



Memorandum from the Office of the Inspector General

August 7, 2008

Anda A. Ray, WT 11A-K

FINAL REPORT – INSPECTION 2007-11428-07 – REVIEW OF GOAT ISLAND
CAMPGROUND LEASE AGREEMENT

At the request of the Chief Financial Officer's (CFO) office, we initiated a review of selected marina and campground contracts to determine whether (1) payments to TVA were accurate and timely and (2) key provisions of the license agreement were complied with. This report presents the results of our work regarding Goat Island Campground (GIC).¹ The Vice President (VP) of Environmental Stewardship and Policy (ES&P) specifically requested GIC be included as one of the marinas/campgrounds reviewed. Under the terms of the lease agreement, GIC was provided use of the TVA land and TVA was to be paid a fee for the use of the property based on a percentage of gross revenues. TVA refers to these contracts as "percentage of gross" contracts.

In summary, we found the 2006 and 2007 fee payments to TVA were made on a timely basis, but the 2005 payment was made after the due date specified in the contract. In addition, we could not assess the accuracy of the 2005 and 2006 fee payments due to a lack of supporting documentation. However, based on the revenue and sales tax documentation we reviewed, the 2007 fee payment was in accordance with the contract requirement. In addition, while TVA accounting practices² provide guidance on the invoicing and receiving of lease and license payments, they contain no documented guidance on the management of the "percentage of gross" contracts (i.e., licenses and leases) including the verification of the accuracy of Licensee and Lessee payments. While not reflected in license and lease agreements for campgrounds and marinas, ES&P has implemented new payment control activities requiring supporting documentation for revenues. We also found nothing to indicate that GIC was not in compliance with other key provisions of the lease agreement pertaining to permanent residences and commercial general liability insurance; however, we did note a lack of written approval for modifications to the premises and an unapproved addition to a campsite. It also was noted that seasonal guests were given preference to return to their site each year and are allowed to leave camping vehicles and equipment on site while the campground is closed for winter months.

¹ TVA entered into a lease agreement for the operation of GIC. The Lessee will be referred to throughout this report as GIC.

² The applicable TVA accounting practices were External Billing (Standard Principles and Practices [SPP] 13.7) and Accounts Receivable (SPP 13.15).

BACKGROUND

On August 17, 1998, TVA entered into Contract RLR-72517 leasing GIC. The contract called for a term of 19 years. The leased premises located on Pickwick Lake in Tishomingo County, Mississippi, is owned by TVA, Tract No. XPR-458L. The Lessee is permitted use of the land and the shoreline for commercial recreation purposes. The campground has approximately 87 campsites.

Per the agreement, the GIC Lessee:

- Is to pay TVA five percent of the gross revenue collected during the year or a minimum payment of \$1,600, whichever is greater. GIC was required to make the payment no later than January 31st for the previous operating year ending December 31st.
- Must support the January 31st payment with a report of gross revenue for the previous annual period which must be certified by the Lessee. Gross revenue includes all sales proceeds, rentals, fees, or other payment from all operations on the leased premises excluding collections for sales tax and fishing and hunting licenses.
- Has the right to make improvements, erect structures, and install equipment on the premises upon receipt of advanced written approval from TVA. The Lessee was not to install or permit the installation of porches, equipment storage sheds, appliances, or similar structures. In addition, GIC could not use or permit the use of mobile homes or campers for residences. However, upon TVA's advanced written approval, one residence could be established for a resident manager along with appropriate equipment storage facilities.
- Must maintain commercial general liability insurance and a performance bond or letter of credit.
- Could allow seasonal campsite rentals with durations up to eight months. However:
 - Seasonal campsite rentals could not occupy more than 75 percent of the campsites.
 - TVA's advanced written approval of detailed operational guidelines was required.
 - The remaining 25 percent of the campsites could not be rented for more than 21 consecutive days.
 - Campsites below the maximum shoreline contour (elevation 419.6 mean sea level) may not be rented between November 1st and March 31st for more than 14 consecutive days.
 - All camping units must remain truly mobile, year-round.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review were to determine whether (1) payments to TVA were accurate and timely and (2) key provisions of the license agreement were complied with. To achieve our objectives, we:

- Identified and documented key agreement provisions by (1) reviewing the lease and (2) interviewing key TVA personnel.

- Interviewed applicable TVA ES&P employees to (1) determine whether payments have been made to TVA under the lease agreement, (2) determine whether TVA granted written approval for any modifications to the premises, (3) identify key control activities, (4) ascertain whether any opportunities exist to improve contract language and controls, and (5) identify any other potential issues pertaining to the lease.
- Obtained supporting documentation for lease payments to determine whether lease payments have been made in accordance with the contract provisions.
- Obtained and reviewed documentation to ensure commercial general liability insurance and a performance bond/letter of credit were maintained as required by the agreement.
- Performed a site visit and walkdown of the property to (1) document GIC operations, (2) review documentation applicable to the key contract provisions, and (3) visually observe structures and equipment. An ES&P employee escorted us on our walkdown of GIC.

The scope of the inspection included payments to TVA from GIC and other lease provisions from January 1, 2005, through December 31, 2007. This inspection was conducted in accordance with the "Quality Standards for Inspections."

FINDINGS

Our review found that GIC's 2006 and 2007 fee payments were made on a timely basis, but the 2005 fee payment was made after the due date. In addition, based on the financial information available, we could not assess the accuracy of the payments for 2005 and 2006, but the 2007 payment appeared accurate based on revenue and sales tax data reviewed. In addition, while TVA accounting practices provide guidance on the invoicing and receiving of lease and license payments, they contain no documented guidance on the management of the "percentage of gross" contracts (i.e., licenses and leases) including the verification of the accuracy of Licensee and Lessee payments. While not reflected in the agreements, ES&P has implemented new payment control activities requiring supporting documentation for revenues. We also found nothing to indicate that GIC was not in compliance with the other key lease provisions except for the lack of written approval for modifications to the premises and an unapproved addition to a campsite. We also noted seasonal guests were given preference to return to their site each year and are allowed to leave camping vehicles and equipment on site while the campground is closed for winter months.

ACCURACY AND TIMELINESS OF PAYMENTS

To determine if GIC has complied with lease payment terms, we reviewed the payment documentation submitted by GIC to TVA. We also reviewed supporting documentation available at the campground and maintained by the campground's external accountant. In summary, we found that:

- The 2006 and 2007 payments were made on a timely basis, but the 2005 payment was made after the due date specified in the agreement.
- Due to a lack of supporting documentation, we could not determine if the 2005 and 2006 payments to TVA accurately reflect GIC's revenues for the respective operating

years. The 2007 reported revenue amount, which was used to calculate TVA's payment, appears accurate based on the revenue reports and sales tax documentation reviewed.

We obtained invoices, revenue reports, and copies of the checks received by TVA from GIC. According to the contract, GIC was required to make the payment no later than January 31st for the previous operating year ending December 31st. Documentation showed that payments for 2006 and 2007 were made timely. While we found no payment date for 2005 in the documentation provided, the invoice sent to the campground was dated August of 2006. The invoice stated that an amount was due, indicating the payment was made after the January 31, 2006, deadline. The table below lists payment due dates and actual payment dates which were shown in the documentation reviewed.

Year	Payment Due Date	Payment Date
2005	August 7, 2006	Not Available
2006	January 17, 2007	December 29, 2006 ³
2007	No Due Date Noted	January 29, 2008

We could not assess the accuracy of the payments to TVA in 2005 and 2006 due to a lack of supporting documentation. According to GIC's current management and external accountant, a change in campground management has facilitated documentation improvements. Supporting documentation for 2007 was available and, based on this information, the payment to TVA was accurately determined.

According to Operations' Business Services, prior to 2007 documentation to support the revenue amounts reported to TVA was not required. GIC's only requirement during 2005 and 2006 was to provide a signed gross revenue statement for the year. It appears that GIC complied with this requirement in both 2005 and 2006. The statements were not dated and therefore we cannot determine whether they were submitted by the January 31st deadline. GIC submitted their 2007 revenue report in March 2008. Along with the revenue report, GIC submitted supporting documentation in the form of monthly sales tax calculations.

Policies and Procedures

TVA accounting practices External Billing (SPP 13.7) and Accounts Receivable (SPP 13.15) provide guidance on the invoicing and receiving of lease and license payments. We found no documented guidance on the management of the "percentage of gross" licenses and leases including the verification of the accuracy of Licensee and Lessee payments. TVA Operations' Business Services personnel recently took over the invoicing and payment process for the percentage of gross licenses and leases from the individual watershed teams. According to Operations' Business Services personnel, key control activities relating to the payment process were implemented in 2007 including requiring Licensees and Lessees to provide gross revenue documentation prior to being invoiced by TVA. These new activities appear to address certain invoicing and payment controls. However, the licenses and leases have not been amended to reflect these changes.

³ GIC closes annually in October. Therefore, the payment for 2006 could be determined and paid before the end of the year.

COMPLIANCE WITH KEY CONTRACT PROVISIONS

We performed a walkdown of GIC during the offseason and found (1) no permanent residences with the exception of a manager's residence allowable under the contract, and (2) the campground appeared well maintained and clean. We also found GIC:

- Had commercial general liability insurance and a letter of credit in accordance with contract requirements.
- Appeared to be in compliance with the seasonal rental provision in the contract. Specifically, the contract requires that the seasonal rental be for a maximum duration of eight months and that only 75 percent of the sites may be rented for the season. According to campground management, the campground operates between the months of March and October. The campground has approximately 87 sites and between 60 and 62 (between 69 and 71 percent) of those are seasonal leases.

However, we also noted a lack of written approval for modifications to the premises and an unapproved addition to a campsite. According to the contract, GIC has the right to make improvements, erect structures, and install equipment on the premises upon receipt of advanced written approval from TVA. Campground management indicated that they had received only verbal approval for a partially built equipment shed and 20 new campsites they have not developed yet. The contract also states that the Lessee is not to install or permit the installation of porches, equipment storage sheds, appliances, or similar structures. During our walkdown, we noted one instance where lattice was permanently attached to create a patio as shown in pictures below. The ES&P representative identified this as an issue.

While not specifically disallowed in the lease agreement, the ES&P representative indicated that boats and recreational vehicles should not be stored at the campsites while the campground is closed. The contract language does state the premises and any public facilities constructed thereon shall at all times be made available for use by all members of the general public without distinction or discrimination. During our visit in the offseason, GIC had numerous campsites which still had recreational vehicles or boats stored at the campsites as seen in the pictures below. Additionally, GIC maintains seasonal lease contracts for several of the campsites which automatically renew annually until the Lessee terminates the lease. TVA has developed a campground compliance committee with the objective of developing a consistent campground contract compliance process. According to TVA personnel, issues being discussed include a methodology of ensuring campsites at licensed/leased campgrounds are available to the general public for use.



RECOMMENDATIONS

We recommend the VP, ES&P:

- Implement written guidance, as deemed necessary, regarding the management of recreational facilities' "percentage of gross" contracts.
- Determine whether licenses and leases should be amended based on the implementation of payment control activities. ES&P personnel also plan to consider any opportunities for improvement identified by the campground compliance committee.

These recommendations also apply to the other six "percentage of gross" contracts in which separate reports were issued.

- - - - -

This final report is for your review and final action. Please advise us of your planned actions (i.e., management decision) in response to our findings within 60 days of the date of this report.

Information contained in this report may be subject to public disclosure. Please advise us of any sensitive information in this report that you recommend be withheld.

If you have any questions, please contact Michael A. Driver, Project Manager, at (423) 751-8158 or Gregory C. Jaynes, Deputy Assistant Inspector General, Inspections, at (423) 751-7821. We appreciate the courtesy and cooperation received from your staff during this review.



(for) Robert E. Martin
Assistant Inspector General
(Audits and Inspections)
ET 3C-K

HRK:BKA

cc: Bridgette K. Ellis, WT 11A-K
Peyton T. Hairston, Jr., WT 7B-K
Tom D. Kilgore, WT 7B-K
John E. Long, Jr., WT 7B-K
Richard W. Moore, ET 4C-K
Emily J. Reynolds, OCP 1L-NST
Stephen B. Summers, WT 4B-K
OIG File No. 2007-11428-07