



Memorandum from the Office of the Inspector General

May 3, 2013

Katherine J. Black, LP 3A-C
S. Russ Steward, LP 4W-C

REQUEST FOR FINAL ACTION – AUDIT 2012-14669 – AUDIT OF TVA'S VEHICLE ALLOWANCE AND ASSIGNED VEHICLE PROGRAMS

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 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 or wish to discuss our findings, please contact Jennifer R. Torregiano, Senior Auditor, at (865) 633-7372 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 the audit.

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

JRT:DBS
Attachment
cc (Attachment):

Gregory F. Barker, WT 8D-K
R. Phillip Essary, GAC 1A-C
Donna G. Golden, LP 3A-C
Peyton T. Hairston, Jr., WT 7B-K
Janet Herrin, WT 7A-K
Joseph J. Hoagland, WT 7C-K
William D. Johnson, WT 7B-K

R. Michele Lancaster, LP 4W-C
Richard W. Moore, ET 4C-K
Emily J. Reynolds, OCP 1L-NST
Robert B. Wells, WT 9B-K
Andrea L. Williams, WT 9B-K
OIG File No. 2012-14669



Office of the Inspector General

Audit Report

To the Vice President, Human
Resources, and to the Vice
President, Supply Chain

AUDIT OF TVA'S VEHICLE ALLOWANCE AND ASSIGNED VEHICLE PROGRAMS

Auditor
Jennifer R. Torregiano

Audit 2012-14669
May 3, 2013

ABBREVIATIONS

CAO	Chief Administrative Officer
CEO	Chief Executive Officer
COO	Chief Operating Officer
EVP	Executive Vice President
FY	Fiscal Year
TVA	Tennessee Valley Authority
VP	Vice President

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 AND RUSS STEWARD TO DAVID P. WHEELER



Audit 2012-14669 – Review of TVA’s Vehicle Allowance and Assigned Vehicle Programs

EXECUTIVE SUMMARY

Why the OIG Did This Audit

The Tennessee Valley Authority (TVA) provides biweekly vehicle allowances to eligible officers and key managers in accordance with Vehicle Allowance Guidelines that were effective April 1, 2006. Additionally, TVA maintains a light fleet of about 2,900 vehicles, which are available for assignment to any TVA employee with a business need. Business units with an assigned vehicle pay a monthly fee to TVA Fleet Services for use of the vehicle. In fiscal year 2011, TVA paid \$648,050 in vehicle allowances to 65 employees. Also, business units paid approximately \$9.66 million in monthly fees during fiscal year 2011 to Fleet for use of assigned vehicles.

We scheduled an audit of TVA’s vehicle allowance and assigned vehicle programs to determine the cost effectiveness of the programs and if proper controls were in place to ensure program eligibility guidelines were being met. Our specific audit objectives were to determine if (1) TVA employees receiving vehicle allowances met established eligibility requirements and if proper controls were in place to determine eligibility criteria were met, (2) TVA employees with assigned vehicles met established criteria for having an assigned vehicle and if proper controls were in place to determine eligibility criteria were met, and (3) the cost effectiveness of both the vehicle allowance and assigned vehicle programs.

What the OIG Found

Our audit of TVA’s vehicle allowance and assigned vehicle programs found:

- TVA does not document how officers and key managers who are paid vehicle allowances meet the “business need” eligibility criteria specified in TVA’s Vehicle Allowance Program guidelines. Based on the available data, it appears a large percentage of the personnel who receive vehicle allowances may not meet TVA’s stated criteria of significant business related travel. We also noted several administrative matters within the guidance that are not followed.
- TVA’s Fleet management did not maintain adequate documentation to validate the adequacy of TVA’s controls over vehicle assignments.



Audit 2012-14669 – Review of TVA’s Vehicle Allowance and Assigned Vehicle Programs

EXECUTIVE SUMMARY

Additionally, we were unable to determine which program is more cost effective because data obtained during the audit indicated the cost differential between the two programs was small. However, overall cost savings may be available because there are individuals who either receive a vehicle allowance or have an assigned vehicle who do not appear to have a business need for the allowance or vehicle.

What the OIG Recommends

We recommend TVA’s Vice President (VP), Human Resources:

- Maintain the documentation used to determine if an employee (1) meets the eligibility requirements of a “business need” for a vehicle allowance and (2) is still eligible for a vehicle allowance after a job change.
- Periodically review the mileage driven by employees provided a vehicle allowance based on the 13,000 miles per year criteria and determine if the allowance is still warranted. Documentation of this review and the basis for any determinations made should be maintained.
- Update the Vehicle Allowance Guidelines to reflect changes in the required approvals and review the guidelines periodically for any required changes. Obtain the President & Chief Executive Officer’s approval on any changes made to the Vehicle Allowance Guidelines.
- Coordinate with Fleet to ensure individuals with vehicle allowances do not have a vehicle assigned in their name, and ensure Fleet is made aware of individuals receiving a vehicle allowance in the future.
- Review the business driving needs of employees currently receiving vehicle allowances to determine if there is a true business need for each individual to have the allowances.

We recommend TVA’s VP, Supply Chain:

- Maintain all approved TVA Forms 9314A in accordance with TVA-SPP-31.01.
- Either (1) ensure TVA Form 9314A is updated when an assigned vehicle is replaced, or (2) develop a new process for documenting when an assigned vehicle is replaced.



Audit 2012-14669 – Review of TVA’s Vehicle Allowance and Assigned Vehicle Programs

EXECUTIVE SUMMARY

- Review the business driving needs of employees currently receiving assigned vehicles to determine if there is a true business need for each individual to have the vehicles.

TVA Management’s Comments

TVA management agreed with the audit findings and recommendations in the report and has taken or plans to take corrective actions. See Appendix B for TVA management’s complete response.

Auditor’s Response

The Office of the Inspector General generally concurs with the actions taken and planned by TVA management.

BACKGROUND

During fiscal year (FY) 2011, the Tennessee Valley Authority (TVA) business units were billed about \$9.66 million for the use of vehicles assigned to them by TVA's Fleet Services. Additionally, TVA paid \$648,050 in vehicle allowances to 65 officers and key managers in lieu of providing them with an assigned vehicle or another means of transportation.¹ Based on the significance of the costs incurred for the vehicle assignments and allowances, we scheduled an audit to determine the cost effectiveness of the programs and if proper controls were in place to ensure program eligibility guidelines were being met. The specific details of each of these programs are summarized below.

Vehicle Allowance Program

In March 2006, TVA developed Vehicle Allowance Guidelines for officers and key managers whose job responsibilities require significant business-related travel. The guidelines, which were effective April 1, 2006, provided for TVA to pay a flat-dollar biweekly allowance to authorized officers and key managers.² The Vehicle Allowance Program guidelines include the following eligibility criteria:

Officers and key managers who meet one or more of the following requirements are eligible to receive a vehicle allowance:

- Engage in extensive business-related travel during the year (13,000 miles or more).
- Serve in a position that is subject to frequent call out at any day or hour.
- As otherwise approved by the President & Chief Operating Officer (COO) and Chief Administrative Officer (CAO) & Executive Vice President (EVP), Administrative Services.

Vehicle allowances are granted on a "business need" basis and must be approved jointly by the President & COO and the CAO & EVP, Administrative Services

Additionally, the guidelines (1) stated any employee who receives a vehicle allowance is not eligible to have a TVA vehicle assigned to them and (2) included biweekly and annual vehicle allowance amounts for various eligible positions. The annual allowances ranged from \$6,500 for key managers to \$11,700 for

¹ During FY2012, TVA received an Open Line question regarding the payment of car allowances to executives. In response to the question, TVA stated an automobile allowance program is provided to officers and key managers whose job responsibilities require extensive business-related travel. TVA further stated to be eligible for the allowance, an executive must engage in extensive business-related travel during the year (13,000 miles or more), serve in a position that is subject to frequent call out at any day or hour, and be approved by the Chief Executive Officer (CEO). According to TVA's response, approximately two-thirds of its executive population receives the taxable benefit, and payments range from \$6,500 – \$11,700 annually.

² Prior to implementing the vehicle allowance program, lump-sum cash payments were provided that could be applied to the purchase or lease of a vehicle for a specified period (typically 36 months).

Nuclear Site Vice Presidents (VP) and EVPs. During FY2011, \$648,050 was paid in vehicle allowances to 65 employees. This amount increased to \$666,750 in FY2012.

Assigned Vehicle Program

TVA maintains a light fleet of about 2,900 vehicles for employees to use.³ About 500 of the vehicles are sedans available for assignment to employees with a business need for a vehicle for 6 months or more. Business units pay monthly fees to Fleet for each assigned vehicle based on rates designed to encompass the costs Fleet incurs for the vehicle.

According to Fleet management, assigned sedans should be used about 13,000 miles per year for the business unit to maximize their investment. Business units are provided monthly cost and usage reports, which include the mileage of the vehicle. Although sedans do not have to be returned if they are driven less than 13,000 miles a year, Fleet will encourage business units to determine if a rental vehicle or WeCar⁴ would be a better alternative.

To receive an assigned vehicle, employees submit TVA Form 9314A to Fleet. The form includes the purpose/justification for the vehicle, a description of the type of vehicle needed, and the signatures of the requestor and the requestor's manager. A Fleet Representative signs the form and obtains approval from the business unit VP. Additionally, there is a section for the description of the vehicle being replaced, if applicable.

Fleet allows an individual to have multiple vehicles assigned in its name. This is a common occurrence, as many organizations have small pools of vehicles for use rather than vehicles assigned to specific individuals. In FY2011, TVA's business units reimbursed approximately \$9.66 million to Fleet for the use of their assigned vehicles. This amount included \$1.6 million for sedans.

OBJECTIVES, SCOPE, AND METHODOLOGY

We scheduled an audit of TVA's vehicle allowance and assigned vehicle programs to determine the cost effectiveness of the programs and if proper controls were in place to ensure program eligibility guidelines were being met. A complete discussion of our audit objectives, scope, and methodology are included in Appendix A to this report.

³ The light fleet includes vehicles up to 1.5 tons and does not include heavy fleet vehicles (trucks 2 tons or larger) and equipment managed outside of Supply Chain Fleet management. This data is as of July 2012.

⁴ WeCar is a membership-based, car-sharing program through Enterprise that provides a totally automated transportation solution.

FINDINGS

Our audit of TVA's vehicle allowance and assigned vehicle programs found:

- TVA does not document how officers and key managers who are paid vehicle allowances meet the "business need" eligibility criteria specified in TVA's Vehicle Allowance Program guidelines. Based on the available data, it appears a large percentage of the personnel who receive vehicle allowances may not meet TVA's stated criteria of significant business related travel. We also noted several administrative matters within the guidance that are not followed.
- TVA's Fleet management did not maintain adequate documentation to validate the adequacy of TVA's controls over vehicle assignments.

Also, we were unable to determine which program is more cost effective because data obtained during the audit indicated the cost differential between the two programs was small. However, overall cost savings may be available because there are individuals who either receive a vehicle allowance or have an assigned vehicle who do not appear to have a business need for the allowance or vehicle.

The following provides a detailed discussion of each of our findings.

VEHICLE ALLOWANCE ELIGIBILITY DOCUMENTATION AND OTHER ADMINISTRATIVE MATTERS

As discussed in the Background section of this report, in April 2006, TVA instituted Vehicle Allowance Guidelines for officers and key managers whose job responsibilities require significant business-related travel. Vehicle allowances are granted on a "business need" basis and must be approved jointly by the President & COO and the CAO & EVP, Administrative Services. During FY2011, TVA provided \$648,050 in vehicle allowances to 65 employees. This expenditure increased to \$666,750 in FY2012.

As discussed further below, our audit of TVA's Vehicle Allowance Program found (1) TVA does not generally document the business need for providing vehicle allowances to employees and (2) instances of noncompliance with the administration of the guidelines.

Limited Documentation of Eligibility Criteria for Significant Business Related Travel

TVA's Vehicle Allowance Guidelines state vehicle allowances are granted to officers and key managers on a "business need" basis. The specific criteria for determining eligibility to receive an allowance included (1) engaging in extensive business-related travel during the year (13,000 miles or more) or (2) serving in a position is subject to frequent call out at any day or hour. TVA management informed us TVA's Compensation group works with Employee Relations to determine if an employee needs a vehicle allowance.

To determine if the vehicle allowance guidelines were being followed, we reviewed the approval documentation for 37 of 71 employees who received a vehicle allowance at any time during FY2010 or FY2011. We found 34 of these (92 percent) did not include a discussion of the eligibility criteria the employee met. The remaining 3 approval requests specifically mentioned extensive business-related travel as the reason for eligibility, while 2 of these also mentioned specific mileage amounts.

Because the supporting documentation provided by TVA did not state which eligibility criteria employees receiving the vehicle allowance met in 92 percent of the cases sampled, we performed additional testing to ascertain qualification under the guidelines.

- To determine if those receiving vehicle allowances qualified by driving 13,000 miles or more a year, we reviewed data from the TVA Expense Reimbursement System.⁵ As summarized in the following table, 55 of the 71 employees who received a vehicle allowance claimed less than 13,000 miles per year for reimbursement.

Average Annual Miles Claimed by Employees Receiving Vehicle Allowances	
Miles Claimed	Employees
0	5
1 – 3,000	6
3,001 – 6,000	10
6,001 – 9,000	16
9,001 – 13,000	18
Subtotal Below 13,000	55
More than 13,000	16
Total	71

Table 1

For the 2 employees whose allowance approvals stated they would drive over 20,000 miles per year, one claimed mileage reimbursement for 5,604 miles over a 13-month period and the other claimed mileage reimbursement for 10,625 miles over a 15-month period.

- To determine if those receiving vehicle allowances qualified because they serve in a position subject to frequent call out, we requested job descriptions for the positions held by the 37 individuals in our sample. Because of position changes for the individuals in our sample, we requested 55 different job descriptions. TVA initially provided 20 of these, and our review noted none of the job descriptions mentioned travel or call-out requirements. We discussed this with TVA personnel who stated they did not believe we would find any specific language on the remaining job descriptions either. As a result, we did

⁵ Employees receiving a vehicle allowance are also able to receive a reduced mileage reimbursement rate when using their vehicle for business-related travel.

not ask TVA to continue attempting to obtain the remaining 34 job descriptions.

In summary, based on the available data, it appears a large percentage of the personnel who receive vehicle allowances may not meet TVA's stated criteria of significant business related travel or being subject to frequent call out.

Other Instances of Noncompliance With the Guidelines

In addition to the eligibility criteria discussed above, the vehicle allowance guidelines state vehicle allowances must be approved jointly by the President & COO and the CAO & EVP, Administrative Services.⁶ Also, the guidelines state any employee who receives a vehicle allowance is not eligible to have a TVA vehicle assigned to them. However, as discussed below, we found TVA did not follow the guidance.

- Sixteen of the thirty-seven (43 percent) sampled approval requests were not approved by the CAO & EVP, Administrative Services. According to TVA personnel, the reason for not requiring the approval of the CAO & EVP, Administrative Services, is because in establishing the TVA Compensation Plan in May 2007, the TVA Board delegated to the CEO the authority to approve all personnel and compensation actions for which the TVA Board is responsible but has not reserved for itself to approve.
- Six of the seventy-one (8.45 percent) employees who received a vehicle allowance during FY2010 or FY2011 also had an assigned vehicle at some point during that time. This apparently occurred because Fleet allows an individual to have multiple vehicles assigned in their name, regardless of whether or not they are the individual using the vehicle. However, since it is explicitly mentioned in the guidelines, employees with vehicle allowances should not have vehicles assigned in their name.

ASSIGNED VEHICLE PROGRAM DOCUMENTATION NEEDS IMPROVEMENT

TVA maintains a light fleet of about 2,900 vehicles including about 500 sedans available for assignment to employees with a business need for a vehicle for 6 months or more. To receive an assigned vehicle, employees submit TVA Form 9314A to Fleet. The form includes the purpose/justification for the vehicle, a description of the type of vehicle needed, and the signatures of the requestor and the requestor's manager. Additionally, there is a section for the description of the vehicle being replaced, if applicable.

To determine the adequacy of the vehicle assignment controls and the cost effectiveness of the vehicle assignments, we selected a sample of 200 of the

⁶ The President & COO was appointed President and CEO in October 2010. Also, the CAO & EVP, Administrative Services, position was eliminated for a time period beginning in March 2010. The guidelines were not updated to reflect these changes.

vehicles assigned at September 30, 2010, and September 30, 2011. As discussed below, we (1) requested the corresponding TVA Form 9314A for each vehicle assignment and (2) reviewed mileage data for the 30 sedans included in our sample.

Inadequate Documentation of Approval Forms

Fleet management was only able to provide 16 (8 percent) of the requested forms. For the remaining 184 forms, Fleet management offered the following explanations:

- Sixty-six forms were not available because the vehicle in question was a replacement for another vehicle previously assigned to the business unit.
- Sixty-two forms could not be located.
- Fifty-six forms were no longer available because forms submitted prior to 2008 were not maintained.

Although the 16 forms Fleet management was able to provide (1) included the necessary approvals and (2) had vehicle requests that matched the description of the vehicle provided, we could not validate the adequacy of TVA's controls over vehicle assignments due to the high number of missing forms.

Cost Effectiveness of Vehicle Assignments

TVA's vehicle fleet includes about 500 sedans assigned to employees with a business need for a vehicle for 6 months or more. According to Fleet management, assigned vehicles should be used about 13,000 miles per year for the business unit to maximize their investment. Fleet management stated monthly cost and usage reports are provided to business units that includes the mileage of the vehicle. Although sedans driven less than 13,000 miles do not have to be returned, Fleet management stated it is up to the business unit to determine if they want to keep the sedan or find an alternate source, such as a rental, to fulfill their requirements.

We reviewed the mileage data for the 30 sedans included in our sample. As summarized in the accompanying table, 14 of the sedans were not driven 13,000 miles in a year (or had less than 12 months of data and were not on track to be driven 13,000 miles in a year). However, we noted cost and usage reports had been provided to the business units for all vehicles in our sample.

Average Miles Driven Assigned Vehicles	
Average Annual Miles Driven	Number of Vehicles
0	1
1 – 3,000	1
3,001 – 6,000	2
6,001 – 9,000	2
9,001 – 12,999	8
13,000 or more	16
Total	30

Table 2

COST EFFECTIVENESS OF PROGRAMS

As previously discussed, TVA spent \$648,000 on the Vehicle Allowance Program in FY2011. This amount increased to \$666,750 during FY2012. During September 2012, 57 individuals were receiving vehicle allowances, which totaled \$46,800 for the month, resulting in an average cost of \$821 per individual, per month, for the current vehicle allowance program. (Additionally, individuals who receive vehicle allowances are also able to receive a reduced mileage reimbursement rate when using their vehicle for business travel.)

We compared this cost to the cost of assigned vehicles provided to individuals by Fleet management. Documentation provided by Fleet management indicated the average monthly cost of an assigned mid-sized sedan in September 2012 was \$370 (average cost for a new sedan). In addition, those with an assigned vehicle use a TVA credit card to purchase fuel, which costs TVA an estimated \$235 per month, per vehicle based on current fuel prices.⁷

We estimated TVA could save approximately \$150,000 per year by providing sedans to individuals who are currently paid vehicle allowances. However, we recognize there may be offsetting factors (such as TVA's assumed liability risk for assigned vehicles) that make it difficult to determine which program is most cost effective. However, TVA's mileage records indicate there may be individuals who are receiving vehicle allowances or have an assigned vehicle without a business need for the allowance or vehicle.

RECOMMENDATIONS

1. We recommend TVA's VP, Human Resources:

- Maintain the documentation used to determine if an employee (1) meets the eligibility requirements of a "business need" for a vehicle allowance and (2) is still eligible for a vehicle allowance after a job change.
- Periodically review the mileage driven by employees provided a vehicle allowance based on the 13,000 miles per year criteria and determine if the allowance is still warranted. Documentation of this review and the basis for any determinations made should be maintained.
- Update the Vehicle Allowance Guidelines to reflect changes in the required approvals and review the guidelines periodically for any required changes. Obtain the President & CEO's approval on any changes made to the Vehicle Allowance Guidelines.

⁷ According to September 2011 fuel data provided by Fleet, the average amount of fuel purchased for mid-size sedans in September 2011 was 67 gallons. At current fuel prices, that would equate to approximately \$235 per month.

- Coordinate with Fleet to ensure individuals with vehicle allowances do not have a vehicle assigned in their name, and ensure Fleet is made aware of individuals receiving a vehicle allowance in the future.
- Review the business driving needs of employees currently receiving vehicle allowances to determine if there is a true business need for each individual to have the allowances.

TVA Management's Comments - In response to our draft report TVA management stated:

- Human Resources will (1) ensure management provides adequate justification prior to recommending that an employee receive a vehicle allowance, or continue to receive a vehicle allowance following a change in position and (2) document the justification for a vehicle allowance in future requests.
- Human Resources will conduct a review of the business related mileage expected and reported by employees who currently receive a vehicle allowance by June 30, 2013, and will continue to conduct reviews on a periodic basis.
- TVA is currently reviewing the Guidelines and plan to submit an update, Including changes in required approvals and other possible recommended changes to the CEO for approval by June 30, 2013. Human Resources also ensured that the Guidelines will be periodically reviewed and updated at least once every two years.
- Human Resources, Executive Compensation, and Supply Chain, Fleet Services, has put a process in place to ensure that Fleet Services is notified whenever an employee is approved to begin receiving a vehicle allowance.
- TVA would conduct a comprehensive review to ensure that all employees who currently receive a vehicle allowance meet the requirements of a "business need" for the allowance by June 30, 2013.

See Appendix B for TVA management's complete response.

Auditor's Response – The Office of the Inspector General concurs with the actions taken and planned by TVA management.

2. We recommend TVA's VP, Supply Chain:

- Maintain all approved TVA Form 9314As in accordance with TVA-SPP-31.01.
- Either (1) ensure TVA Form 9314A is updated when an assigned vehicle is replaced, or (2) develop a new process for documenting when an assigned vehicle is replaced.

- Review the business driving needs of employee's currently receiving assigned vehicles to determine if there is a true business need for each individual to have the vehicles.

TVA Management's Comments – In response to our draft report, TVA management stated Supply Chain has implemented a document retention process that establishes all vehicle records will be maintained for a period of 7 years after the disposal of the vehicle. Also, going forward, all replacement vehicles will require business unit verification of vehicle specifications, and approval will be required from a VP or higher.

Management also stated Supply Chain continually works to refine the management of the assigned vehicle program. Monthly vehicle usage reports are provided to each strategic business unit/business unit and underutilized vehicles challenged. In addition, personally owned vehicle reimbursements and rental activity are reviewed to help with the optimization of all modes of employee travel.

See Appendix B for TVA management's complete response.

Auditor's Response – The Office of the Inspector General generally concurs with the actions taken and planned by TVA management. As noted by management, monthly vehicle usage reports are provided to each strategic business unit/business unit. However, since it is up to the business unit to determine if it wants to keep vehicles that are not fully utilized, Fleet management may want to consider providing periodic usage reports of underutilized assigned vehicles to TVA senior management.

OBJECTIVES, SCOPE, AND METHODOLOGY

We scheduled an audit of Tennessee Valley Authority's (TVA) vehicle allowance and assigned vehicle programs to determine the cost effectiveness of the programs and if proper controls were in place to ensure program eligibility guidelines were being met. Our specific audit objectives were to determine if (1) TVA employees receiving vehicle allowances met the established eligibility requirements and if proper controls were in place to determine eligibility criteria were met, (2) TVA employees with assigned vehicles met the established criteria for having an assigned vehicle and if proper controls were in place to determine eligibility criteria were met, and (3) the cost effectiveness of both the vehicle allowance and assigned vehicle programs.

Since our audit objective was to assess TVA's system of internal controls related to the vehicle allowance and assigned vehicle programs, the controls associated with the programs were reviewed as part of this audit. To achieve our objectives, we:

- Interviewed TVA personnel to determine the criteria TVA uses to determine who is eligible for a vehicle allowance.
- Reviewed a judgmental sample of approved vehicle allowance requests to determine compliance with stated criteria. We chose a random sample of 25 allowance requests out of the 71 employees who received an allowance during our audit period using a random number generator. Additionally, we reviewed 12 allowance requests while performing specific audit steps designed to review employees (1) who received erroneous allowance amounts during the audit period and (2) whose allowance amount changed during the audit period. The result was 37 of 71 vehicle allowance requests reviewed. We chose this method of sampling due to the small size of the population. Because we included other sample items with our random selections, the results cannot be projected to the population.
- Reviewed controls in place to determine vehicle allowance eligibility criteria were met.
- Interviewed TVA personnel to determine the criteria TVA uses to determine who is eligible for an assigned vehicle.
- Reviewed a sample of assigned vehicles for compliance with stated criteria. We used a 95 percent confidence level with an expected error rate of 5 percent and a precision probability of 3 percent to calculate a sample size of 203 assigned vehicles out of the population of 4,254 vehicles assigned to an employee at September 30, 2010, or September 30, 2011. We chose this method of sampling due to the large size of the population and to have the ability to project to the population, which is possible with a statistical sample. (Note: Although we selected a sample of 203 vehicles, 3 of those vehicles were purged from the automated system used by Fleet, so we were not able to review them. We determined during our audit we would not need to project to the population, and therefore did not replace these three sample items.)

OBJECTIVES, SCOPE, AND METHODOLOGY (cont.)

- Reviewed controls in place to determine assigned vehicle eligibility criteria were met.
- Compared the costs of the vehicle allowance and assigned vehicle programs.

When evaluating results of our audit work, we used both qualitative and quantitative factors when considering the significance of an item. The quantitative factors to be considered in determining an item's significance were:

- If the dollar value of an error(s) exceeded 3 percent of the total amount spent on vehicle allowances during fiscal year (FY) 2011 (\$19,442 is 3 percent of \$648,050).
- If the projected error rate of vehicle assignments at year-end FY2010 and 2011 exceeded 10 percent.

The qualitative factors considered in determining an item's significance were:

- If there were no controls in place to determine eligibility criteria were met.
- If there was no eligibility criterion in place.

The scope of the audit was all vehicle allowances paid out during FY2010 and FY2011 and all vehicles assigned at September 30, 2010, and September 30, 2011, (to provide updated information for TVA management, we also obtained more recent cost data from FY2012 where applicable). Our fieldwork was conducted between September 2012 and January 2013. This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require 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.

April 29, 2013

David P. Wheeler, ET 3C-K

**RESPONSE TO REQUEST FOR COMMENTS - DRAFT AUDIT 2012-14669 - AUDIT OF
TVA'S VEHICLE ALLOWANCE AND ASSIGNED VEHICLE PROGRAMS**

Reference: OIG Memorandum to Vice President, Human Resources and Vice President,
Supply Chain dated March 13, 2013

This is in response to your March 13, 2013, draft audit report on TVA's Vehicle Allowance and Assigned Vehicle Programs. Our comments regarding the findings and recommendations presented in the audit report are as follows:

Recommendation Number One for Human Resources: Maintain the documentation used to determine if an employee (1) meets the eligibility requirements of a "business need" for a vehicle allowance and (2) is still eligible after a job change.

Human Resources' Response: We acknowledge that specific justification documenting the "business need" is generally not explicitly stated in requests submitted to the CEO for approval. Beginning immediately, Human Resources will:

- Ensure management provides adequate justification prior to recommending that an employee receive a vehicle allowance, or continue to receive a vehicle allowance following a change in position.
- Document the justification for a vehicle allowance in future requests, either formally or through notation. This justification will accompany all requests submitted to the CEO for approval and be filed with the requests.

In addition, we will conduct a comprehensive review to ensure that all employees who currently receive a vehicle allowance meet the requirements of a "business need" for the allowance by June 30, 2013. Documentation of this review and the basis for any determinations will be maintained by Human Resources.

Recommendation Number Two for Human Resources: Periodically review the mileage driven by employees provided a vehicle allowance based on the 13,000 miles per year criteria and determine if the allowance is still warranted. Documentation of this review and the basis for any determinations made should be maintained.

Human Resources' Response: We acknowledge findings and will conduct a review of the business related mileage expected and reported by employees who currently receive a vehicle allowance by June 30, 2013. We will also continue to conduct reviews on a periodic basis. Documentation of this review and the basis for any determinations will be maintained in Human Resources.

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Recommendation Number Three for Human Resources: Update the Vehicle Allowance Guidelines to reflect changes in the required approvals and review the guidelines periodically for any required changes. Obtain the President and Chief Executive Officer's approval on any changes made to the Vehicle Allowance Guidelines.

Human Resources' Response: Human Resources is currently reviewing the Guidelines and plans to submit an update, including changes in required approvals and other possible recommended changes to the CEO for approval by June 30, 2013. Human Resources will also ensure that the Guidelines are periodically reviewed and updated at least once every two years.

Recommendation Number Four for Human Resources: Coordinate with Fleet to ensure individuals with vehicle allowances do not have a vehicle assigned in their name, and ensure Fleet is made aware of individuals receiving a vehicle allowance in the future.

Human Resources' Response: Human Resources, Executive Compensation, and Supply Chain, Fleet Services, have put a process in place to ensure that Fleet Services is notified whenever an employee is approved to begin receiving a vehicle allowance.

Recommendation Number One for Supply Chain: Maintain all approved TVA Form 9314As in accordance with TVA-SPP-31.01.

Supply Chain's Response: Supply Chain has implemented a document retention process. Document Retention – Section 4.2 of TVA-SPP-32.03, Management of TVA Light Vehicle Fleet, established that all vehicle records will be maintained for a period of seven years after the disposal of the vehicle. The records for all other documents not unique to Fleet Management are maintained in accordance with the applicable TVA Records Control Authorizations.

Recommendation Number Two for Supply Chain: Either (1) ensure TVA Form 9314A is updated when an assigned vehicle is replaced, or (2) develop a new process for documenting when an assigned vehicle is replaced.

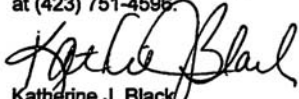
Supply Chain's Response: Supply Chain has implemented the following process: going forward all replacement vehicles will require business unit verification of vehicle specifications and approval will be required from a VP or higher and TVA-SPP-32.03 will be amended to incorporate this requirement.


Recommendation Number Three for Supply Chain: Review the business driving needs of employee's currently assigned vehicles to determine if there is a true business need for each individual to have a vehicle.

Supply Chain's Response: Supply Chain continually works to refine the management of the assigned vehicle program. Monthly vehicle usage reports are provided to each SBU/BU and underutilized vehicles challenged. In addition, personally-owned vehicle reimbursements and rental activity is reviewed to help with the optimization of all modes of employee travel.

David P. Wheeler
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Human Resources and Supply Chain would like to thank Jennifer T. Torregiano and the
OIG staff for their professionalism and cooperation in conducting this audit. If you have
further questions related to the vehicle allowance program, please contact Donna Golden
at 423-751-2507 and for questions related to assigned vehicles, please contact Phil Essary
at (423) 751-4596.


Katherine J. Black
Vice President, Human Resources
LP 3A-C


Russ Steward
Vice President, Supply Chain
BR 4D-C

GFB:DGG:MMS:RML

cc: Gregory F. Barker, WT 8D-K
Joseph V. Buckley, WT 3A-K
R. Phil Essary, GAC 1A-C
M. Scott Fugate, WT 3A-K
Donna G. Golden, LP 3A-C
Janet C. Herrin, WT 7A-K
Joseph J. Hoagland, WT 7C-K
Robert B. Wells, WT 9B-K
Andrea L. Williams, WT 9B-K
EDMS, WT CA-K