



Memorandum from the Inspector General, ET 4C-K

March 12, 2012

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**AUDIT 2011-14340 – TVA FISCAL YEAR 2011 COMPLIANCE WITH THE IMPROPER PAYMENTS INFORMATION ACT OF 2002 AS AMENDED BY THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010**

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. The Act requires each agency's Inspector General to submit the results of their assessment of the agency's compliance with IPIA to the agency head and to the (1) Senate Homeland Security and Government Affairs Committee, (2) House Committee on Oversight and Governmental Reform, (3) Comptroller General, and (4) Controller of the Office of Management and Budget. As you know, the "agency head" for TVA is the TVA Board and, thus, the reason each of the Board members is receiving this report. The results of our audit were favorable for TVA in that we found TVA was in compliance with IPIA requirements that were applicable to TVA. There is no action required of you as a result of this report.

**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 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 that report and any accompanying materials required by the Office of Management and Budget 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 the Attachment.

### **FINDINGS**

Two significant conditions impacted our determination of TVA's compliance with IPIA requirements.

- First, as a government corporation, TVA issues an Annual Management Report rather than a PAR or AFR.
- Second, TVA's improper payments fell below IPIA threshold amounts. IPIA defines significant improper payments as \$10 million of all program activity payments and 2.5 percent of program outlays. TVA's improper payments totaled \$7,446,226 million and 0.074 percent of program outlays.<sup>1</sup>

As a result of not issuing a PAR or AFR and being under the IPIA improper payments thresholds, TVA was largely exempt from the requirements of IPIA. In our opinion, TVA was only required to comply with Item No. 2 (conduct a program specific risk assessment), noted on the previous page. We reviewed the process used by TVA to identify programs susceptible to improper payments and noted it is in compliance with IPIA guidance. TVA performed a risk assessment for FY 2011, and its primary programs susceptible to improper payments are its supply chain programs. TVA calculated the total amount of payments subject to review equaled \$10,098,354,626.

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<sup>1</sup> As of the date of its IPIA report, TVA reported it had recaptured \$6,524,681 of the total improper payments of \$7,446,226 identified for FY 2011. TVA also identified \$430 of uncollectible improper payments.

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Recipients of this report are responsible for safeguarding it to prevent publication or other improper disclosure. We have issued a separate report to TVA concerning suggestions for improving TVA's process for complying with IPIA. 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.



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William Sansom, TVA Board  
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The Honorable Gene Dodaro  
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Attachment

cc (Attachment):

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OIG File No. 2011-14340

## **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.<sup>1</sup>

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.

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<sup>1</sup> 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.