



Memorandum from the Office of the Inspector General

August 28, 2007

Bridgette K. Ellis, WT 11B-K
Janet C. Herrin, WT 10D-K

**FINAL REPORT – INSPECTION 2007-509I – REVIEW OF TRUST FUNDS ADMINISTERED
BY RIVER OPERATIONS AND THE OFFICE OF ENVIRONMENT AND RESEARCH**

Attached is the subject final report for your review and action. As discussed with you and your staff on July 31, 2007, the subject report is being issued in presentation format. Your informal comments to the draft report have been incorporated in the final report. Please advise us of your planned actions 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 which you recommend be withheld.

If you have any questions, please contact Rick C. Underwood, Project Manager, at (423) 751-3108 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.

Ben R. Wagner
Deputy Inspector General
ET 3C-K

GCJ:BJA

Attachment

cc (Attachment):

Buff L. Crosby, LP 5U-C
Tom D. Kilgore, WT 7B-K
William R. McCollum, Jr., LP 6A-C
Richard W. Moore, ET 4C-K
Emily J. Reynolds, OCP 1L-NST
OIG File No. 2007-509I



Review of Trust Funds Administered by River Operations and the Office of Environment and Research

2007-509I

August 28, 2007



Summary of Findings

Our review of trust funds administered by River Operations (RO) and the Office of Environment and Research (OE&R) found:

- No policies or procedures applicable to the creation or administration of trust funds existed; and
- The majority of the trust funds were basically inactive; trust funds were established with appropriated funding; and the trust funds received limited oversight.

TVA management provided informal comments on a draft of this report and generally agreed with our findings and recommendations. Where appropriate, we clarified the report and/or included management's comments.



Background

- ◆ River System Operations & Environment (RSO&E) was restructured in May 2007 and split into RO and OE&R. RSO&E had responsibility for providing environmental leadership for TVA. RSO&E also had agency-wide responsibility for conducting research and technology development to decrease costs, improve power system performance, and reduce the impacts of TVA's operations on the environment.
 - The responsibility of RO includes managing the Tennessee River and its tributaries as an integrated, balanced, and efficient system. According to the RO website, “We continually look for ways to increase the benefits the river provides to the Valley’s people today, while protecting and improving its condition for future generations.”
 - Based on information obtained in Audit 2007-005F, Identification of TVA’s Cash Accounts, we initiated a review of trust funds identified as being administered by RSO&E.
 - Based on information obtained from Chief Financial Officer (CFO) personnel, RSO&E was responsible for 11 trust funds. Of these, 10 had balances totaling approximately \$3.4 million as of January 2007. Since the reorganizations of RSO&E in May 2007, the responsibility for these various funds has fallen to RO and OE&R.



Background (continued)

The activity on each of the trust funds from October 1, 2005, through January 2007 was as follows:

TVA Contract No.	Fund Name	Receipt	Disbursements	January 2007 Balance
TV-89981V	Tombigbee River Valley Water Mgt. Dist.	\$838.44	\$838.44	\$187,167.44
TV-90762V	Lamar County, Alabama	\$68.68	\$68.68	\$15,331.37
TV-92228V	City of East Ridge (Per the Sr. VP RO, they are in the process of closing this trust fund.)	\$1,088.06	\$1,088.06	\$242,894.55
TV-92179V	Belle Mina Water Harvesting Project-Auburn	\$141.66	\$21,195.50	\$8,044.19
TV-92230V /99997581	Spring City, Tennessee	\$1,941.61	\$6,007.18	\$429,230.59
TV-40534A	Town of St. Paul, Virginia (Per the Sr. VP RO, this trust fund has recently been closed.)	\$500.02	\$1,427.86	\$110,676.72
TV-75181A	Beech River Watershed Development	\$0.00	\$0.00	\$4,583.80
TV-62000A	Northeast Mississippi Area Development Fund A & B	\$1,010,983.72	\$2,544.10	\$1,438,169.12
TV-79231T	University of Alabama in Huntsville (Energy Sourcebook)	\$0.00	\$349.51	\$134,818.55
TV-63501A	Ocoee River/State of Tennessee	\$0.00	\$81,378.44	\$779,596.86
TV-79233T ¹	Upper East Tennessee Education Co-op	\$13.73	\$43,981.61	\$0.00
	Total	\$1,015,575.92	\$158,879.38	\$3,350,513.19

¹ Per trust fund program manager, this trust fund has been rolled into the John-Judy Educational Consortium fund and is no longer maintained as a separate TVA trust fund.



Background (continued)

- ◆ Each of the trust funds is unique in purpose and provisions. Noted purposes included:
 - Cooperating in a project to design, construct, and operate a water harvesting project on University-owned lands in the Tennessee Valley.
 - Providing for recreational releases from Ocoee No. 2 Dam and for the development, operation, and maintenance of a whitewater recreation area on the Ocoee River in Polk County, Tennessee.
 - Developing and implementing a flood damage reduction plan.
- ◆ Per trust fund program managers, the trust funds were established with appropriated funding.



Objective and Scope

Objective

- ◆ The objective of our review was to determine whether the trust funds are being administered in accordance with the terms of the agreements and applicable laws and regulations.

Scope

- ◆ Our scope included all trust funds with balances or activity from October 2005 through January 2007 that were identified as being administered by RO or OE&R.



Methodology

To achieve our objective, we:

- ◆ Interviewed key personnel to identify any policies, procedures, laws, and regulations applicable to the creation and administration of trust funds.
- ◆ Obtained and reviewed the agreement for each trust fund to determine (1) the purpose of the trust; (2) fund provisions, including specific laws and regulations that may apply to each fund; and (3) how the funds can be used.
- ◆ Reviewed information provided by CFO personnel and trust agreements to determine (1) the current number of trust funds administered by RO and O&ER; (2) the TVA amount approved for each trust fund; (3) the current balance of each trust fund; (4) activity in each trust fund from October 1, 2005, through January 2007; and (5) whether the trust funds were funded with appropriated dollars.



Methodology (continued)

- ◆ Judgmentally selected 3 of the 11 trust funds based on receipt and disbursement activity during the period under review; and a fourth at the request of the trust fund program manager. For these four, we reviewed supporting documentation including invoices, work plans, and budgets to determine whether disbursements were made in accordance with fund provisions.
 - We also interviewed trust fund program managers to ascertain information on all of the seven remaining trust funds including purpose, use, and status.

This inspection was conducted in accordance with the “Quality Standards for Inspections.”



Finding 1 –Policies and Procedures

Our review found no TVA policies or procedures governing the creation or administration of trust funds. The trust fund managers and other RO and OE&R personnel confirmed our assessment. In addition:

- There are no requirements for monitoring the use of funds to ensure expenditures are appropriate.
- One contract manager suggested agency guidance on how to administer the trust fund would be helpful.

When this finding was discussed with the Senior Vice President, OE&R, and the Senior Vice President, RO, they stated that before developing administration and/or monitoring guidelines, the purpose and continued need for each trust fund should be evaluated. Appropriate guidelines can then be implemented for the remaining trusts. We agree with this suggested action.



Finding 2 – Usage and Monitoring

In summary, based on our review of the 11 trust agreements, interviews with TVA program managers for all 11 trusts, and review of other supporting documentation, it appears that:

- The majority of the trust funds were basically inactive.
- The funds were established with appropriated funding.
- The funds were receiving limited oversight. However, the level of TVA monitoring that can be performed is dictated by each agreement and varies.
 - ♦ In response to our finding that the level of TVA monitoring that can be performed is dictated by each agreement and varies, TVA management stated, “We agree with this statement and were pleased that the limitations provided by the Contract's trust agreements were recognized and noted. TVA served as a conduit to hold the funds and implement the projects. In some projects, other government entities, financial institutions, and trustees held these responsibilities.”



Finding 2 – Usage and Monitoring (continued)

Our review of bank statements, invoices, travel vouchers, budgets, and work plans for four judgmentally selected trusts found the following:

Trust Agreement 1

Our review of supplied documentation for expenses reimbursed under this agreement for the period under review noted that the program manager was receiving, reviewing, and approving invoices from the partner institution. The majority of documentation reviewed was for reimbursement of travel expenses for trips between Auburn, Alabama, and Belle Mina, Alabama. These consisted mainly of mileage and subsistence related expenses and appeared appropriate.

However, during our review we identified instances of relatively high expenses reimbursed without oversight. These items included:

- A three-night hotel stay in Tampa, Florida, for approximately \$269.00 per night and two invoices for \$1,457.45 and \$2,018.45 for the use of a private plane.
 - ♦ The U.S. General Services Administration (GSA) per diem rate for this area in the year of the expenditure was \$93.00 per night.
 - ♦ TVA Accounting Practice 15 states that “the actual expense reimbursement for subsistence expenses cannot exceed the maximum amounts authorized by the supervisor and in no event can it exceed 150 percent of the applicable standard or locality rate as established by the General Services Administration.” In this case, 150 percent of the GSA locality rate is \$139.50.



Finding 2 – Usage and Monitoring (continued)

At our request, the program manager contacted the educational institution partner and obtained the following explanation:

- “Hotel expenses at Hampton Inn @ \$78.30 per night and at Wyndam Harbour Island Hotel @ \$269 per night: PI² drove from Auburn to Tampa for the 25th Annual International Irrigation Show dated 11/11/04 -11/17/04. The PI left Auburn at 5:00 p.m., drove to Perry, Florida, spent the night at the Hampton, then drove the remaining portion the next morning. The Wyndham Hotel was among the block of hotels set aside for the show.
- Air travel was used to maximize work time by faculty members on campus and at Bella Mina on Oct 25th. Review of work at the Bella Mina site required a full 8 hours and would have required them to leave at 4 a.m. and returning [SIC] at 10 p.m. Teaching and other commitments by two of the members required them to be on campus October 24th and October 26th. The decision to use Rushton Air was because the University plane was unavailable on that day, and the cost of the flight was approximately \$500 less than the University plane.
- Supporting documentation is not currently available, but PI feels the circumstances were the same as the flight taken on 10/25/05.”

² PI is a term used to refer to the Principle Investigator. Per the program manager, the PI is the lead on basically all aspects of the project from conception to design and installation to operations and maintenance to project closure.



Finding 2 – Usage and Monitoring (continued)

Trust Agreement 2

We found that under the terms of the agreement, TVA did not have the authority to approve individual expenditures but was given approval authority over the annual budget and any modifications. Discussions with the program manager found that no detailed reviews had been performed of budget submissions since the agreement was signed in 1984.

Additional review noted that the trust fund agreement requires repayment to TVA through the use of a Federal Sinking Fund (FSF). Under terms of the agreement, if the partner agency earned a net income in any year, it was to place half of the net income into a FSF. We found no sinking fund has been established, and TVA has not been repaid the approximately \$7 million.

- Our review of the recent budget submission found the agency has made a net income in the past and been self-sufficient since 1983.

In response to our finding, management provided a letter dated July 27, 2007, which showed that TVA formally raised the FSF issue as part of the partner agencies FY 2009 budget proposal. Specifically, TVA stated concern about the FSF and that it had not yet been established and was not found in the FY 2009 budget proposal. TVA management does not expect this notice to have impact on the scheduled budget submission to the applicable state.



Finding 2 – Usage and Monitoring (continued)

Trust Agreement 2 (continued)

In response to our finding, management also stated:

- ◆ The entity has had use of funding sources other than the specific operating revenues applicable to the trust fund agreement. Funding from other sources total over \$14.4 million. In addition to these funds, TVA invested over \$7 million in the facility and infrastructure (creating a debt obligation). TVA management believes that the availability and use of these other funding sources could somewhat disguise when the entity exhibited a positive cash flow.
- ◆ The entity’s budget is submitted to the state for review and acceptance. While the contract provides that the other two signatories and TVA all have budget approval authority, they stated that there has never been, to TVA management’s knowledge, an occasion where the other two signatories have responded positively or negatively to the annual budget and had any recognizable impact on the actions of the entity’s Board and its submission of the annual budget to the state.



Finding 2 – Usage and Monitoring (continued)

Trust Agreement 3

This fund had not had any significant activity since 1995. However, the program manager indicated that the partner institution refused to allow TVA to take the remaining funds and move them to the John-Judy Educational Consortium fund. The partner institution indicated that they owned the funds while the agreement allows TVA to remove the funds from the trust at any time. TVA wanted to make these funds, about \$135,000, available to the partner institution as well as other educational institutions within the Tennessee Valley through the John-Judy Educational Consortium fund. The program manager stated that TVA has not attempted to retrieve the funds since 2000.

Trust Agreement 4

This fund is administered by the Treasurer of the state of Tennessee. Under the agreement, TVA is to be provided with quarterly reports of fund usage as well as an annual report. Per the current program manager, she has not been provided with either report since taking her current position in February 2006.

Additional Information

In addition to reviews of specific supporting documentation, program managers reported that for two of the trusts the majority of the available funds had been spent on planning/ engineering services, leaving insufficient funds for the completion of the project. It appears that the TVA review of the use of funds was limited to whether the expenditures complied with the agreement terms and not whether they facilitated the accomplishment of the trust objective.



Recommendations

We recommend the Senior Vice Presidents of RO and OE&R:

- Assess each trust fund and determine the appropriate strategic action for each fund (e.g., on-going administration or closure).
- Determine the level of documented guidance needed by program managers in the administration of on-going trust funds.

