it as a best practice in the meantime. BOR stated that its concurrence was conditional on the Department revising its policy to clearly state that shipping documentation is required. The Department’s *Purchase Card Program Policy* requires that the cardholder maintain shipping documentation, if provided, and maintain other forms of documentation when shipping documentation is not provided. Additionally, the updates to the Departmental policy that the Department proposes in response to Recommendation 8 will further clarify this requirement.

Conversely, the BOR policy is not as clear and simply states that cardholders can document receipt on the purchase log using any type of itemized receiving documentation via email from the requestor or a separate memo to the file. As a result, we found that the only supporting documentation for some transactions were annotations on the purchase log by the cardholder rather than the receiver. We determined that this was insufficient to

confirm receipt because, without documentation from the receiver, the cardholder would not have evidence that the items ordered were received.

This recommendation will be considered implemented once BOR provides us with documentation showing that it has updated its policies to maintain packing slips and shipping documentation to support micropurchase transactions as established in the Department's *Purchase Card Program Policy*.

10. Revise the *Purchase Business Line Requirement Handbook* to:

- (a) Align with the requirement that cardholders maintain copies of packing lists or shipping documents for all micropurchase transactions as established in the Department's *Purchase Card Program Policy*.
- (b) Reflect the changes made to the Department's *Purchase Card Program Policy* regarding supporting documentation requirements for the date or receipt.

BOR Response: BOR “conditionally concurred” with the recommendations.

For Recommendation 10(a), BOR stated that it “will revise the PURLBOOK to adopt Department policy based on its dictation versus intention. Where there is room for interpretation at the bureau level, Reclamation will ensure that efficiency and reduction of redundancies is incorporated as directed by A-123.” BOR provided a target implementation date of September 30, 2024.

For Recommendation 10(b), BOR stated that the Department updated the *Purchase Card Program Policy* as follows:

If the items purchased by a cardholder were shipped to another employee's different location (field site, remote work/telework site), the employee receiving the items should email the purchase cardholder when the items are received and attach a scanned copy of any packing lists or shipping documents, if the vendor provided. The purchase cardholder will then upload a copy of the email and any attachments into CTMS or the bureau-approved automated purchase card log.

Although BOR intends to seek clarification regarding the changes, BOR stated that it will revise the PURLBOOK “to require cardholders to include additional evidence of receipt for non-self generated purchases vs. currently only requiring the cardholder to annotate the date of receipt once receiving confirmation from the receiver.” BOR provided a target implementation date of September 30, 2024.

OIG Comment: Based on BOR's response, we consider this recommendation resolved. This recommendation will be considered implemented once BOR provides us with an updated version of the PURLBOOK that aligns with the Department's *Purchase Card*

Program Policy related to maintaining shipping documentation and documentation for the date or receipt.

11. Develop a mechanism to enforce the use of the Central California Area Office's micropurchase request form and ensure the form has the required approvals.

BOR Response: BOR concurred with the recommendation. BOR stated that it "will review the need for the form and if deemed needed, we will provide office wide training on the expectations and proper use of the form." BOR provided a target implementation date of September 30, 2024.

OIG Comment: Based on BOR's response, we consider this recommendation resolved. We will consider this recommendation implemented once BOR provides documentation of its determination on the need for the micropurchase request form, and if needed, provides documentation that it has completed officewide training on the proper use of the form.

12. Develop a mechanism to enforce the use of the South-Central California Area Office micropurchase request form and ensure the form has the required approvals.

BOR Response: BOR concurred with the recommendation. BOR stated that it "will review the need for the form and if deemed needed, we will provide office wide training on the expectations and proper use of the form." BOR provided a target implementation date of September 30, 2024.

OIG Comment: Based on BOR's response, we consider this recommendation resolved. We will consider this recommendation implemented once BOR provides documentation of its determination on the need for the micropurchase request form, and if needed, provides documentation that it has completed officewide training on the proper use of the form.

We recommend that the Department of the Interior:

13. Revise the Department's *Purchase Card Program Policy* to expressly prohibit storing purchase card information at stores.

Department Response: PAM concurred with the recommendation and stated that draft revisions have been made to the Department's *Purchase Card Program Policy*. Specifically, PAM stated that the following language was added to the draft policy, "Cardholders must not store their purchase card information with brick-and-mortar vendors to avoid the potential for misuse, abuse or fraud." The Department provided a target implementation date of August 1, 2024.

OIG Comment: Based on PAM's response, this recommendation is resolved. We will consider it implemented once PAM has finalized the *Purchase Card Program Policy*.

We recommend that BOR:

14. Discontinue the South-Central Area Office's current practice of allowing purchase card information to be kept at stores.

BOR Response: BOR did not concur with the recommendation. BOR stated that it has "no reason to believe that card information was kept on file; however, an email was sent to all regional cardholders as a reminder." BOR stated that "the store would call the purchase cardholder whom the employee had already coordinated with, and then the cardholder would then provide the store associate verbal confirmation to proceed with the purchase." BOR provided a picture of what the sales associate had "on file" at the store, which was instructions for the sales associate to call and get the approval, as well as the card information for when BOR employees make purchases at the store. BOR further stated that the receipt was signed by the employee making the purchase to "acknowledge receipt of the item, not approving or authorizing the purchase."

OIG Comment: Although BOR does not concur with our recommendation, based on the information provided, we consider the recommendation resolved and implemented. In making this determination, we note that store managers told us during our audit that purchase cards for BOR were kept on file at the store; moreover, we discussed this with BOR officials in September 2023, and the purchase card coordinator confirmed that this was, in fact, occurring and agreed it was inappropriate. Regardless, based on information now provided by BOR, there is sufficient evidence to show that the process for making purchases at the store has changed, and purchase card information is no longer being maintained at the store.

15. Notify all area office cardholders that storing purchase card information at stores is not permitted.

BOR Response: BOR concurred with the recommendation and stated that it notified all area office cardholders that storing purchase card information at stores is not permitted.

OIG Comment: Based on BOR's response and supporting documentation demonstrating that BOR notified all area office cardholders, we consider this recommendation resolved and implemented.

16. Revise the *Purchase Business Line Requirement Handbook* to reflect any future changes made to the Department's *Purchase Card Program Policy* regarding prohibiting the storage of purchase card information at stores.

BOR Response: BOR concurred with the recommendation and stated that it will revise the PURLBOOK regarding prohibiting the storage of purchase card information at stores according to the future update to Department's *Purchase Card Program Policy*. BOR provided a target implementation date of September 30, 2024.

OIG Comment: Based on BOR's response, this recommendation is resolved. We will consider it implemented once BOR updates its PURLBOOK to reflect future changes made to the Department's *Purchase Card Program Policy* regarding prohibiting the storage of purchase card information at stores.

17. Resolve the \$1,685 in questioned costs for the two travel invoices.

BOR Response: BOR concurred with the recommendation. BOR stated that the payments of \$1,685 do not exist, and the transactions sampled were in the amount of \$3,935 and \$6,185, both for training a 1-day course and a 2-day course. After clarification from the vendor, the travel costs for the one training of \$3,370 was split between the two transactions instead of being split proportionally. BOR will document and explain "the mis-proportioned travel costs and also include documentation verifying the cost of the training to be fair and reasonable despite it only being required when there is suspicion that the price is not fair and reasonable based on reasons like comparison to previously paid price or personal knowledge (FAR 13.203-3 Purchase Guidelines)." BOR provided a target implementation date of September 30, 2024.

OIG Comment: Based on BOR's response, this recommendation is resolved. The two payments and related training proposals valued at \$3,935 and \$6,185 were the cost of the trainings and related travel for an 8-hour training and a 16-hour training. Both included travel costs of \$1,685, one of which we questioned as a duplicate payment. We will consider this recommendation implemented once BOR documents its explanation of the travel costs and its verification that the costs were fair and reasonable.

18. Implement routine sampling of micropurchase transactions at the Central California, Northern California, and South-Central California Area Offices to ensure compliance with applicable laws, regulations, policies, and procedures.

BOR Response: BOR concurred with the recommendation and stated it "will ensure that a proper level of oversight exists when the exact deficiencies from this audit are determined." It also stated, "Training will be provided to all cardholders, approving officials, and administrative officers." BOR provided a target implementation date of September 30, 2024.

OIG Comment: Based on BOR's response, we consider this recommendation unresolved. The findings noted in this report represent the exact deficiencies identified during the audit. BOR's response that it will provide training to all cardholders, approving officials, and administrative officers does not address our recommendation. Once BOR implements routine sampling of micropurchase card transactions at the three area offices, we will consider this recommendation resolved and implemented.

19. Develop and implement a mechanism, such as a purchase requisition form, to document supervisor and budget analyst approval for the initiation of contract awards at the Central California Area Office.

BOR Response: BOR concurred with the recommendation and stated that it will implement a process and a form to document management approvals for purchase requisitions. BOR provided a target implementation date of June 30, 2024. On June 21, 2024, BOR provided evidence that it developed and implemented a purchase requisition form to document the approvals for the initiation of contract awards.

OIG Comment: Based on BOR's response and supporting documentation demonstrating that a purchase requisition form was developed and implemented, we consider this recommendation resolved and implemented.

20. Develop a mechanism to enforce the use of the South-Central Area Office's purchase requisition form for contract awards and ensure the form has the required approvals.

BOR Response: BOR stated that it will conduct training sessions for all South-Central Area Office employees responsible for requesting and processing purchase requisitions and provided a target implementation date of June 10, 2024.

OIG Comment: Based upon BOR's description of planned actions, we consider this recommendation resolved. We will consider this recommendation implemented when BOR provides documentation that South-Central Area Office employees responsible for requesting and processing purchase requisitions have completed the training.

Appendix 1: Scope and Methodology

Scope

We performed our audit of the Bureau of Reclamation's (BOR's) internal controls over its Central Valley Project (CVP) cost allocation and ratesetting processes from February 2023 through September 2023. The scope included evaluating BOR's internal controls in place over its cost allocation and ratesetting processes as well as its internal controls in place for acquiring goods and services through purchase cards and contract awards.

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We assessed whether internal control was significant to the audit objectives. We determined that two control activities and the following related principles were significant to the audit objectives:

- Management should oversee the entity's internal control system.
- Management should design control activities to achieve objectives and respond to risks.
- Management should implement control activities through policies.

We tested the operation and reliability of internal controls over activities related to our audit objectives. We did not perform testing to verify the accuracy of the calculations used in the cost allocations and the establishment of the water rates. Our internal control tests and procedures included:

- Gathering background information and gaining an understanding of the cost allocation and ratesetting processes, as well as the processes in place for acquiring goods and services through purchase cards and contract awards.
- Interviewing officials, including BOR management and staff.
- Reviewing laws, regulations, policies, procedures, and guidance applicable to the subject audit.
- Reviewing prior audit reports issued by our office related to the subject audit.

- Evaluating the internal controls surrounding BOR's process for allocating water costs to its irrigation and municipal and industrial contractors.
- Examining and testing the internal controls related to BOR's ratesetting processes.
- Analyzing and testing the internal controls surrounding the requisition process for acquiring goods and services through purchase cards and contract awards.

As set forth in the body of the report, we found deficiencies in internal controls resulting in our findings related to the cost allocation process, ratesetting process, purchase card transactions, and contract awards.

We relied on computer-processed data to a limited extent when selecting the sample of micropurchase transactions and contract award transactions. We confirmed the validity of such data, as appropriate, by reviewing supporting source documents. Based on the results of our initial assessments, we assigned a level of risk and selected a judgmental sample for evaluating the ratesetting standard operating procedures (SOPs), micropurchase transactions, and requisition process for contract awards. Specifically:

- For the ratesetting testing, our population consisted of 29 SOPs. We judgmentally selected six SOPs and related ratesetting schedules to determine if the SOPs were up to date with respect to how the rate setting calculations were performed. Specifically, we reviewed the directions in six SOPs and compared those to the calculation being performed in the related ratesetting schedules. We selected our sample to include ratesetting schedules for construction and operations and maintenance, schedules that contained exceptions, and schedules with different types of data, such as dollars and water deliveries.
- For the purchase card transactions testing, our population comprised all fiscal year (FY) 2022 CVP purchase card transactions associated with the three area offices: Central California, Northern California, and South-Central California. The total population was 2,392 transactions valued at \$2,415,480. We judgmentally selected 34 transactions valued at \$164,960 to test whether required evidence was maintained to support the transactions. We selected our sample based on high-dollar transactions, descriptions of transactions, and the types of purchases, such as supplies and services.
- For contract awards testing, our population comprised all FY 2022 contract awards associated with the three area offices: Central California, Northern California, and South-Central California. The total population was 126 contract awards totaling \$25,006,773. We judgmentally selected 14 contract awards valued at \$14,919,721 to test the internal controls related to the area offices' purchase requisition processes. This included testing to determine whether the initiation of contract awards was approved in accordance with the area offices' current practices. We selected our sample based on high-dollar purchases, description of the contract award, and the types of purchases, such as supplies and services.

Our sample selections were not generated using statistical sampling, and, therefore, we did not project the results of our tests to the total population of transactions.

Appendix 2: Monetary Impact

Description	Questioned Costs – Unallowable
Duplicate Payment	\$1,685
Total	\$1,685

Appendix 3: Responses to Draft Report

The Bureau of Reclamation's responses to our draft report follow on page 38. The response to our draft report from the U.S. Department of the Interior's Office of Acquisition and Property Management follows on page 55.

Thank you for the opportunity to review the Draft Audit Report Stronger Controls Needed Over the Bureau of Reclamation's Central Valley Project Cost Allocation and Rate setting Processes, Report No. 2022-WR-048. This response only applies to the section of the draft report related to recommendations 1-7.

Please see below tables for our responses to both the findings and recommendations, per section.

Findings	Response	Corrective Action Plan	Target Dates	Responsible Manager
<i>1. Perform an independent review of future allocation calculations for construction costs and operations and maintenance costs to ensure the allocations are accurate and reasonable.</i>	Concur	Internal review processes will be established for the annual cost allocation deliverables.	3/31/2025	Special Project Manager
<i>2. Develop and implement policies and procedures that require an independent review of all aspects of the allocation calculations for construction costs and operations and maintenance costs to ensure the allocations are accurate and reasonable.</i>	Concur	Policies and procedures related to the review of the annual cost allocation processes will be developed	3/31/2025	Special Project Manager
<i>3. Develop and implement standard operating procedures that provide detailed instructions on all aspects of calculating allocations for construction costs and operations and maintenance costs.</i>	Concur	SOPs for the annual cost allocation deliverables will be developed.	3/31/2025	Special Project Manager
<i>4. Update the ratesetting standard operating procedures</i>	Concur	Update SOPs for all schedules while working on current	03/31/2025	Ratesetting Manager

<i>to require documentation of peer and supervisor reviews that include the identity of the reviewer and the date of the review.</i>		accounting and rate schedules.		
<i>5. Establish and implement a policy to periodically conduct a review of the standard operating procedures and determine whether they need to be updated.</i>	Concur	Establish and implement a policy to review SOPs periodically.	03/31/2025	Ratesetting Manager
<i>6. Update the ratesetting standard operating procedures to reflect the current process for calculating the ratesetting schedules.</i>	Concur	Update SOPs for all schedules while working on current accounting and rate schedules.	03/31/2025	Ratesetting Manager
<i>7. Develop standard operating procedures for all schedules used in the ratesetting process.</i>	Concur	Develop SOPs for all schedules while working on current accounting and rate schedules.	03/31/2025	Ratesetting Manager

**SABIR
AHMAD**

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AHMAD
Date: 2024.05.09
12:15:52 -07'00'

Signed by Sabir Ahmad, Regional Finance Manager, California-Great Basin Region



United States Department of the Interior

BUREAU OF RECLAMATION
P.O. Box 25007
Denver, CO 80225-0007



IN REPLY REFER TO:

84-21000
3.1303

VIA ELECTRONIC MAIL ONLY

Memorandum

To: Kathleen Sedney (aie_reports@doioig.gov)
Assistant Inspector General

From: Diana M. Terrell, Division Manager **DIANA TERRELL**
Acquisition Assistance Management Division

Subject: Response to Draft Audit Report – Stronger Controls Needed Over the Bureau of Reclamation’s Central Valley Project Cost Allocation and Rate setting Processes, Report No. 2022-WR-048

Digitally signed by DIANA
TERRELL
Date: 2024.04.30 22:22:53 -06'00'

Thank you for the opportunity to review the Draft Audit Report Stronger Controls Needed Over the Bureau of Reclamation’s Central Valley Project Cost Allocation and Rate setting Processes, Report No. 2022-WR-048. This response only applies to the section of the draft report related to purchase card transactions.

Please see below tables for our responses to both the findings and recommendations, per section.

TABLE A(i) - Response to Findings- Unsupported Micro-Purchase Transactions

	Findings	Response	Affected Office
1	For 10 transactions of shipped items, the cardholders did not maintain documentation—namely, packing lists or shipping documentation—to ensure they received ordered items. Also, for 8 of those 10 transactions, the area offices could not provide	The purpose of both shipping documents and annotating the date of receipt is to confirm that the government received its purchase in whole. As stated in DOI and Bureau policy, there are multiple options on how to achieve this objective. Various examples of acceptable receipt documentation exist because of the innumerable purchasing scenarios e.g. purchased online or in-store, self-generated or non-self-generated, shipment location to	(5) CCAO (3) SCCAO (2) NCAO

	<p>sufficient evidence documenting when the initiator of the request confirmed the receipt of the ordered items.</p>	<p>cardholder or shipment location other than cardholder, etc.</p> <p>Appendix B to OMB Circular A-123, <i>A Risk Management Framework for Government Charge Card Programs</i>, discusses the administration’s commitment to improving efficiency and effectiveness of government operations. It states, “One of the benefits of balancing efficiency with reasonable internal controls is to reduce administrative costs and time for purchasing”. The current DOI policy embodies this balance by providing flexibility while understanding that the objective is to simply prove that the government received its purchase in whole. For example, DOI policy states “Relevant supporting documentation for online purchases should include the packing list or shipping document, if the vendor provided, showing the items ordered were received. If no documentation was provided in the shipment, the cardholder can annotate on the receipt, <u>purchase log</u>, or other document the date the items were received”. Because there is no requirement for cardholders to document if the purchase was made online or instore, an outside party cannot verify if a packing list would have been expected. Additionally, if purchased online, it is also indeterminate if a shipping document was provided, which makes this an immaterial auditing point focused on assumption. As such, Reclamation does not concur with the finding: <i>cardholders did not maintain documentation—namely, packing lists or shipping documentation—to ensure they received ordered items.</i></p> <p>The internal audit performed of the 10 transactions in question proved that 1 transaction was missing confirmation of receipt for the CCAO Discovery Door transaction which has since been corrected. As stated in DOI policy, the cardholder can</p>	
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		<p>annotate on the purchase log the date the items were received. The following dates were listed in the cardholders' logs as such:</p> <p>CCAO</p> <ul style="list-style-type: none"> • Grainger- 10/28/21 • Warehouse Lighting- 11/30/2021 • Home Depot- 8/1/2022 • Affordable Safety- 5/4/2022 <p>SCCAO</p> <ul style="list-style-type: none"> • Amazon- 2/15/2022 • Morgan & Slates- 10/21/2021 • ETI Acquisitions- 8/19/2022 <p>NCAO</p> <ul style="list-style-type: none"> • Redding Oil- 3/18/2022 • Gerlinger Steel & Supply- 9/15/2022 <p>Property officials provide a second layer of review of all purchase card transactions that would uncover if a purchase was not complete. Annotating the date in the BOR required purchase log is in line with DOI policy and supports A-123's direction for agencies to reduce administrative costs. Therefore, BOR does not concur with the finding: <i>for 8 of those 10 transactions, the area offices could not provide sufficient evidence documenting when the initiator of the request confirmed the receipt of the ordered item.</i></p> <p>**The footnote on page 18 discusses the Department's "intention" on its supporting documentation requirements, however Reclamation respectfully requests reconsideration of this finding since it is based on <i>intention</i> and not the published policy.</p> <p>If it was the intent of DOI to only allow for the use of purchase logs to record receipt of items/services when other options failed, then</p>	
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		<p>that should have been clearly stated in the policy.</p> <p>DOI policy states, “If no documentation was provided in the shipment, the cardholder can annotate on the receipt, purchase log, <u>or</u> other document the date the items were received”. In this sentence no discernment is made between the examples, nor does it state that the purchase log is only intended to be used as a last resort when other options, like annotating an invoice, fail.</p> <p>Bureaus cannot be held to informal policy requirements not expressly stated within the policy, particularly when the conjunction “or” is used in a sentence.</p> <p>However, if there is not reconsideration given to the finding that the bureau should have understood the intent of the policy and will be held accountable for it, we respectfully request that the following footnote [According to the Department’s Charge Card Program Manager, the Department’s intention with its policy was not for BOR to use the purchase card log as the only evidence for supporting the date of receipt. Rather, the intention of the policy was for the bureaus and offices to maintain the highest level of documentation when it comes to date of receipt requirements, such as an email, notation on an invoice or packing slip, or memo to the file and using the purchase card log would only occur if those options failed.] be added into the body of the report as this is the basis for the finding.</p>	
2	For 2 transactions where items were retrieved <u>in stores</u> , BOR did not maintain sufficient evidence confirming the date when BOR officials retrieved the items.	<p>The inherent nature of items received at point of sale provides low risk that the gov’t did not receive what was purchased. Date of receipt was recorded on the purchase card log, as acceptable per current DOI and BOR policy. Please see below dates:</p> <ul style="list-style-type: none"> • <i>REI- 2/19/22</i> • <i>Constar Supply- 7/27/22</i> 	SCCAO

3	For 4 transactions where supervisory approval was required, supervisory approvals authorizing the purchase were missing.	Respectfully request that this finding clarify that the finding that the approvals were required was IAW local procedures.	SCCAO; CCAO
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TABLE A(ii)- Response to Recommendations- Unsupported Micro-purchase Transactions

Report No.	Recommendation	Corrective Action	Concur/Non-concur	Title of Official Responsible	Target Due Date
9	Implement the requirement for maintaining packing slips and shipping documentation to support micro-purchase transactions as established in the Department's Purchase Card Program Policy.	Reclamation will implement upon revision to the Departmental policy which clearly states that packing slips/shipping documentation is required to be maintained and provide examples of how it is a verifiable audit point. [Current DOI policy states, "if vendor provided"] Prior to the revision of the DOI policy the bureau will implement as a best practice.	Conditional concurrence.	Head of the Contracting Activity	9/30/24
10(a)	Revise the Purchase Business Line Requirement Handbook to: Align with the requirement that cardholders maintain copies of packing lists or shipping documents for all	Reclamation will revise the PURLBOOK to adopt DOI policy based on its dictation versus intention. Where there is room for interpretation at the bureau level,	Conditional Concurrence	Head of the Contracting Activity	9/30/2024

	micro-purchase transactions as established in the Department's Purchase Card Program Policy.	Reclamation will ensure that efficiency and reduction of redundancies is incorporated as directed by A-123.			
10(b)	Revise the Purchase Business Line Requirement Handbook to: Reflect the changes made to the Department's Purchase Card Program Policy regarding supporting documentation requirements for the date or receipt.	The Department updated the supporting documentation section to include the two new sentences: <i>If the items purchased by a cardholder were shipped to another employee's different location (field site, remote work/telework site), the employee receiving the items should email the purchase cardholder when the items are received and attach a scanned copy of any packing lists or shipping documents, if the vendor provided. The purchase cardholder will then upload a copy of the email and any attachments into CTMS or the bureau-approved automated purchase card log.</i> This new language indicates that the	Conditional Concurrence	Head of the Contracting Activity	9/30/24

		<p>issue at hand relates to the shipment location and only provides the option of the recipient emailing the cardholder to confirm receipt. Reclamation has requested clarification from the DOI since the options to confirm receipt are still provided in the prior paragraph.</p> <p>Reclamation will revise the PURLBOOK to require cardholders to include additional evidence of receipt for non-self generated purchases vs. currently only requiring the cardholder to annotate the date of receipt once receiving confirmation from the receiver.</p>			
11	Develop a mechanism to enforce the use of the Central California Area Office's micro-purchase request form and ensure the form has the required approvals.	We will review the need for the form and if deemed needed, we will provide office wide training on the expectations and proper use of the form.	Concur	Area Office Manager	9/30/24

12	Develop a mechanism to enforce the use of the South-Central California Area Office's micro-purchase request form and ensure the form has the required approvals.	We will review the need for the form and if deemed needed, we will provide office wide training on the expectations and proper use of the form.	Concur	Area Office Manager	9/30/24
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TABLE B(i)- Response to Findings- Unprotected Purchase Card Information

	Finding	Response	Affected Office
1	<p>The South-Central Area Office inappropriately allowed a store to keep Government purchase card information on file at the store for employees to make purchases.</p> <p>In one transaction in our sample, we noted that someone other than the purchase cardholder signed the receipt for protective footwear from a local store.</p>	<p>As discussed during the OIG out brief session on 2/20/24, the employee was acknowledging receipt of the item, not approving or authorizing the purchase. The cardholder [REDACTED] was called who then authorized the charge and provided her full account number over the phone. Her card number has never been on file.</p>	SCCAO
2	<p>In interviews with store managers, we learned that multiple purchase cards for BOR were kept on file at the store and that whichever BOR employee made a purchase at the store, signed the receipt, regardless of whether the employee was the cardholder for the card on file.</p>	<p>Same as above. Reclamation respectfully requests that the OIG clarify in the report that signature on receipt was only to confirm that the item was received. It did not authorize the purchase as the report suggests.</p>	SCCAO

3	According to one store manager, BOR employees would bring an authorization form to the store, purchase the protective footwear, and store employees would simply charge one of BOR's purchase cards on file.	"Simply charge one of Reclamation purchase cards on file" is not correct and is proven with the more thorough response from a different store manager that the OIG received. See below #5 response.	SCCAO
4	Another store manager told us BOR employees would pick out their protective footwear and tell the store associate which card on file to charge the purchase, and the store employees would then call BOR and verify the use of the card on file.	<p>Yes, this is correct. The store would call the purchase cardholder whom the employee had already coordinated with, and then the cardholder would then provide the store associate verbal confirmation to proceed with the purchase.</p> <p>As shared on page 5 of our 8/28/23 response to the related Notice of Potential Findings & Recommendation, Reclamation spoke to store manager, [REDACTED], on 8/14/23, who confirmed this is permissible for customers to provide charge card numbers over the phone. Per the cardholder, who was interviewed by Reclamation, her card information was never stored. In the cardholder's response to OIG Auditor, [REDACTED], on 7/12/2023, she stated that she <i>provided her card number to the sales associate</i>. Additionally, the cardholder's supervisor, contacted the store to confirm. [REDACTED] provided assurance through picture of what they have "on file". See Attachment 1- [REDACTED] - [REDACTED]. You'll see that the sales associate is instructed to call for the number, expiration date, and CVV.</p> <p>Reclamation respectfully requests documentation to prove that the card numbers were stored to substantiate this finding, particularly because our documentation from the vendor and interview with the cardholder supervisor demonstrates otherwise.</p>	SCCAO

TABLE B(ii)- Response to Recommendations- Unprotected Purchase Card Information

Report No.	Recommendation	Corrective Action	Concur/Non-concur	Title of Official Responsible	Target Due Date
14	Discontinue the South-Central Area Office's current practice of allowing purchase card information to be kept at stores.	We have no reason to believe that card information was kept on file; However, an email was sent to all regional cardholders as a reminder.	Non-Concur	Area Office Manager/ Regional Chief of Contracting Office	2/21/24
15	Notify all area office cardholders that storing purchase card information at stores is not permitted.	Complete; However, we would like clarification of "at stores" includes online stores, including DOI required, online enterprise accounts.	Concur	Area Office Manager/ Regional Chief of Contracting Office	2/21/24
16	Revise the Purchase Business Line Requirement Handbook to reflect any future changes made to the Department's Purchase Card Program Policy regarding prohibiting the storage of purchase	Will revise according to DOI future update.	Concur	Head of Contracting Activity	9/30/2024

	card information at stores.				
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TABLE C(i)- Response to Findings- Overpayment of Micro-purchase Transactions

	Finding	Response	Affected Office
1	<p>We found 2 payments of \$1,685 that we question as potentially duplicative. BOR received two proposals and paid the corresponding two invoices—each for \$1,685, or \$3,370 total—for travel costs, including flights, hotel, meals, and car rental for instructors to conduct two separate trainings at the same location: an 8-hour training, and a 16-hour training.</p> <p>We confirmed that the \$1,685 in charges on both invoices mirrored those on the proposals, which were created before the determination was made to combine the trainings.</p>	<p>Payments of \$1,685 do not exist. The transactions sampled were in the amount of \$3,935 and \$6,185, both for training- a two-day course and a one-day course. After clarification from the vendor, the total travel cost for the one training of \$3,370 were split in half vs. proportionally. See Attachment 2- Training</p> <p>Also, the draft report attests that the finding of duplicate payment stands despite the explanation of the unbalanced distribution of travel costs. However, there is no documentation showing the vendor's pricing prior to the decision to have one trainer vs. two. In fact, the decision to have back-to-back sessions with one trainer reduced the total price for the training because only one flight was needed versus two.</p>	NCAO

TABLE C(ii)- Response to Recommendation- Overpayment of Micro-purchase Transactions

Report No.	Recommendation	Corrective Action	Concur/ Non-concur	Title of Official Responsible	Target Due Date
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17	Resolve the \$1,685 in questioned costs for the two travel invoices.	The statement will be documented to explain the mis-proportioned travel costs and also include documentation verifying the cost of training to be fair and reasonable despite it only being required when there is suspicion that the price is not fair and reasonable based on reasons like comparison to a previously paid price or personal knowledge (FAR 13.203-3 Purchase Guidelines). A cost analysis, such as analyzing the components of a total price, is only required when certified cost and pricing data are required which is for actions above \$2M (FAR 15.403-4)	Concur	Head of Contracting Activity	9/30/24
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TABLE D(i)- Response to Findings- Insufficient Review of Micro-purchase Card Transactions

	Finding	Response	Affected Office
1	Given the regional purchase card coordinator's higher-level review, the number of deficiencies identified in our sample, and the fact that approving officials did not identify these issues themselves, having a requirement to	Reclamation will ensure that a proper level of oversight exists when the exact deficiencies from this audit are determined.	CCAO, SCCAO, NCAO

	routinely sample transactions at the area office level would help BOR identify deficiencies and ensure that approving officials are properly reviewing and approving transactions.		
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TABLE D(ii)- Response to Recommendation- Insufficient Review of Micro-purchase Card Transactions

Report No.	Recommendation	Corrective Action	Concur/Non-concur	Title of Official Responsible	Target Due Date
18	Implement routine sampling of micro-purchase transactions at the Central California, Northern California, and South-Central California Area Offices to ensure compliance with applicable laws, regulations, policies, and procedures.	Training will be provided to all cardholders, approving officials, and administrative officers.	Concur	Area Office Managers/ Regional Chief of the Contracting Office	9/30/24

Thank you for your time and efforts to ensure that the internal controls for the purchase card program do not negatively affect water rate setting.

cc: DBader, Area Manager (NC-100); DLessard, Area Manager (CCAO-FOO); MJackson, Area Manager (SCC-100)



IN REPLY REFER TO:

United States Department of the Interior

BUREAU OF RECLAMATION
Interior Region 10
Central California Area Office
7794 Folsom Dam Road
Folsom, California 95630-1799



84-27410
4.4.13

VIA ELECTRONIC MAIL ONLY

Memorandum

To: Office of Inspector General
Office of Inspector General Audit, Inspection and Evaluation
Attention: Christine Nehls [REDACTED]@doioig.gov)

From: Drew Lessard
Area Manager, Central Area Office

**DREW
LESSARD**

Digitally signed by
DREW LESSARD
Date: 2024.05.20
14:24:14 -07'00'

Subject: The Bureau of Reclamation's Response to the Office of Inspector General (OIG) Audit
Stronger Controls Needed Over the Bureau of Reclamation's Central Valley Project
Cost Allocation and Rate Setting Processes, Report No. 2022-WR-048.

The Bureau of Reclamation has reviewed draft report 2022-WR-048 and has provided responses to the recommendations below:

Recommendation #19: Develop and implement a mechanism, such as a purchase requisition form, to document supervisor and budget analyst approval for the initiation of contract awards at the Central California Area Office.

Reclamation's Response: Concur. Reclamation will implement a process and form to document Management approvals for PR's by June 30, 2024. Until this form is finalized, CCAO will record approvals of PR's via email and include this email on all PRs.

Responsible Official: Priscilla Nastasia, CCAO Administrative Officer

Target Implementation Date: 6/30/2024

For additional information, please contact Priscilla Nastasia at [REDACTED], or via email at [REDACTED]@usbr.gov.

For the hearing impaired, please call the Federal Relay System at (800) 877-8339 (TTY)

Attachments – 1



United States Department of the Interior

BUREAU OF RECLAMATION
South-Central California Area Office
1243 N Street
Fresno, CA 93721-1813



IN REPLY REFER TO:

SCC/TO-115, 84-27410
4.4.13

VIA ELECTRONIC MAIL

Memorandum

To: Office of Inspector General
Office of Inspector General Audit, Inspection and Evaluation
Attention: Christine Nehls [REDACTED]@doioig.gov)

From: Michael P. Jackson, P.E.
Area Manager, South-Central California Area Office

Michael P. Jackson
MICHAEL JACKSON
Digitally signed by
MICHAEL JACKSON
Date: 2024.05.17 11:38:49
-07'00'

Subject: The Bureau of Reclamation, South-Central California Area Office (SCCAO) Response to the Office of Inspector General *Audit Stronger Controls Needed Over the Bureau of Reclamation's Central Valley Project Cost Allocation and Rate Setting Processes*, Report No. 2022-WR-048 – Central Valley Project, California

SCCAO has reviewed Draft Report 2022-WR-048 and has provided the following response to Recommendation #20.

Recommendation #20: Develop a mechanism to enforce the use of the SCCAO's purchase requisition form and ensure the form has the required approvals.

Reclamation's Response: SCCAO will conduct training sessions for all SCCAO employees responsible for requesting and processing Purchase Requisitions (also known as PRs) by June 10, 2024. The training will cover the proper use of the purchase requisition form and the necessary approval process to ensure compliance and accuracy.

Responsible Official: Zealyne Marchelle Williams, SCCAO Administrative Officer.

Target Implementation Date: Complete by June 10, 2024.

For additional information, please contact Zealyne Marchelle Williams at [REDACTED], via email at [REDACTED]@usbr.gov or the hearing impaired please call TTY (800) 877-8339.

cc: [REDACTED]@usbr.gov, [REDACTED]@usbr.gov), [REDACTED]@usbr.gov)
LC-1200 [REDACTED]@usbr.gov)
CGB-3300 [REDACTED]@usbr.gov), CGB-3800 [REDACTED]@usbr.gov), CGB-3817 [REDACTED]@usbr.gov)
SCC-115/TO-115 [REDACTED]@usbr.gov)

INTERIOR REGION 10 • CALIFORNIA-GREAT BASIN

CALIFORNIA*, NEVADA*, OREGON*

* PARTIAL



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

04/12/2024

Memorandum

To: Mark L. Greenblatt
Inspector General

From: Megan Olsen, Director
Office of Acquisition and Property Management

MEGAN
OLSEN

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MEGAN OLSEN
Date: 2024.04.12
15:17:53 -04'00'

Subject: Draft Audit Report – *Stronger Controls Needed Over the Bureau of Reclamation's Central Valley Project Cost Allocation and Ratesetting Processes Report No. 2022-WR-048*

Thank you for providing us the opportunity to respond to the Office of Inspector General Draft Audit Report – *Stronger Controls Needed Over the Bureau of Reclamation's Central Valley Project Cost Allocation and Ratesetting Processes Report No. 2022-WR-048*. The Draft Audit Report communicates two recommendations for the Department of the Interior (DOI). The DOI's response to the Recommendations 8 and 13 is outlined below.

Recommendation 8. Revise the Department's Purchase Card Program Policy to clarify that the supporting documentation for the date of receipt of goods include evidence, such as an email or annotation on a receipt, that the recipient received the items purchased.

Response: Concur. The DOI has revised the purchase card documentation section of the draft version 3 update to DOI-Acquisition, Arts, and Asset Policy 0156, DOI Purchase Card Program Policy (DOI-AAAP-0156). The draft policy now includes the language below. DOI-AAAP-0156 v3 is in the staffing process and should be released by the end of July 2024.

DOI Purchase Card Program Policy (DOI-AAAP-0156) Excerpt

XI. Review and Approve - B. Purchase Card Documentation

1. Purchase cardholders will maintain copies of invoices, receipts, any 889-representation verification information, and other relevant supporting documentation for all transactions to be used in the review and approve process outlined below. Relevant supporting documentation for online purchases should include the packing list or shipping document, if the vendor provided, showing the items ordered were received. If no documentation was provided in the shipment, the cardholder can annotate on the receipt, purchase log, or other document the date the items were received, e.g. "Items received by [employee name] on 7/1/2021."
2. If the items purchased by a cardholder were shipped to another employee's different location (field site, remote work/telework site), the employee receiving the items should email the purchase cardholder when the items are received and attach a scanned copy of any packing lists or shipping documents, if the vendor provided. The purchase cardholder

will then upload a copy of the email and any attachments into CTMS or the bureau-approved automated purchase card log.

3. If the purchase cardholder is purchasing on behalf of another employee, the purchase cardholder should document in their purchase log or files, the requester's name, item description, quantity, estimated cost, any required approvals, and date of request for each transaction. This information can be an email from the requester, a hard copy request or the cardholder can annotate the information on the receipt for the transaction.
4. If the purchase cardholder is purchasing items for their own use (i.e. self-generated purchase), the purchase cardholder will document in their purchase log or on a document (e.g. a receipt) that the purchase was for their own use, item description, quantity, cost, and any required approvals for the transaction.

Responsible Official: Megan Olsen, Director, Office of Acquisition and Property Management and Senior Procurement Executive

Target Date: August 1, 2024

Recommendation 13. Revise the Department's Purchase Card Program Policy to expressly prohibit storing purchase card information at stores.

Response: Concur. The DOI has added the prohibition to the draft version 3 update to DOI-Acquisition, Arts, and Asset Policy 0156, *DOI Purchase Card Program Policy* (DOI-AAAP-0156). The draft policy now includes, "Cardholders should minimize storing their purchase card information in online personal accounts to avoid the potential for misuse, abuse or fraud. Cardholders must not store their purchase card information with brick-and-mortar vendors to avoid the potential for misuse, abuse or fraud." DOI-AAAP-0156 v3 is in the staffing process and should be released by the end of July 2024.

Responsible Official: Megan Olsen, Director, Office of Acquisition and Property Management and Senior Procurement Executive

Target Date: August 1, 2024

If you have questions or require additional information, please contact me at [REDACTED] or [REDACTED]@ios.doi.gov.

cc:

Joan M. Mooney, Principal Deputy Assistant Secretary, Exercising the Delegated Authority of the Assistant Secretary - Policy, Management and Budget
 Andrea L. Brandon, Deputy Assistant Secretary, Budget, Finance, Grants and Acquisition
 Tonya Johnson-Simmons, Director, Office of Financial Management

Appendix 4: Status of Recommendations

Recommendation	Status	Action Required
2022-WR-048-01 We recommend that BOR perform an independent review of future allocation calculations for construction costs and operations and maintenance costs to ensure the allocations are accurate and reasonable.		
2022-WR-048-02 We recommend that BOR develop and implement policies and procedures that require an independent review of all aspects of the allocation calculations for construction costs and operations and maintenance costs to ensure the allocations are accurate and reasonable.		
2022-WR-048-03 We recommend that BOR develop and implement standard operating procedures that provide detailed instructions on all aspects of calculating allocations for construction costs and operations and maintenance costs.		
2022-WR-048-04 We recommend that BOR update the ratesetting standard operating procedures to require documentation of peer and supervisor reviews that include the identity of the reviewer and the date of the review.	Resolved	We will track implementation.
2022-WR-048-05 We recommend that BOR establish and implement a policy to periodically conduct a review of the standard operating procedures and determine whether they need to be updated.		
2022-WR-048-06 We recommend that BOR update the ratesetting standard operating procedures to reflect the current process for calculating the ratesetting schedules.		
2022-WR-048-07 We recommend that BOR develop standard operating procedures for all schedules used in the ratesetting process.		

Recommendation	Status	Action Required
<p>2022-WR-048-08 We recommend that the Department of Interior revise the Department's <i>Purchase Card Program Policy</i> to clarify that the supporting documentation for the date of receipt of goods include evidence, such as an email or annotation on a receipt, that the recipient received the items purchased.</p>		
<p>2022-WR-048-09 We recommend that BOR implement the requirement for maintaining packing slips and shipping documentation to support micropurchase transactions as established in the Department's <i>Purchase Card Program Policy</i>.</p>		
<p>2022-WR-048-10 We recommend that the Department of Interior revise the <i>Purchase Business Line Requirement Handbook</i> to:</p> <ul style="list-style-type: none"> a) Align with the requirement that cardholders maintain copies of packing lists or shipping documents for all micropurchase transactions as established in the Department's <i>Purchase Card Program Policy</i>. b) Reflect the changes made to the Department's <i>Purchase Card Program Policy</i> regarding supporting documentation requirements for the date of receipt. 	Resolved	We will track implementation.
<p>2022-WR-048-11 We recommend that BOR develop a mechanism to enforce the use of the Central California Area Office's micropurchase request form and ensure the form has the required approvals</p>		
<p>2022-WR-048-12 We recommend that BOR develop a mechanism to enforce the use of the South-Central California Area Office micropurchase request form and ensure the form has the required approvals.</p>		
<p>2022-WR-048-13 We recommend that the Department of Interior revise the Department's <i>Purchase Card Program Policy</i> to expressly prohibit storing purchase card information at stores.</p>		

Recommendation	Status	Action Required
2022-WR-048-14 We recommend that BOR discontinue the South-Central Area Office's current practice of allowing purchase card information to be kept at stores.	Implemented	No further action required.
2022-WR-048-15 We recommend that BOR notify all area office cardholders that storing purchase card information at stores is not permitted.		
2022-WR-048-16 We recommend that BOR revise the <i>Purchase Business Line Requirement Handbook</i> to reflect any future changes made to the Department's <i>Purchase Card Program Policy</i> regarding prohibiting the storage of purchase card information at stores.	Resolved	We will track implementation.
2022-WR-048-17 We recommend that BOR resolve the \$1,685 in questioned costs for the two travel invoices.		
2022-WR-048-18 We recommend that BOR implement routine sampling of micropurchase transactions at the Central California, Northern California, and South-Central California Area Offices to ensure compliance with applicable laws, regulations, policies, and procedures.	Unresolved	We will meet with the BOR to further discuss resolution of this recommendation.
2022-WR-048-19 We recommend that BOR develop and implement a mechanism, such as a purchase requisition form, to document supervisor and budget analyst approval for the initiation of contract awards at the Central California Area Office.	Implemented	No further action required.
2022-WR-048-20 We recommend that BOR develop a mechanism to enforce the use of the South-Central Area Office's purchase requisition form for contract awards and ensure the form has the required approvals.	Resolved	We will track implementation.



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