Memorandum from the Office of the Inspector General

October 11, 2018

Cynthia L. Herron, OCP 7B-NST

REQUEST FOR MANAGEMENT DECISION – AUDIT 2018-15534 – ENERGYRIGHT® SOLUTIONS LOAN OBLIGATIONS AND RECEIVABLES

Attached is the subject final report for your review and management decision. You are responsible for determining the necessary actions to take in response to our findings. Please advise us of your management decision within 60 days from the date of this report.

If you have any questions or wish to discuss our findings, please contact Robert L. Dixon, Senior Auditor, at (865) 633-7396 or Rick C. Underwood, Director, Financial and Operational Audits, at (423) 785-4824. We appreciate the courtesy and cooperation received from your staff during the audit.

David P. Wheeler
Assistant Inspector General
(Audits and Evaluations)
WT 2C-K

RLD:KDS
Attachment
cc (Attachment):

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Bradley R. Wagner, LP 4T-C
OIG File No. 2018-15534

Office of the Inspector General

Audit Report

To the Vice President,
EnergyRight® Solutions

ENERGYRIGHT® SOLUTIONS LOAN OBLIGATIONS AND RECEIVABLES

Audit Team
Robert L. Dixon
Jennifer R. Torregiano

Audit 2018-15534
October 11, 2018

ABBREVIATIONS

DARS	Distributor Annual Reporting System
ERS	EnergyRight® Solutions
FY	Fiscal Year
Guidelines	*EnergyRight® Program – Program Financing Guidelines*
LPC	Local Power Company
Regions	Regions Bank
TVA	Tennessee Valley Authority
Vanderbilt	Vanderbilt Mortgage and Finance, Inc.

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Audit 2018-15534 – EnergyRight® Solutions Loan Obligations and Receivables

EXECUTIVE SUMMARY

Why the OIG Did This Audit

The Tennessee Valley Authority's (TVA) EnergyRight® Solutions (ERS) program provides below-market rate loans to end-use customers for the installation of energy-efficient equipment and other weatherization upgrades. Eligible equipment includes, but is not limited to, newly installed heat pumps that meet the requirements of the loan program. TVA contracts with Regions Bank (Regions) to perform loan servicing functions for the program. We included an audit of loan obligations and receivables relating to TVA's ERS loan program in our annual audit plan after a review of TVA's financial statements indicated a significant outstanding receivables balance.

Our audit scope was ERS loan obligations and receivable balances for TVA's fiscal years 2013 through 2017, including loans originated or written off during that time frame. Over this 5-year period, there were 24,016 new loan originations totaling approximately $177.8 million and 1,680 loans written off totaling approximately $7.9 million (including principal and interest). Our audit objectives were to (1) determine whether loans were issued in accordance with TVA policies and procedures, (2) confirm loan balances to verify the receivables, and (3) determine the extent to which loans were charged-off as bad debt and evaluate compliance with TVA's policies and procedures.

What the OIG Found

We found that loans were generally issued in compliance with TVA policies and procedures, specifically the Program Reference Manual, Section 1-1-A *EnergyRight® Program – Program Financing Guidelines* (Guidelines). However, we were unable to confirm individual loan balances to verify the TVA receivable amount because neither TVA nor Regions track individual loan balances. In addition, we found:

- Loan write-offs were generally not made in accordance with the Guidelines. Loans in default are defined as those that are past due for 180 days or that TVA has otherwise deemed to be uncollectible. Under the current contracts, TVA retains sole financial responsibility for delinquent loans.
- Summary-level, loan-program balances reported to TVA by local power companies (LPC) did not agree to those provided by Regions.
- LPC loan documentation retention needs improvement.
- Installation inspections are not required.

What the OIG Recommends

We recommend the Vice President, ERS, take the following actions:

1. Develop and implement an internal system to track loan program activity and individual loan balances.

2. Develop and implement procedures to review program data on a regular basis to identify delinquent loans.

3. Revise future contracts between TVA and LPCs to limit TVA's responsibility for interest accrued on delinquent loans and place liability with LPCs for interest charges after loans become 180 days past due.

4. Develop and implement procedures to review program data on a regular basis to reconcile Regions and LPC loan balances.

5. Update the Guidelines to (a) specify loan documentation to be retained by the LPC and (b) include an inspection requirement for all new loans issued.

TVA Management's Comments

TVA management provided actions they plan to take to address three of our five recommendations. See Appendix B for TVA management's response.

BACKGROUND

The Tennessee Valley Authority (TVA), through a partnership with Regions Bank (Regions) and participating local power companies (LPC), provides below-market rate loans to end-use customers for the installation of energy-efficient equipment and other weatherization upgrades. This program is administered by TVA's EnergyRight® Solutions (ERS) organization that has administered the current loan process through the eScore program since December 2014.[1] Our audit period included TVA's fiscal years (FY) 2013 through 2017. We included an audit of loan obligations and receivables relating to TVA's ERS loan program in our annual audit plan after a review of TVA's financial statements indicated a significant outstanding receivables balance.

As shown in Figure 1, as of September 30, 2017, TVA's loan obligations under the program were approximately $144.1 million and the related loans receivable balance (net of discounts)[2] was $125.2 million. As of September 30, 2017, 123 LPCs had customers with outstanding loan balances under the ERS program.

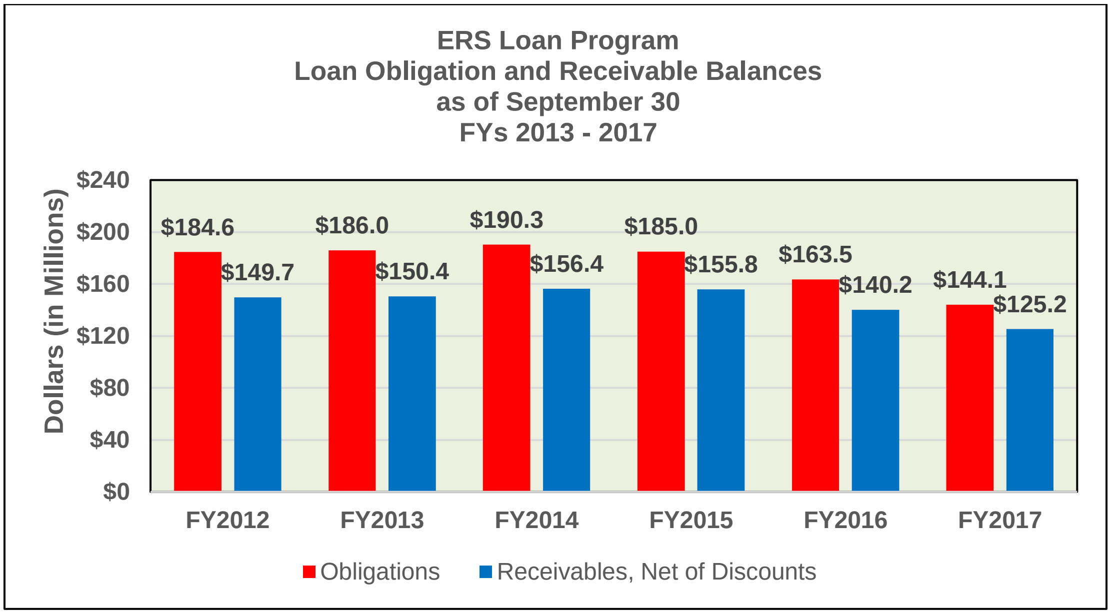

Figure 1

Loan Approval Process

In 1997, TVA contracted with Regions[3] to perform loan servicing functions for the program. TVA retained responsibility for establishing program policies and

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1 eScore™ is a program developed through a partnership between TVA and LPCs that provides homeowners with ways to make existing homes as energy-efficient as possible.

2 Since these loans are issued with below market interest rates, the difference between the fair value (using a market interest rate) and the contract value (using the stated interest rate) is recorded as a discount on the receivable.

3 The contract was originally executed with First American National Bank. First American National Bank merged with AmSouth Bank in 1999 and AmSouth Bank merged with Regions in 2006.

procedures, including determination of loan rates and credit requirements, and serves as loan guarantor. TVA markets the program through its LPCs. Requirements contained in the Program Reference Manual, specifically Section 1-1-A *EnergyRight® Program – Program Financing Guidelines* (Guidelines), are referenced in the LPC contracts and provide additional program guidelines.

TVA Treasury personnel informed us that loan rates are reviewed and set by TVA on a semiannual basis in order to maintain rates that result in recovery of program costs while providing customers with affordable options for increasing energy efficiency. Loan write-off rates and other factors are considered during this process. Loan interest rates during our audit period were set at 6 percent or 8 percent.

LPCs work with end-use customers to complete loan application documents and submit this information to Regions for evaluation. For an application to be approved, the applicant must be an owner of the home and typically should have a minimum credit score of 625. If these requirements are met, Regions will recommend approval of the loan to the submitting LPC. According to TVA ERS personnel, applications may still be considered for approval if the credit score falls below this threshold.

The Guidelines require compliance with the following additional criteria to complete origination of the loan:

- Any equipment financed must be newly installed by a TVA-approved contractor. These contractors are required to register with TVA and become part of the Quality Contractor Network.
- LPCs file liens to secure loans for the installation of equipment, such as a heat pump.
- The maximum financing amount of $15,000 may not be exceeded without specific approval from TVA.
- The payback term may not exceed 5 years for weatherization-only loans and 10 years for equipment loans.
- All required loan documents must be completed and signed by the applicant.

Each month, TVA purchases all new loans originated by LPCs and then sells these loans to Regions. When the work is completed, loan funds are disbursed from Regions directly to the contractor. TVA receives a payment from Regions at loan inception that generally represents the difference between the stated rate on the loan receivable and the 5-year treasury rate. This arrangement results in a monthly settlement payment from Regions to TVA, which includes amounts for loans purchased and any offsets relating to loan write-offs and other adjustments.

During TVA's FYs 2013 through 2017, 24,016 new loans were originated totaling approximately $177.8 million, as shown in Figure 2.

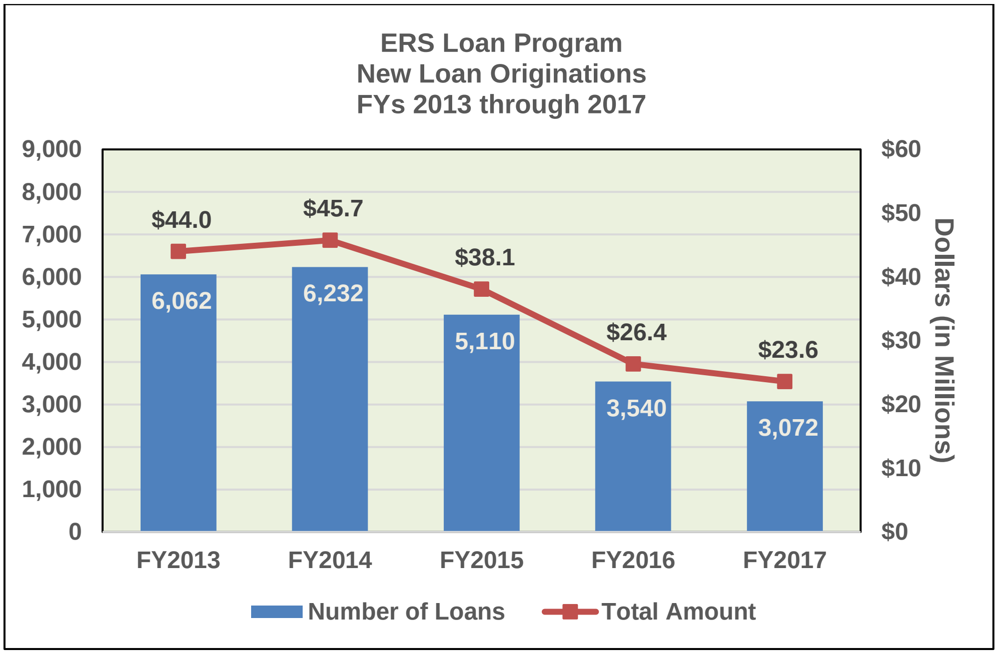

Figure 2

Loan Servicing and Administration

Loan amounts are billed by LPCs on each customer's monthly electric service statement. LPCs collect the customer payments each month and remit funds to Regions. In addition, LPCs maintain loan documentation, track outstanding loan balances, and provide monthly reports to Regions that summarize loan activity and reconcile the ending loan program balances. Regions aggregates the reporting information received from LPCs and provides TVA with monthly reports.[4] TVA utilizes the data received from Regions to record loan portfolio balances in the general ledger and monitor program performance.

Delinquent Loans

Under the terms of the contract with Regions, TVA retains sole financial responsibility for delinquent loans and compensates Regions for the unpaid principal and accrued interest balances of any loans considered to be in default. These are defined as loans that are past due for 180 days or that TVA has otherwise determined to be uncollectible. As interest continues to accrue on past-due loans that remain open, the contract between TVA and participating LPCs require that LPCs submit a loan for write off as soon as it becomes 180 days past due, unless the LPCs and TVA agree otherwise. Once TVA approves a write-off, the loan should be removed from an LPC's records of active loans. The LPC is then required to report the loan to Regions as written-off, which ceases the accrual of further interest amounts.

[4] The reports Regions provides to TVA are generally 2 months in arrears (e.g., the July report is submitted to TVA in September).

If a delinquent loan is allowed to remain open after reaching 180 days past due, TVA will incur charges for accrued interest indefinitely until the loan is written off. Similarly, if a loan that has been approved for write off is not removed from an LPC's records of active loans and reported to Regions as being written off, interest will continue to accrue. LPCs may continue to pursue collection after a loan is written off, with any subsequent payments remitted to Regions. In addition, as most loans for equipment are secured by liens, it is possible to recover at least a portion of the written-off amount.

Other Financing Option
In 2015, TVA introduced an additional financing option through eScore with Vanderbilt Mortgage and Finance, Inc., (Vanderbilt). However, the loan process is administered entirely by Vanderbilt, removing administrative responsibilities from LPCs and TVA. In addition, TVA does not guarantee the loans and has no financial responsibility for delinquent or defaulted loans. This program offers financing for similar energy-efficient upgrades, with the same maximum loan amount and payback term as the Regions loan program. Interest rates under this program are higher than the Regions loan program, ranging from 8.99 percent to 11.99 percent as of August 2018. Individual LPCs may only participate in one of the loan programs and cannot offer customers both financing options concurrently.[5] Since this audit focused on TVA's ERS loan obligation and receivable balances, loans financed under eScore through Vanderbilt were not reviewed.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to (1) determine whether loans were issued in accordance with TVA policies and procedures, (2) confirm loan balances to verify the receivables, and (3) determine the extent to which loans were charged-off as bad debt and evaluate compliance with TVA's policies and procedures. Our audit scope was ERS loan obligation and receivable balances for TVA's FYs 2013 through 2017, including loans originated or written off during that time frame. A complete discussion of our audit objectives, scope, and methodology is included in Appendix A.

FINDINGS

We found that loans were generally issued in compliance with TVA's policies and procedures, specifically, the Guidelines. However, we were unable to confirm individual loan balances to verify the TVA receivable amount because neither TVA nor Regions track individual loan balances. In addition, we found (1) loan write-offs were generally not made in accordance with the Guidelines, (2) summary-level, loan-program balances reported to TVA by LPCs did not

[5] The impact of this additional financing alternative can be seen in the decrease in loan originations through Regions since 2015. As of June 2018, 93 participating LPCs were issuing new loans under the Vanderbilt program, compared to 45 LPCs under the Regions program. The remaining 16 LPCs either currently offer their own independent financing option or none at all.

agree to those provided by Regions, (3) LPC loan documentation retention needs improvement, and (4) installation inspections are not required. The following provides a detailed discussion of our findings.

INDIVIDUAL LOAN BALANCES COULD NOT BE CONFIRMED

We were unable to confirm individual loan balances to verify the receivable balance. TVA does not maintain separate records of loan activity or balances, and thus is reliant upon Regions (and ultimately the individual LPCs) for this information. Neither TVA nor Regions tracks individual loan balances, and as such, they were unable to provide a listing of all loans outstanding with applicable balances at a point in time. Regions maintains records of the total outstanding loan program balances summarized by individual LPCs, and reports this information to TVA each month.

LOAN WRITE-OFFS GENERALLY DID NOT COMPLY WITH TVA GUIDELINES

We found loan write-offs were generally not made in accordance with the Guidelines. Specifically, we found loans are not always written off when they become 180 days past due. Loans in default are defined as those that are past due for 180 days or that TVA has otherwise deemed to be uncollectible. As interest continues to accrue on past-due loans that remain open, the contract between TVA and participating LPCs requires that LPCs submit a loan for write off as soon as it becomes 180 days past due, unless the LPC and TVA agree otherwise. Under the terms of the contract with Regions, TVA retains sole financial responsibility for delinquent loans and compensates Regions for the unpaid principal and accrued interest balances of any loans considered to be in default. As a result, the only entity subject to the contracts with an incentive to ensure loans are properly written off when uncollectible is TVA. For loans written off from FYs 2013 through 2017, the total amount of accrued interest TVA paid to Regions was approximately $1.02 million.

We selected a nonstatistical, random sample of 31 write-offs from a population of 1,680 that occurred in FYs 2013 through 2017. We found 17 of the 31 loans were either not submitted for write off when they became 180 days past due or they were not actually written off at the LPC after approval by TVA. As shown in Table 1 on the following page, we noted for the 1,680 loans written off from FYs 2013 through 2017, over 86 percent of the interest was incurred after loans became over 180 days past due.

Loan Write-Offs FY2013 – FY2017					
				Interest Paid After Becoming 180 Days Past Due	
FY	**# Of Loans Written Off**	**Principal**	**Total Interest**	**Amount**	**Percent of Total Interest**
2013	320	$1,298,295	$186,850	$158,558	84.9%
2014	397	1,502,319	338,033	305,366	90.3%
2015	374	1,589,908	201,293	168,593	83.8%
2016	274	1,171,935	92,343	68,876	74.6%
2017	315	1,297,918	206,220	181,017	87.8%
Totals	**1,680**	**$6,860,375**	**$1,024,739**	**$882,410**	**86.1%**

Table 1

We also noted that 5 LPCs accounted for 49.9 percent ($440,166) of the $882,410 in interest paid after the loans became 180 days past due but only accounted for 8.6 percent ($590,614) of the total principal write-off amount. While LPCs perform collection activities for delinquent loans, neither LPCs nor Regions are liable for unpaid principal or accrued interest amounts. Because TVA does not have a detailed listing of ERS loans and does not see any remittance information, they are reliant upon LPCs to inform them when an account needs to be written off and cannot determine on their own when a loan is 180 days past due.

TVA personnel informed us there have been "clean-ups" at LPCs where loans sat without remittance for years. Additionally, Regions personnel informed us it would inform TVA if it noticed loan activity that may warrant further review. As an example, Regions personnel informed TVA that an LPC was remitting a small amount each month relative to their overall ERS loan balance. When TVA investigated at the LPC, 26 loans were approved for write off in September 2017 totaling $114,797 in principal and $148,773 in interest ($145,404 of which was over 180 days). Some of those loans had a "date first past due" as far back as 1999.

Tracking and reviewing loan activity and individual loan balances to identify delinquent loans as well as revising terms in future contracts to place liability with LPCs for interest charges after loans become 180 days past due would help ensure loans are written off in compliance with the Guidelines.

LOAN BALANCES REPORTED BY LPCs AND REGIONS DID NOT AGREE

TVA receives monthly financial information from LPCs through the Distributor Annual Reporting System (DARS), which includes the outstanding loan program balance for each LPC. We compared the information received through DARS to the data received from Regions, as of September 30, 2017, and found loan balances reported by Regions were higher than those reported by the LPCs by $2,120,829. We requested documentation related to the 20 highest differences and determined the most common reason were timing differences related to (1) remittance owed by the LPC to Regions and/or (2) new loans. At six LPCs, the LPC was either not able to identify the reason for the difference or found loans incorrectly accounted for on their general ledger. As a result of testing, a total of 22 loans were identified by the LPC as being incorrectly accounted for. The details of the testing results are shown in Table 2.

Loan Balance Reconciliation			
	LPC Count	**Difference Before Testing**	**Difference After Testing**
All Differences	**81**	**$2,120,829**	**$40,234**
Sample Testing Results			
Timing Difference – no issue	9	666,572	0
Issue noted	6	(56,799)	20,216
LPC did not respond	2	(9,762)	(9,762)
Reconciled within an immaterial amount	1	64,233	42
Correct amount reported on wrong form line	1	1,482,023	(4,772)
Timing issue due to write-offs	1	(115,065)	(268)
Totals	**20**	**$2,031,202**	**$5,456**
Other Differences at September 2017	**61**	**$89,627**	**$34,778**

Table 2

Because many of the differences tested were determined to be equal to the remittance due to Regions and/or new loans, we reviewed the remaining 61 differences to determine if these were similar timing differences. We found 18 instances where the difference agreed exactly. After taking those 18 instances into account, the information reported by Regions to TVA (that is ultimately used to make entries to the general ledger) at September 2017 was approximately $40,000 higher than the amounts recorded and reported by the LPCs.

TVA's Financial Operations and Performance organization performs an annual Sarbanes-Oxley control to reconcile the financial information received through DARS to the data received from Regions. For the 2017 annual testing (balances reported as of June 2017), only two calculated differences met the testing thresholds required to warrant further investigation.[6] TVA investigated those two differences and found one was the result of the LPC reporting their ERS loan balance on the incorrect line in DARS. The other difference noted was due to a report timing issue.

LPC LOAN DOCUMENTATION RETENTION NEEDS IMPROVEMENT

We found LPC loan documentation retention needs improvement. We selected a nonstatistical, random sample of 25 loans originated during our audit period. Additionally, we selected a judgmental sample of 11 loans with equipment

[6] All LPCs with ERS loan balances over $1 million are compared. Any identified variance greater than 5 percent and $100,000 is investigated.

installation addresses outside the TVA service area. We obtained loan documentation from the respective LPCs, and evaluated compliance with the Guidelines. Our testing results are summarized in Table 3.

Loan Origination Testing		
	No. of Loans	**Loan Amount**
Population	24,016	$177,787,572
Sample Results		
No Issue	28	$213,039
Incomplete Documentation	5	23,180
Loan Rate Did Not Agree	2	11,374
Credit Score Below 625	1	9,630
Total	**36**	$257,223

Table 3

Our review of the loan origination documentation provided noted the following:

- No issues were noted on 28 loans.
- Incomplete supporting loan documentation was provided for five loans. In these cases, one or more required forms or other relevant information were not included in the documentation.
- The interest rates shown on the supporting documentation differed from the rates reported to TVA by Regions for 2 loans.
- The credit score of 623 shown on the supporting documentation provided was slightly below the minimum program score of 625 for 1 loan. The ERS Senior Program Manager informed us that applications with credit scores below the minimum may be considered for approval on a case-by-case basis, especially when the score is close to 625. However, no documentation of additional review or approval procedures was provided for this loan.

For the loans reviewed, we noted no instances where an applicant's overall qualifications were outside the standards set by TVA or other evidence that a loan was improperly issued. However, the items listed above indicate an opportunity for LPCs to improve document retention and record-keeping practices to ensure that accurate and complete loan documentation is maintained. While some level of documentation was provided by LPCs for all loans included in our testing, in some cases the information provided either did not agree with data reported to TVA by Regions or the documentation was incomplete. LPCs are responsible for maintaining all loan documentation, as directed by TVA. The section for loan document retention within the Guidelines states:

> *Distributor must maintain loan documents (Repayment Agreement, Security Agreement, etc.) until the entire loan amount (principal and interest) is paid in full. All records of loans paid in full must be kept in the Distributor's inactive file for a period of 1 year after*

> *being paid in full. All Distributor loans that have been approved for write-off must be maintained for a period of six (6) years after being written off or such period that may be defined by the statute of limitations for the respective state. This policy does not apply to write-offs that were approved on the basis of bankruptcy, negotiated settlements, or any other reason that would absolutely prohibit the likelihood of future collection efforts. Upon request by TVA, these files must be made available to TVA at reasonable times and places to ensure that all records are being retained.*

The ERS Senior Program Manager informed us that an update to the Guidelines is in process to reflect the most current program financing and implementation requirements. As part of this update, TVA should specify all documents to be retained by the LPC.

INSTALLATION INSPECTIONS ARE NOT REQUIRED

The TVA ERS Senior Program Manager informed us that inspections of completed installations are not currently a requirement of financing under the Regions eScore program. Instead, inspections may be performed at the homeowner's discretion, and requesting an inspection qualifies the homeowner for a rebate of $250. However, as previously stated, the Guidelines have not been updated and therefore do not reflect this inspection process. When we asked how often inspections were performed during our audit work, the ERS Senior Program Manager provided information in July 2018 indicating that since December 2014, approximately 82 percent of loans completed under the Regions eScore program had inspections performed.

Inspections help to ensure that all work performed and equipment installed conforms to the Guidelines. Further, inspections assist in the deterrence of improper loan activity. As such, the revision to the Guidelines should include an inspection requirement for all new loans issued.

RECOMMENDATIONS

We recommend the Vice President, ERS, take the following actions:

1. Develop and implement an internal system to track loan program activity and individual loan balances.

   TVA Management's Comments – In response to our recommendation, TVA management stated, "LPCs bill and collect payments at varying and different intervals. LPCs are responsible to maintain individual loan balances for their consumers, as TVA does not have access to LPCs' billing systems to track individual balances." See Appendix B for TVA management's complete response.

Auditor's Response – We followed up with TVA's Senior Program Manager, ERS for Home, to obtain clarification of TVA management's plans moving forward. He responded that because of the way the program is set up, they are not sure it is possible to create such a tracking system. He stated they do plan to explore the feasibility of developing such a system.

2. Develop and implement procedures to review program data on a regular basis to identify delinquent loans.

   TVA Management's Comments – TVA management agreed to develop and implement procedures to review program data on a regular basis to identify delinquent loans. See Appendix B for TVA management's complete response.

3. Revise future contracts between TVA and LPCs to limit TVA's responsibility for interest accrued on delinquent loans and place liability with LPCs for interest charges after loans become 180 days past due.

   TVA Management's Comments – TVA management stated they would discuss this recommendation with the Tennessee Valley Public Power Association's Energy Program Advisory Group. See Appendix B for TVA management's complete response.

   Auditor's Response – Although management stated they would discuss the recommendation with Tennessee Valley Public Power Association's Energy Program Advisory Group, they did not state if they plan to implement the recommendation.

4. Develop and implement procedures to review program data on a regular basis to reconcile Regions and LPC loan balances.

   TVA Management's Comments – TVA management agreed to develop and implement procedures to review program data on a regular basis to reconcile Regions and LPC loan balances. See Appendix B for TVA management's complete response.

5. Update the Guidelines to (a) specify loan documentation to be retained by the LPC and (b) include an inspection requirement for all new loans issued.

   TVA Management's Comments – TVA management agreed to update the Guidelines specifying what loan documentation is required. Additionally, TVA management will evaluate the overall effect that required inspections could have on the program before implementing an inspection requirement for all new loans issued. See Appendix B for TVA management's complete response.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to (1) determine whether loans were issued in accordance with Tennessee Valley Authority (TVA) policies and procedures, (2) confirm loan balances to verify the receivables, and (3) determine the extent to which loans were charged-off as bad debt and evaluate compliance with TVA's policies and procedures. Our audit scope was EnergyRight® Solutions (ERS) loan obligation and receivable balances for TVA's fiscal years 2013 through 2017, including loans originated or written off during that time frame. Over this 5-year period, there were 24,016 new loan originations totaling approximately $177.8 million and 1,680 loans written off totaling approximately $7.9 million (including principal and interest).

To achieve our audit objectives, we:

- Obtained and reviewed contracts, financial reports, and other background information for the ERS loan program.
- Interviewed ERS and Treasury personnel and obtained relevant documentation to gain an overall understanding of the loan program, including TVA's administrative role and responsibilities.
- Obtained and reviewed the Program Reference Manual, specifically Section 1-1-A *EnergyRight® Program – Program Financing Guidelines* (Guidelines), which includes TVA's policies for administering the loan program and guidance issued to local power companies (LPC).
- Interviewed Financial Operations and Performance personnel and obtained relevant documentation to gain an understanding of TVA's process for recording financial statement balances relating to the loan program.
- Interviewed Regions Bank (Regions) personnel to gain an understanding of the process for compiling loan program data submitted by LPCs and reporting this information to TVA.
- Obtained monthly reports from TVA and Regions detailing loan program activity and balances, including loans originated and written off, for all months during the audit period and performed procedures to validate the listings of loans originated and loans written off during the audit period.
- Selected a sample of loan originations to determine compliance with the Guidelines. The population was 24,016 loans totaling $177,787,572.
  - Identified and selected 11 loan originations totaling $76,433 with listed installation addresses located outside TVA's service area and selected these records for testing. Obtained and reviewed available supporting documentation for each loan to determine compliance with the Guidelines. Since this was a nonstatistical sample, the results of the sample cannot be projected to the population.
  - Selected a nonstatistical random sample of 25 loan originations totaling $180,790 and obtained and reviewed available supporting documentation

for each loan to determine compliance with the Guidelines. Because this was intended to be a judgmental sample, we did not project the results to the population.

- Selected the following nonstatistical samples of loan write-offs.
  - Identified and selected (1) three LPCs whose loan write-offs during the audit period included more interest than principal, and (2) three LPCs that had the highest number of write offs on a single day during the audit period. Randomly selected one loan from each of these six LPCs and obtained and reviewed documentation for each loan to determine compliance with the Guidelines. Since this was a nonstatistical sample, the results of the sample cannot be projected to the population.
  - Selected a random sample of 25 loan write-offs and obtained and reviewed documentation for each loan to determine compliance with the Guidelines. Because this was intended to be a judgmental sample, we did not project the results to the population.
- Performed the following to determine if loan balances reported to TVA by Regions and the LPCs were correct.
  - Obtained loan program balance information reported by LPCs to TVA in the Distributor Annual Reporting System.
  - Performed a comparison of loan program balances as of September 2017 reported by LPCs in the Distributor Annual Reporting System to those reported by Regions and identified differences. Selected the 20 largest differences and obtained and reviewed available supporting documentation to verify reconciling items, as applicable. Since this was a nonstatistical sample, the results of the sample cannot be projected to the population.

We did not identify internal controls significant to our audit objectives; therefore, internal controls were not tested as part of this audit. We conducted this performance audit 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.

October 1, 2018

David P. Wheeler, WT 2C-K

RESPONSE TO REQUEST FOR COMMENTS – DRAFT AUDIT 2018-15534 – ENERGYRIGHT® SOLUTIONS LOAN OBLIGATIONS AND RECIEVABLES

This letter is in response to your September 6, 2018 request for comments regarding draft audit 2018-15534. EnergyRight® Solutions has reviewed the report and provides the following comments for each finding:

INTERNAL TRACKING SYSTEM:

OIG Recommendation:
Develop and implement an internal system to track loan program activity and individual loan balances.

Comments:
LPCs bill and collect payments at varying and different intervals. LPCs are responsible to maintain individual loan balances for their consumers, as TVA does not have access to LPCs' billing systems to track individual balances.

PROGRAM DATA REVIEW PROCEDURES (DELINQUENT LOANS):

OIG Recommendation:
Develop and implement procedures to review program data on a regular basis to identify delinquent loans.

Comments:
TVA staff will develop and implement procedures to review program data on a regular basis to identify delinquent loans.

CONTRACT REVISION:

OIG Recommendation:
Revise future contracts between TVA and LPCs to limit TVA's responsibility for interest accrued on delinquent loans and place liability with LPCs for interest charges after loans become 180 days past due.

Comments:
TVA staff will discuss with the TVPPA Energy Program Advisory Group.

PROGRAM DATA REVIEW PROCEDURES (LOAN BALANCES):

OIG Recommendation:
Develop and implement procedures to review program data on a regular basis to reconcile Regions and LPC loan balances.

Comments:
TVA staff will develop and implement procedures to review program data on a regular basis to reconcile Regions and LPC loan balances.

GUIDELINES UPDATE:

OIG Recommendation:
Update the Guidelines to (1) specify loan documentation to be retained by the LPC and (2) include an inspection requirement for all new loans issued.

Comments:
TVA staff will update the guidelines specifying what loan documentation is required. We will evaluate the overall effect that required inspections could have on the eScore program and QCN members who support the eScore program before implementing an inspection requirement for all new loans issued.

CONCLUSION:
EnergyRight® Solutions would like to thank Robert Dixon and the OIG staff for their professionalism and cooperation in conducting this audit. If you have further questions please contact Brad Wagner at (423) 751-2088.

Cynthia L. Herron

Cynthia L. Herron
Vice President EnergyRight® Solutions
OCP 7B-NST

cc: Robertson D. Dickens, WT 9C-K
Elizabeth A. Moore, BR 5B-C
Frank M. Rapley, OCP 2G-NST
Bradley R. Wagner, BR 5B-C
Dwain K. Lanier, MR 6D-C
Sherry A. Quirk, WT 7C-K
Joseph C. Stowe III, BR 5B-C
Van Wardlaw, BR 5D-C