



Memorandum from the Office of the Inspector General

April 28, 2020

Jeremy P. Fisher

REQUEST FOR MANAGEMENT DECISION – AUDIT 2019-15646 – ALLOCATION OF LABOR EXPENSES IN INFORMATION TECHNOLOGY

As part of our annual audit plan, we performed an audit of the allocation of labor expenses in the Tennessee Valley Authority's (TVA) Information Technology (IT) organization. Our audit objective was to determine if financial transactions for labor charged to Operations and Maintenance (O&M) and Capital general ledger accounts under the IT organization during fiscal year (FY) 2018 received the proper accounting treatment.

We were unable to determine if financial transactions for labor charged to O&M and Capital general ledger accounts under the IT organization during FY 2018 received the proper accounting treatment. TVA's IT had informal processes in place to compare forecast to actual project costs on a monthly and quarterly basis to ensure labor charges received the proper accounting treatment. While the description of these variance review processes appeared adequate, we found (1) they were not documented, and (2) limited evidence was provided to show the described processes were followed.

We recommend the Vice President and Chief Information Officer, IT:

1. Document the procedures for ensuring labor charges are properly accounted for in a formal policy or procedure.
2. Maintain evidence of reviews of IT project labor variances and reasons for variances in a central location available to all personnel responsible for project management.

TVA management agreed with our recommendations. See the Appendix for TVA management's complete response.

BACKGROUND

According to TVA Standard Programs and Processes 13.111, *Capitalization (Including Capitalized Spare Parts)*, TVA's Fixed Assets Accounting has the responsibility to review project documentation and discuss project details with initiating TVA organizations to communicate proper accounting classification. It also states, in Section 3.2.11, very specific instructions for the capitalization of IT and internal use software projects. The classification of projects was not part of our audit scope. Once a project is classified as O&M or Capital, an employee charging time to that project cannot influence how the labor costs associated with their time are allocated to the financial statements.

We included this audit on our annual audit plan because of concerns brought to our attention related to IT time charges potentially being charged incorrectly to capital versus O&M expense.

TVA IT personnel provided the following information for FY 2018 labor costs:

Category	Forecast (Thousands)**	Actual (Thousands)
O&M Routine*	\$49,531	\$49,120
O&M Projects	<u>2,765</u>	<u>2,896</u>
Total O&M	52,296	52,016
Capital Projects	<u>14,831</u>	<u>14,838</u>
Total	\$67,127	\$66,854

* O&M Routine is time charged in support of general IT operations, rather than to a specific project.
** Forecast as of August 2018.

Table 1

TVA IT personnel informed us a monthly variance review is performed for both O&M Projects and Capital Projects at the project level. Each review focuses on the overall spend variance between the actual and forecasted costs, including labor costs. The personnel involved in the review compare forecasted to actual time charged in order to identify any time charges that warrant further discussion. Forecasts for IT projects' labor costs are very specific and list individuals by name and hours forecasted to work each month within each stage of the project. Those hours translate to dollars based on the hourly rate for each person.

TVA IT personnel stated that a manager has the ability to manually approve an individual's time entry, but they usually do not. In the cases not manually approved, TVA's automated time-reporting system will automatically approve a time entry in order for payroll to run. The monthly variance review is where an incorrect time entry, such as charging to the wrong project, should be identified, at which point the time entry can be changed and the labor charges redistributed.

A second variance review occurs at the end of the quarter. At that point, TVA IT has until the middle of the next month to change time entries from the previous quarter. Once that point has passed, the time charged in the previous quarter can no longer be changed.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine if financial transactions for labor charged to O&M and capital general ledger accounts under the IT organization during FY 2018 received the proper accounting treatment. The scope of this audit was labor charged in the IT organization during FY 2018. Our fieldwork was performed between August 2019 and February 2020. To meet our objective we:

- Reviewed Standard Programs and Processes and guidances related to time entry and project classification.
- Inquired of TVA IT personnel to understand the controls in place over labor costs.
- Obtained a listing of all IT work orders open during FY 2018 and performed data analysis to assess its reliability.
- Obtained time entries from TVA's automated time-reporting system related to all IT work orders open during FY 2018 and performed data analysis to assess its reliability.
- Selected a nonstatistical, random sample of 24 time entries for FY 2018 to test for evidence of review. Because this was a nonstatistical, random sample, the results of the sample cannot be projected to the population.
- Obtained project schedules and cost-tracker spreadsheets for the 24 sampled time entries as applicable.
- Obtained forecasted labor hours and compared to actual labor hours for the 24 sampled time entries.

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.

FINDINGS

We were unable to determine if financial transactions for labor charged to O&M and Capital general ledger accounts under the IT organization during FY 2018 received the proper accounting treatment. TVA IT had informal processes in place to compare forecast to actual project costs on a monthly and quarterly basis to ensure labor charges received the proper accounting treatment by being charged to the proper project. While the description of these variance review processes appeared adequate, we found (1) they were not documented, and (2) limited evidence was provided to show the described processes were followed.

LACK OF FORMAL POLICIES OR PROCEDURES FOR VALIDATING PROJECT LABOR COSTS

TVA does not have a documented policy or procedure providing guidance for what should be done to ensure labor costs are appropriately charged. As discussed in the Background section, TVA IT personnel informed us of the steps they perform when reviewing labor charges to ensure they are properly recorded at the project level. However, the steps are not documented in a policy or procedure dictating specifically what should occur during the variance review. A documented policy could provide consistency to the process and ensure all employees understand the requirements for review.

LIMITED EVIDENCE PROVIDED TO SHOW REVIEW PROCESS WAS FOLLOWED

We reviewed 24 time entries (1) charged to IT work orders open during FY 2018 and (2) related to a project other than O&M routine.¹ For 11 of the 24 time entries, the employee's actual time charged was more than forecast. In those cases, we compared the overall forecast for the project to all time charged by any IT personnel to that project during that month. TVA IT personnel stated e-mail chains with specific employees to follow up on identified variances serve as the documentation of the variance discussion about specific time entries. However, the e-mails are not maintained in a location accessible by all project managers and would likely only be available in the sender or receiver's e-mail account.

TVA IT personnel provided e-mails as support for discussion around 2 of the 11 variances but were unable to provide any documentation for the remaining 9 variances. We were informed that the lack of documentation was most likely because of the significant turnover within the organization, as several project managers in place during the audit period are no longer in those positions or with TVA. Maintaining documentation of these reviews could help identify recurring causes of labor overages or identify best practices for projects coming in under forecast.

RECOMMENDATIONS

We recommend the Vice President and Chief Information Officer, IT:

1. Document procedures for ensuring labor charges are properly accounted for in a formal policy or procedure.
2. Maintain evidence of reviews of IT project labor variances and reasons for variances in a central location available to all personnel responsible for project management.

TVA Management's Comments – TVA management agreed with our recommendations. See the Appendix for TVA management's complete response.

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¹ TVA IT personnel informed us that time charged to O&M Routine would not have additional visibility or documentation.

Jeremy P. Fisher
Page 5
April 28, 2020

This report is for your review and management decision. Please advise us of your management decision within 60 days from the date of this report. If you have any questions, please contact Michael A. Driver, Audit Manager, at (423) 785-4813 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)

JRB:FAJ

cc: TVA Board of Directors
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OIG File No. 2019-15646

April 24, 2020

David P. Wheeler, WT 2C-K

RESPONSE TO REQUEST FOR COMMENTS – DRAFT AUDIT 2019-15646 –
ALLOCATION OF LABOR EXPENSES IN INFORMATION TECHNOLOGY

Our response to your request for comments regarding the subject draft report is attached. Please let us know if your staff has any concerns with TVA's comments.

We would like to thank Rick Underwood, Michael A. Driver, and the audit team for their professionalism and cooperation in conducting this audit. If you have any questions, please contact Brandy Brown.



Jeremy Fisher
Vice President and Chief Information Officer
Information Technology
SP 3A-C

ASB:BAB

cc (Attachment): Response to Request

Samuel Austin, MP 3B-C
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OIG File No. 2019-15646

Audit 2019-15646
Allocation of Labor Expenses in Information Technology
Response to Request for Comments

ATTACHMENT A
Page 1 of 1

Recommendation		Comments
1	We recommend the Vice President and Chief Information Officer, IT: Document the procedures for ensuring labor charges are properly accounted for in a formal policy or procedure.	Management agrees.
2	Maintain evidence of reviews of IT project labor variances and reasons for variances in a central location available to all personnel responsible for project management.	Management agrees.