



Memorandum from the Office of the Inspector General

November 30, 2005

Randy P. Trusley, WT 4B-K

**REQUEST FOR FINAL ACTION – AUDIT 2005-061F – REVIEW OF
INTRAGOVERNMENTAL ACTIVITY AND BALANCES**

Attached is the subject final report for your review and final action. Your written comments, which addressed your management decision and actions planned or taken, have been included in the report. Please notify us when final action is complete.

If you have any questions or wish to discuss our findings, please contact D. Nikolaus Jordan, Auditor, at (865) 632-2135 or Louise B. Beck, Manager of Financial and Operational Audits, at (865) 632-2622. We appreciate the courtesy and cooperation received from your staff during the audit.

Ben R. Wagner
Assistant Inspector General
(Audits and Inspections)
ET 3C-K

DNJ:JP
Attachment
cc (Attachment):

Russell Dotson, WT 5C-K
Andrew W. Holmes, WT 4B-K
Tom D. Kilgore, ET 12A-K
Richard W. Moore, ET 4C-K
Jeffrey Price, WT 5C-K
Michael E. Rescoe, ET 12A-K
Ellen Robinson, ET 12A-K
Gregory A. Stucky, WT 5C-K
Donna J. Terzak, WT 5C-K
OIG File No. 2005-061F



Office of the Inspector General

Audit Report

To the Vice President and
Controller

REVIEW OF INTRAGOVERNMENTAL ACTIVITY AND BALANCES

Auditor
D. Nikolaus Jordan

Audit 2005-061F
November 1, 2005

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MEMORANDUM DATED NOVEMBER 10, 2005, FROM RANDY TRUSLEY TO BEN R. WAGNER

EXECUTIVE SUMMARY

Each year federal agencies, including the Tennessee Valley Authority (TVA), must submit audited financial information for the compilation of the Financial Report of the United States Government (FR). As part of the requirements, agencies must submit intragovernmental balance information quarterly by trading partner (TP). It is expected agencies will work with their TPs to reconcile any material difference in the balances reported.

The Chief Financial Officer is responsible for the proper accounting, presentation, and reporting of TVA's financial information for the FR. The Inspector General (IG) is responsible for performing agreed-upon procedures annually to the intragovernmental balance information, pursuant to requirements set forth in the *Treasury Financial Manual – Volume I, Part 2, Chapter 4700*, to assist the U.S. Government Accountability Office in the audit of the FR.

To facilitate year-end reporting by TVA and the performance of the agreed-upon procedures by the IG, we reviewed intragovernmental balance information for the third quarter for fiscal year 2005.

The objectives of our audit were to determine whether (1) amounts reported by TVA in the Intragovernmental Reporting and Analysis System (IRAS) agreed with its third-quarter financial statements; and (2) TVA's third-quarter balances agreed with the reciprocal balances reported by its TPs and, if not, whether attempts were made to resolve material differences with each TP.

In summary, we found:

- Intragovernmental balance information as reported generally agreed with the third-quarter financial statements. However, we identified some inaccuracies in the data submitted in the IRAS, indicating the need for better controls to ensure data reported is accurate and representative of balances in TVA's financial statements.
- While there were immaterial and material differences in the balances reported by TVA and those reported by its TPs, the Controller organization made reasonable effort to explain and resolve the material differences.

We recommend the Controller take steps to ensure (1) data is independently reviewed for accuracy before it is submitted in the IRAS, including verifying data reported by TVA agrees with balances

recorded in TVA's general ledger system and reported in the financial statements for the relative period; and (2) the organization continues to work with TVA TPs and exercise due diligence to resolve material differences in the balances reported.

In commenting on a draft of this report, management concurred with our findings and recommendations and plans to take appropriate steps to implement control procedures. The Controller stated in his comments that due to the cutoff date for the intragovernmental submission being earlier than TVA's quarterly reporting date, there will continue to be the possibility for post-closing adjustments to be made to TVA's financial statements that cannot be updated in the intragovernmental data submission. See the Appendix for management's complete response. We concur with management's planned actions.

BACKGROUND

In the normal course of federal government operations, federal agencies and departments purchase and sell goods and services between themselves. These types of activities between federal agencies and departments are called intragovernmental transactions. Each year federal agencies, including the Tennessee Valley Authority (TVA), must submit audited financial information for the compilation of the Financial Report of the United States Government (FR). As part of the requirements, agencies must submit intragovernmental balance information quarterly by trading partner (TP). It is expected agencies will work with their TPs to reconcile any material difference in the reported balances in order to not overstate the federal government's financial statements.

The Chief Financial Officer (CFO) is responsible for the proper accounting, presentation, and reporting of TVA's financial information for the FR. The Inspector General (IG) is responsible for performing agreed-upon procedures annually to the intragovernmental balance information, pursuant to requirements set forth in the *Treasury Financial Manual – Volume I, Part 2, Chapter 4700* (TFM), to assist the U.S. Government Accountability Office in the audit of the FR.

The Fiscal Year (FY) 2005 IG Agreed-Upon Procedures for Federal Intragovernmental Activity and Balances from the TFM were the basis for this audit.

To facilitate year-end reporting by TVA and the performance of the agreed-upon procedures by the IG, we reviewed intragovernmental balance information for the third quarter of FY 2005.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether (1) amounts reported by TVA in the Intragovernmental Reporting and Analysis System (IRAS) agreed with its third-quarter financial statements; and (2) TVA's third-quarter balances agreed with the reciprocal balances reported by its TPs and, if not, whether attempts were made to resolve material differences with each TP.

To accomplish the objectives, we:

- Obtained and reviewed policies, procedures, rules, and regulations related to intragovernmental activity and balances;

- Attended a teleconference given by the Intragovernmental Eliminations Task Force to gain better knowledge of topics/issues/best practices to help resolve intragovernmental issues and concerns;
- Interviewed representatives of TVA's Controller organization to better understand the process and identify control deficiencies over the process for reporting intragovernmental activity and balances;
- Validated the IRAS document, 3rd Quarter Intragovernmental Activity Detail Report by Trading Partner for FY 2005, by tracing amounts to the Controller's Schedule of Intragovernmental Accounts, which represents the information submitted by TVA in the IRAS, and by tracing the totals from the Schedule of Intragovernmental Accounts to the third-quarter financial statements;
- Compared the third-quarter balances reported by TVA and the corresponding balances reported by each TP in the IRAS; and
- Reviewed correspondence with each TP where amounts reported by TVA in the IRAS differed materially from the corresponding balance reported by the TP to determine whether reasonable effort was made by TVA to explain and resolve the material difference.

The review covered intragovernmental activity and balances for the third quarter of FY 2005. This audit was performed in accordance with generally accepted government auditing standards.

FINDINGS

In summary, we found:

- Intragovernmental balance information as reported generally agreed with the third-quarter financial statements. However, we identified some inaccuracies in the data submitted in the IRAS, indicating the need for better controls to ensure data reported is accurate and representative of balances in TVA's financial statements.
- While there were immaterial and material differences in the balances reported by TVA and those reported by its TPs, the Controller organization made reasonable effort to explain and resolve the material differences, as determined by the IRAS and reported in the Material Differences Report: 3rd Quarter FY 2005.

INACCURACIES DUE TO DATA-ENTRY ERRORS

We identified four data-entry errors in the data submitted by TVA in the IRAS. Three errors from data being pulled from the incorrect column in the trial balance resulted in reporting a net overstatement of \$6.9 million. The fourth error was a keying error that understated the amount reported by \$10,000. While the errors did not result in material differences from the corresponding balances reported by the TPs in these instances, they indicated a control weakness in data accuracy.

INACCURACIES DUE TO POST-CLOSING ADJUSTING ENTRIES

The Controller organization submitted TVA's third-quarter intragovernmental activity and balances information in the IRAS by the cut-off date, July 25, as required by the Intragovernmental Reconciliation Resources and Initiatives' Intragovernmental Tentative Key Dates. This information corresponded to the July 25th version of TVA's third-quarter trial balance. However, a subsequent adjustment in the general ledger system resulted in a net difference of \$0.6 million in two balances reported by TVA in the IRAS and amounts reported in TVA's third-quarter financial statements. While the balances reported did not materially differ from those reported by the corresponding TPs, they affected the accuracy and reliability of data reported by TVA.

In our review of the intragovernmental reporting process, we did not find evidence of supervisory review and approval of data prior to submission in the IRAS.

DUE DILIGENCE EXERCISED IN RECONCILING MATERIAL DIFFERENCES

The Material Differences Report: 3rd Quarter FY 2005 showed differences exceeding the IRAS-determined materiality threshold in balances reported by TVA and those reported by three TPs (see table below). According to CFO staff, the difference in the Department of Labor (DOL) balances was due to the use of different actuaries and different assumptions to derive estimates supporting the balances for each agency. While this explanation is plausible, whether it accounts for the full difference was not determinable. The difference in the Department of Energy (DOE) balances was due to an error by DOE in the reporting of its balances in the IRAS. The difference is expected to be resolved by DOE in its fourth quarter IRAS reporting. The difference in the Department of Defense (DOD) balances could not be explained; however, we determined TVA made reasonable effort to

contact DOD and provide details of the account balances reported by TVA and obtain explanation to resolve the difference in the balances reported by each agency. As of the end of our fieldwork, DOD had not offered explanation for the difference or confirmed its balances to TVA.

16	DOL/Pension Benefit Guaranty Corporation	Benefit Program Costs/ Revenues	\$49,862,367	\$39,524,274	\$10,338,093
89	DOE	Buy/Sell/ Costs/ Revenues	\$57,611,329	\$47,517,420	\$10,093,909
97	Office of the Secretary of Defense – Defense Agencies	Buy/Sell/ Costs/ Revenues	\$46,203,298	\$1,117,950	\$45,085,348

RECOMMENDATIONS

We recommend the Controller take steps to ensure (1) data is independently reviewed for accuracy before it is submitted in the IRAS, including verifying data reported by TVA agrees with balances recorded in TVA's general ledger system and reported in the financial statements for the relative period; and (2) the organization continues to work with TVA TPs and exercise due diligence to resolve material differences in the balances reported.

Management's Response – In commenting on a draft of this report, management concurred with our findings and recommendations and plans to take appropriate steps to implement control procedures, as follows:

- Controller organization will implement procedures to document independent reviews and approvals of intragovernmental data prior to final submission.
- Controller organization will continue its efforts to resolve differences with TPs as they arise.

The Controller stated in his comments that due to the cutoff date for the intragovernmental submission being earlier than TVA's quarterly reporting date, there will continue to be the possibility for post-closing adjustments to be made to TVA's financial statements that cannot be updated in the intragovernmental data submission. See the Appendix for management's complete response.

Auditor's Response – We concur with management's planned actions.

November 10, 2005

Ben R. Wagner, ET 3C-K

TRANSMITTAL OF DRAFT AUDIT REPORT – AUDIT 2005 - REVIEW OF
INTRAGOVERNMENTAL ACTIVITY AND BALANCES

This is in response to your memorandum dated November 1, 2005.

1) We concur with the findings and conclusions and will take appropriate steps to implement control procedures as follows:

a) We will implement procedures to document our independent reviews and approvals of intragovernmental data prior to final submission.

b) We will continue our efforts to resolve differences with trading partners as they arise.

2) We do note, however, that due to the cutoff date for the intragovernmental submission being earlier than TVA's quarterly financial reporting date, there will continue to be the possibility for post-closing adjustments to be made to TVA's financial statements that cannot be updated in the intragovernmental data submission. It is unfortunate that TVA cannot update its intragovernmental data submission to properly account for such adjustments.



Randy Trusley
Vice President & Controller
WT 5C-K

AH:KMc

cc: Russell Dotson, WT 5C-K
Andrew Holmes, WT 5C-K
Jeffrey Price, WT 5C-K
Mike Rescoe, ET 12A-K
Greg Stucky, WT 5C-K
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