



Memorandum from the Office of the Inspector General

April 4, 2012

Diane T. Wear, WT 4B-K

REQUEST FOR FINAL ACTION – AUDIT 2011-14340-01 – PROCESS IMPROVEMENTS FOR TVA’S COMPLIANCE WITH THE IMPROPER PAYMENTS INFORMATION ACT

The Office of the Inspector General performed an audit of the Tennessee Valley Authority’s (TVA) compliance with the Improper Payment Information Act (IPIA) for fiscal year (FY) 2011. Audit 2011-14340, issued on March 12, 2011, found TVA was in compliance with IPIA requirements that were applicable to TVA. However, during our audit we identified some areas where TVA can improve its process for IPIA reporting to better ensure that it meets IPIA requirements in the future. TVA management’s written comments, which addressed their suggestions, management decision, and actions planned or taken, have been included in this report. See Appendix B for TVA’s complete response.

BACKGROUND

As required by IPIA (as amended by the Improper Payments Elimination and Recovery Act [IPERA] of 2010), we performed a review of TVA’s *Improper Payment Information Report – FY 2011*. The Office of Management and Budget (OMB) guidance requires each agency Inspector General to review agency improper payment reporting in the agency’s annual Performance and Accountability Report (PAR) or Annual Financial Report (AFR) and accompanying materials to determine if the agency is in compliance with IPIA. In particular, to determine compliance with IPIA, the agency Inspector General should review the agency’s PAR or AFR (and any accompanying information) for the most recent FY. Compliance with IPIA means the agency has:

- Published a PAR or AFR for the most recent FY and posted the report and any accompanying materials required by the OMB on the agency Web site.
- Conducted a program specific risk assessment for each program or activity that conforms to Section 3321 of Title 31 U.S.C. (if required).
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
- Published programmatic corrective action plans in the PAR or AFR (if required).
- Published, and met, annual reduction targets for each program assessed to be at risk and measured for improper payments.

- Reported a gross improper payment rate of less than 10 percent for each program and activity in which an improper payment estimate was obtained and published in the PAR or AFR.
- Reported information on its efforts to recapture improper payments.

For information pertaining to our objective, scope, and methodology, see Appendix A.

FINDINGS AND RECOMMENDATIONS

This was the first year OMB required agency Inspector Generals to provide an opinion on agency compliance with IPIA. During our review, we noted TVA did not have a formal process for obtaining, documenting, and reporting improper payments for the IPIA report. As a result, TVA had to rerun some reports and search for documentation for some of the information we requested for our review. TVA can improve its process for IPIA reporting and better ensure that it meets IPIA requirements with a more formal process. Specifically, we recommend TVA:

1. Document all processes related to complying with IPIA. These processes may include, but are not limited to, the identification, calculation, and recapture of improper payments.

TVA Management's Comments – In response to our recommendation, TVA stated Accounts Payable (AP) is developing a comprehensive document that will include background of legislation, requirements, and steps for gathering data related to Improper Payment reporting. The process will be documented by September 30, 2012, before the FY 2012 improper payments report is due. See Appendix B for TVA's complete response.

Auditor's Response – The Office of the Inspector General (OIG) concurs with the planned actions.

2. Maintain documentation of all reports used to identify potential improper payments as well as documentation related to actual improper payments.

TVA Management's Comments – In response to our recommendation, TVA stated AP will maintain data monthly in folders for review. Actual improper payment amounts and descriptions are logged on an excel spreadsheet and will be maintained on the AP shared server folder. See Appendix B for TVA's complete response.

Auditor's Response – The OIG concurs with the planned actions.

3. Consider posting TVA's *Improper Payments Information Report – FY 2011* on the agency Web site to increase transparency and better align its policy with that of other agencies.

TVA Management's Comments – In response to our recommendation, TVA stated it will consider posting the improper payment information report if legislation thresholds are exceeded. TVA will annually evaluate whether its improper payments fall below

thresholds or if required to issue a PAR or AFR instead of an Annual Management Report, as noted in the guidance. See Appendix B for TVA's complete response.

Auditor's Response – Since TVA is not required to post TVA's *Improper Payments Information Report – FY 2011* on the agency Web site, TVA's response was complete. However, the OIG notes TVA's stance on this matter is in conflict with recent statements made by TVA executives pertaining to increased agency transparency.

4. Document a formal review process to help ensure TVA accurately reports improper payments.

TVA Management's Comments – In response to our recommendation, TVA noted the document developed in response to Recommendation No. 1 will include the review steps taken to ensure data is accurately reported. See Appendix B for TVA's complete response.

Auditor's Response – The OIG concurs with the planned actions.

- - - - -

Please notify us within one year from the date of this memorandum when final action is complete. 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 Ricky L. Taylor, Project Manager, at (865) 633-7370 or Rick C. Underwood, Director, Corporate Governance and Finance Audits, at (423) 785-4824. We appreciate the courtesy and cooperation received from your staff during this audit.



David P. Wheeler
Deputy Assistant Inspector General
(Audits)
ET 3C-K

RLT:HAC

cc: Micheal B. Fussell, WT 9B-K
Peyton T. Hairston, Jr., WT 7B-K
Joseph J. Hoagland, WT 7B-K
Tom Kilgore, WT 7B-K
Richard W. Moore, ET 4C-K
Emily J. Reynolds, OCP 1L-NST
John M. Thomas III, MR 6D-C
Denise M. Thompson, WT 4A-K
Robert B. Wells, WT 9B-K
OIG File No. 2011-14340-01

OBJECTIVE, SCOPE, AND METHODOLOGY

As part of our annual audit plan, we assessed the Tennessee Valley Authority's (TVA) *Improper Payment Information Report – FY 2011* to determine whether TVA was in compliance with the Improper Payments Information Act of 2002. Our audit scope was TVA's *Improper Payment Information Report – FY 2011* and supporting documentation.

In general, to achieve our objective, we:

- Interviewed Financial Services personnel to gain an understanding of the process and methodology used to calculate and report improper payments for FY (fiscal year) 2011.
- Obtained and reviewed TVA's *Improper Payment Information Report – FY 2011*.
- Obtained and reviewed legislative guidance related to improper payments, such as (1) the Improper Payments Information Act (IPIA) of 2002, (2) the Improper Payments Elimination and Recovery Act (IPERA) of 2010, and (3) Appendix C of the Office of Management and Budget (OMB) Circular A-123.
- Requested and obtained opinions pertaining to TVA's legal obligations from both TVA's Office of the General Counsel and the Office of the Inspector General's Legal Counsel concerning TVA's compliance requirements with regard to IPIA/IPERA and Appendix C of the OMB Circular A-123. In addition, we obtained guidance from an OMB representative concerning TVA's compliance requirements with regard to IPIA/IPERA and Appendix C of the OMB Circular A-123.
- Compared TVA's IPIA report to legislative guidance to determine compliance.
- Reviewed a judgmental sample of improper payments consisting of approximately 73 percent of the total dollar amount of reported improper payments.
- Reviewed a judgmental sample of recaptured improper payments consisting of approximately 59 percent of the total dollar amount of reported recaptured amounts.
- Selected a random sample of 10 items from TVA's sample of 106 payments that TVA sampled as part of the IPIA requirements. We reviewed the support for the 10 items to determine if TVA's assumptions regarding whether or not the payment was paid correctly were reasonable.¹

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹ We judgmentally selected each of the samples to attain additional comfort that the improper payment amounts reported by TVA were reasonable. Our samples were not intended to allow for any type of projections to be made.

April 2, 2012

David P. Wheeler, ET 3C-K

REQUEST FOR COMMENTS - DRAFT AUDIT 2011-14340-01 - PROCESS IMPROVEMENTS
FOR TVA'S COMPLIANCE WITH THE IMPROPER PAYMENTS INFORMATION ACT

This is in response to findings and recommendations in the subject report..

1. Document all processes related to complying with IPIA. These processes may include, but are not limited to, the identification, calculation, and recapture of improper payments.

Accounts Payable (AP) had multiple documents for pieces of the improper payments reporting including legislation requirements, a credit process/recovery document, and an outline of the reporting areas used for improper payments. AP is developing a comprehensive document to combine these items into one. This document will include background of legislation, requirements, and steps for gathering data related to Improper Payment reporting. The process will be documented by September 30, 2012, before the FY12 improper payments report is due.

2. Maintain documentation of all reports used to identify potential improper payments as well as documentation related to actual improper payments.

AP conducts daily, monthly and annual reviews of reports and system data to identify and document improper payments. Data will be maintained monthly in folders for review. Actual improper payment amounts and descriptions are logged on an excel spreadsheet and will be maintained on the AP shared server folder.

3. Consider posting TVA's Improper Payment Information Report - FY 2011 on the agency Web Site to increase transparency and better align its policy with that of other agencies.


TVA 's amount of improper payments falls below the definition of "significant" in the Improper Payments Elimination and Recovery Act of 2010 ("Act"), which is the same definition OMB is using in OMB Circular A-123, Appendix C, Parts I, A, 7, Step 1. Based on this TVA will consider posting the improper payment information report if legislation thresholds are exceeded. TVA will annually evaluate whether its improper payments fall below thresholds or if required to issue a Performance and Accountability Report or Annual Financial Report instead of an Annual Management Report as noted in the guidance.

4. Document a formal review process to help ensure TVA accurately reports improper payments.

As noted in number 1 above, the document will include the review steps taken to ensure data is accurately reported.

David P. Wheeler
Page 2
April 2, 2012

If you have any questions, please contact Denise Thompson of Accounts Payable at (865) 632-3250, or B. Lee Allen at (865) 632-4404.



Diane Wear
VP & Controller
WT 4B-K

DMT:KMc

cc: Michael B. Fussell, WT 9B-K
Joseph J. Hoagland, WT 7B-K
Tom Kilgore, WT 7B-K
John M. Thomas III, MR 6D-C
Denise M. Thompson, WT 4A-K
Robert B. Wells, WT 9B-K
OIG File No. 2011-14340-01