



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

Memorandum

To: Kristen J. Sarri  
Principal Deputy Assistant Secretary for Policy, Management and Budget

From: Chris Stubbs *Chris Stubbs*  
Eastern Regional Manager for Audits, Inspections, and Evaluations

Subject: Verification Review – Recommendations for the Report, “Central Valley Project, California: Repayment Status and Payoff” (Report No. WR-EV-BOR-0003-2012)  
Report No. 2015-ER-081

The Office of Inspector General (OIG) has completed a verification review of the two recommendations presented in the subject report. Our objective was to determine whether the Bureau of Reclamation (USBR) implemented the recommendations as reported to the Office of Financial Management (PFM), Office of Policy, Management and Budget. PFM reported to OIG that it has closed both recommendations. We concur that recommendation one is resolved and implemented, and that recommendation two is unimplemented due to contractual constraints and is thus considered closed.

**Background**

Our report, “Central Valley Project, California: Repayment Status and Payoff,” dated March 26, 2013, issued two recommendations to improve USBR’s ability to ensure repayment of the Federal investment in the Central Valley Project (CVP) by the legally established deadline of 2030.

USBR concurred with the report’s recommendations in a March 8, 2013 memorandum and provided detailed plans to implement the recommendations. In a May 29, 2013 memorandum, we referred the recommendations to the Assistant Secretary for Policy, Management and Budget to track implementation.

**Scope and Methodology**

We limited our scope to determine whether USBR implemented the recommendations we reported. To accomplish our objective, we reviewed official correspondence, conducted interviews, and analyzed supporting documentation. We did not perform internal control testing, site visits, or conduct fieldwork to determine whether USBR corrected the underlying deficiencies that we initially identified. As a result, we did not conduct this review in accordance with the Generally Accepted Government Auditing Standards, issued by the Comptroller General

of the United States, or the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

## **Results of Review**

Our review found that USBR implemented the corrective action outlined in its response to recommendation 1. USBR could not implement corrective action in response to recommendation 2 because of litigation risks if the Bureau had proceeded with unilaterally altering contract terms.

**Recommendation 1:** Evaluate additional changes in the CVP ratesetting policies and implement actions that will ensure stable and predictable repayment of the entire Federal investment in the CVP between now and 2030.

**Action Taken:** USBR altered its ratesetting practices to ensure more accurate estimates of water deliveries. In the past, USBR based its rates used to recover Operation and Maintenance costs on a 5-year average of historical water deliveries; starting in 2016, the bureau will use 7-year average, which will be more responsive to environmental, legislative, and operational conditions that affect water deliveries. USBR will further adjust the water deliveries if normal August reservoir levels are lower than average. The bureau will also use the same 7-year average to project deliveries for construction-cost recovery. USBR will monitor the effectiveness of the new rates to ensure they are working as intended. We consider this recommendation resolved and implemented.

**Recommendation 2:** Renegotiate the terms of irrigation water service contracts to eliminate the refund language of Article 10 at the earliest opportunity.

**Action Taken:** USBR met with CVP contractors to discuss the levels of interest in amending existing water-service contracts to remove the refund provision of Article 10. The Central Valley Project Water Association, which represents the contractors, stated in a letter to USBR that the contractors have no interest in removing Article 10, and pursuing such an amendment could lead to litigation. As USBR cannot unilaterally amend these contracts without facing this litigation threat, PFM closed the recommendation on December 5, 2013. We consider this recommendation closed – not implemented rather than closed – resolved and implemented. We do not require further action to address this recommendation because USBR has a legitimate reason for not implementing it.

## **Conclusion**

We informed USBR officials of the results of this review on September 3, 2015. They concurred with our conclusions.

cc: Olivia Ferriter, Deputy Assistant Secretary for Policy, Management and Budget  
Douglas Glenn, Director, Office of Financial Management  
Allen Lawrence, Division Chief, Internal Control and Audit Follow-up, Office of

**Financial Management**

**Becky Tate, Audit Liaison Officer, Office of Financial Management**

**Estevan López, Commissioner, USBR**

**David Gray, Mid-Pacific Regional Audit Liaison, USBR**

**Linda Griswold, Audit Liaison Officer, USBR**

**Ashley Hartman, Audit Liaison Officer, USBR**