



Office of Inspector General

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OFFICE OF CYBER  
ASSESSMENTS AND DATA  
ANALYTICS

MANAGEMENT LETTER

THE WESTERN AREA POWER ADMINISTRATION'S  
FISCAL YEAR 2024 FINANCIAL STATEMENTS AUDIT

DOE-OIG-25-16  
FEBRUARY 2025



**Department of Energy**  
Washington, DC 20585

February 28, 2025

**MEMORANDUM FOR THE ADMINISTRATOR, WESTERN AREA POWER  
ADMINISTRATION**

*Todd Wisniewski*

**FROM:** Todd Wisniewski  
Deputy Assistant Inspector General  
for Cyber Assessments and Data Analytics  
Office of Inspector General

**SUBJECT:** Management Letter: *The Western Area Power Administration's Fiscal  
Year 2024 Financial Statements Audit*

The Office of Inspector General engaged its contractor, the independent public accounting firm of KPMG LLP, to conduct the fiscal year 2024 financial statement audit of the Western Area Power Administration (WAPA), subject to our review. As part of this audit, we considered WAPA's internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing its opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WAPA's internal control.

As indicated in the attached report, the Office of Inspector General issued two internal control deficiency findings to WAPA containing two recommendations. Management fully concurred with the findings and recommendations and had taken or planned to take corrective actions.

We appreciated the cooperation of your staff during the review.

Attachment

cc: Acting Chief Financial Officer, Western Area Power Administration, WAPA  
Acting Comptroller, Western Area Power Administration, WAPA  
Vice President of Governance and Policy, Western Area Power Administration, WAPA

Audit Report: DOE-OIG-25-16

Department of Energy financial reports are available for download on the Office of the Chief Financial Officer website: <https://www.energy.gov/cfo/listings/agency-financial-reports>



KPMG LLP  
Suite 800  
1225 17th Street  
Denver, CO 80202-5598

February 7, 2025

Management  
Western Area Power Administration  
Lakewood, Colorado

To the management of Western Area Power Administration:

In planning and performing our audit of the consolidated financial statements of Western Area Power Administration (WAPA) as of and for the year ended September 30, 2024, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered WAPA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WAPA's internal control. Accordingly, we do not express an opinion on the effectiveness of WAPA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our reported dated February 7, 2025 on our consideration of WAPA's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. During our audit, we identified the following deficiencies in internal control:

#### **24-WAPA-01**

##### *Condition*

During our testing of transmission and other revenue for the period ended September 30, 2024, we identified one of six sampled transactions that was recorded in fiscal year (FY) 2024 but should have been recorded in FY 2023. The selected item related to cash received near the end of FY 2023 but not applied to revenue in the FY 2023 financial statements and was specific to reimbursements for costs incurred by WAPA because of damage sustained from a private party aircraft crash. Consequently, unapplied cash, a liability account (SGL 240010), was overstated, and revenue was understated by approximately \$139,000, as of and for the year ended September 30, 2023.

In FY 2024, the cash was applied by reducing the liability and recording exchange revenue, resulting in an overstatement of revenue for the period ended September 30, 2024. The item was identified as part of a statistical sample, resulting in an extension of the sample size to 14 items and a total factual and projected misstatement of \$30.79 million. There were no additional misstatements identified in the eight incremental samples. The liability account was approximately \$4.94 million and \$1.85 million as of September 30, 2024, and 2023, respectively.

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Management  
Western Area Power Administration  
February 7, 2025  
Page 2 of 4

#### *Criteria*

The Government Accountability Office's Standards for Internal Control in the Federal Government (Green Book), Principle 10, Design Control Activities, paragraph 10.03, states that "management designs appropriate types of control activities for the entity's internal control system." Figure 6 of Principle 10 provides examples of common control activity categories, which includes the proper execution of transactions and the accurate and timely recording of transactions. Paragraph 10.04 states that "a preventive control activity prevents an entity from failing to achieve an objective or address a risk. A detective control activity discovers when an entity is not achieving an objective or addressing a risk before the entity's operation has concluded and corrects the actions so that the entity achieves the objective or addresses the risk." Additionally, Paragraph 10.10 states that "transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities." Further, Paragraph 10.13 states that "segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud."

Statements of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," Paragraph 2, states that "Exchange revenues arise when a Government entity provides goods and services to the public or to another Government entity for a price." Paragraph 3 states "These accounting standards recognize exchange revenue at the time that a Government entity provides goods or services to the public or to another Government entity. Appendix B, Paragraph 292, further states that "The Coast Guard or other Federal entities may incur costs to clean up environmental hazards caused by private parties and, in some cases, require these private parties to reimburse it for the costs incurred. Notwithstanding that the Government demands the revenue under its power to compel payment, the revenue arises from the action of the private parties and is closely related to the cost of operations incurred as a result of that action. Therefore, the revenue is an exchange revenue of the entity that incurs the cost."

#### *Cause and Effect*

WAPA's existing policies and procedures are not sufficient to ensure all revenue transactions, including those relating to unapplied cash, are recorded in the correct accounting period. This condition could extend beyond the liability account and revenue may be recognized in the improper accounting period, impacting the accuracy of WAPA's statement of net cost and potentially impacting rates charged to customers.

#### *Recommendation*

We recommend that the Acting Vice President of Finance and Accounting, WAPA:

1. Enhance policies and procedures to ensure all revenue transactions, including those relating to unapplied cash receipts, are recognized in the proper accounting period.

#### *Management's Response to Recommendations*

WAPA concurs with the finding and will review and update financial policies and procedures as needed to ensure revenue transactions, including those relating to unapplied cash receipts, are recognized in the proper accounting period. We anticipate having these efforts completed during FY 2025.



Management  
Western Area Power Administration  
February 7, 2025  
Page 3 of 4

## 24-WAPA-02

### *Condition*

During our testing of undelivered obligations as of September 30, 2024, we identified one of six sampled transactions where WAPA was unable to demonstrate that the undelivered order balance was valid as of September 30, 2024. The period of performance on this work order expired in 2016, and the last invoice was paid in 2017. However, as of September 30, 2024, this de-obligation had not been processed. Consequently, undelivered obligations were overstated by approximately \$9,200 as of September 30, 2024.

The exception was identified as part of a statistical sample resulting in an extension of the sample size to 12 items. An additional misstatement was identified in the extended sample where the period of performance expired in March 2024, and the last invoice was paid in 2019. However, as of September 30, 2024, this de-obligation had not been processed. Consequently, undelivered orders were overstated by approximately \$29,700 as of September 30, 2024.

These misstatements were projected to the population, resulting in a projected overstatement of undelivered obligations of \$73.5 million.

### *Criteria*

The Government Accountability Office's Standards for Internal Control in the Federal Government (Green Book), Principle 10, Design Control Activities, paragraph 10.03, states that "management designs appropriate types of control activities for the entity's internal control system." Figure 6 of Principle 10 provides examples of common control activity categories, which includes the proper execution of transactions and the accurate and timely recording of transactions. Paragraph 10.04 states that "a preventive control activity prevents an entity from failing to achieve an objective or address a risk. A detective control activity discovers when an entity is not achieving an objective or addressing a risk before the entity's operation has concluded and corrects the actions so that the entity achieves the objective or addresses the risk." Additionally, paragraph 10.10 states that "transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities." Further, Principle 14, Communicate Internally, paragraph 14.03, states that "Management communicates quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system. In these communications, management assigns the internal control responsibilities for key roles."

The DOE Financial Management Handbook, Chapter 5, Accounting for Obligations, Section VII.A, Periodic Review and Validation of Unpaid Obligations, states that "Designated Financial Officers have primary responsibility for ensuring that all known transactions meeting the criteria of 31 USC 1501 have been recorded as obligations; that the unpaid balances of these obligations are reviewed at a minimum, at least annually, and are valid; and that invalid, inactive (stale), or excess balances, as a result, are promptly de-obligated." Further, Section VII.B, Annual Certification, states that "Additionally, Designated Financial Officers have the responsibility for ensuring that inactive (stale) obligations are identified, reported, and reviewed in accordance with the guidance and requirements set forth in the Comprehensive Field Financial Review and Certification Standard Operating Procedure provided by the CFO Office of Finance and Accounting."



Management  
Western Area Power Administration  
February 7, 2025  
Page 4 of 4

*Cause and Effect*

WAPA's existing policies and procedures are not sufficient to ensure all obligations with expired purchased orders or contracts are properly de-obligated within the correct accounting period. The condition is complicated by the fact that finance, procurement, and the program official receiving the benefits of the obligation all need to cooperate to determine the validity of an outstanding obligation. New obligations and adjustments, as reported on the combined statement of budgetary resources, may be misstated at period end.

*Recommendation*

We recommend that the Acting Vice President of Finance and Accounting, WAPA:

1. Enhance policies and procedures, which requires the assistance of both the contracting function and program officials, to ensure all undelivered obligations with expired periods of performance are de-obligated in the same accounting period as the expiration.

*Management's Response to Recommendations*

WAPA concurs with the finding and will review and update procurement and financial policies and procedures as needed to ensure that undelivered obligations that are no longer valid are de-obligated in accordance with existing guidelines or establish guidelines, in the absence thereof. WAPA will also work with appropriate stakeholders including the Finance and Procurement Offices along with Program Officials to determine the validity of current outstanding obligations and to ensure those deemed invalid are de-obligated. WAPA anticipates having these efforts completed during FY 2026.

WAPA's written response to the deficiencies identified in our audit is described above. WAPA's written response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on it.

This purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

**KPMG LLP**

## FEEDBACK

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Office of Inspector General (IG-12)  
Department of Energy  
Washington, DC 20585

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