



Memorandum from the Office of the Inspector General

April 11, 2005

Ellen Robinson, ET 12A-K

REQUEST FOR MANAGEMENT DECISION – AUDIT 2004-058F – REVIEW OF TVA'S
CORPORATE CONTRIBUTION PROGRAM

Attached is the subject final report for your review and management decision. As discussed with your staff on March 8, 2005, the subject report is being issued in presentation format. Your comments have been incorporated in the final report. 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 of the date of this report.

Information contained in this report may be subject to public disclosure. Please advise us of any sensitive information in this report which you recommend be withheld.

If you have any questions, please contact Rick L. Taylor, Senior Auditor, at (865) 632-7321 or Gregory C. Jaynes, Manager, Financial and Operational Audits, at (865) 632-7023. We appreciate the courtesy and cooperation received from your staff during this review.

Ben R. Wagner
Assistant Inspector General
(Audits and Inspections)
ET 3C-K

RLT:SDB
Attachment

cc (Attachment):

Katie P. Bell, ET 6A-K
Tom D. Kilgore, ET 12A-K
Richard W. Moore, ET 4C-K
Randy P. Trusley, WT 5C-K
Tracy S. Williams, ET 6A-K
OIG File No. 2004-058F



REVIEW OF TVA'S CORPORATE CONTRIBUTION PROGRAM

Audit 2004-058F
April 11, 2005

Project Lead
Rick Taylor



AGENDA

- ▶ Background
- ▶ Objective and Scope
- ▶ Methodology
- ▶ Findings
- ▶ Recommendations

BACKGROUND

- ▶ **On June 20, 2001, the OIG issued a report on TVA's Contributions Program (Audit No. 2001-028F). The OIG found among other things:**
 - ▶ TVA did not require all contribution payments to be processed through the corporate contributions program.
 - ▶ Contributions processed outside the corporate program were inconsistently classified making it difficult to account accurately for total contributions.

- ▶ **Management actions in response to Audit 2001-028F included developing a TVA-wide business practice, BP 21- Contributions, to:**
 - ▶ Provide criteria for acceptable contribution expenditures.
 - ▶ Define the types of expenditures that would be considered contributions.
 - ▶ Define approval levels required for contributions.
 - ▶ Establish guidance to ensure contributions are put in proper cost classification for reporting/accounting/budgeting and audit purposes.

BACKGROUND (cont'd)

- ▶ **TVA's Business Practice 21, Contributions, states:**
 - ▶ TVA's Corporate Contributions Program is a component of the corporate strategy to support public interest activities where employees and stakeholders live and work. The primary areas of focus include education, economic development, civic/business partnerships. TVA will also consider requests related to the areas of Health & Human Services and Arts and Culture.
 - ▶ Corporate contributions are aligned with TVA's mission, goals, and strategic objectives and priority consideration is given to programs and organizations where TVA stakeholders are actively involved.
 - ▶ Contributions that meet TVA's Corporate contributions program criteria may be made in a variety of ways, including making direct cash payments through Corporate Contributions or at the local/field level.
 - ▶ Contributions between \$1,500 and \$10,000, are approved by the appropriate Strategic Business Unit (SBU) executive or his/her delegate.
 - ▶ Requests exceeding \$10,000 are coordinated through Corporate Contributions and require approval of the Contributions Committee.

OBJECTIVES AND SCOPE

- ▶ **Our objectives were to:**
 - ▶ Determine the types and level of contribution expenditures.
 - ▶ Assess compliance with BP 21.

- ▶ **The scope of our review included corporate contributions made during fiscal years (FY) 2003 and 2004.**

METHODOLOGY

- ▶ Interviewed Corporate Contributions personnel to obtain an understanding of the contribution processes and the Contribution Tracking System.
- ▶ Reviewed relevant reports and other documents relating to Corporate Contribution's program.
- ▶ Used transaction information provided by Corporate Contributions to determine the types and level of contributions for FYs 2003 and 2004 that were processed through Corporate Contributions.
- ▶ Determined the FY 2003 and 2004 amount of contributions administered outside Corporate Contributions by subtracting Corporate Contributions totals from Integrated Business System (IBS) 2003 and 2004 year-end totals for cost classification 41Z (Contributions).
- ▶ Reviewed system information and other reports relating to miscellaneous, purchasing card, and convenience check payments to determine if payments were properly classified.

METHODOLOGY (cont'd)

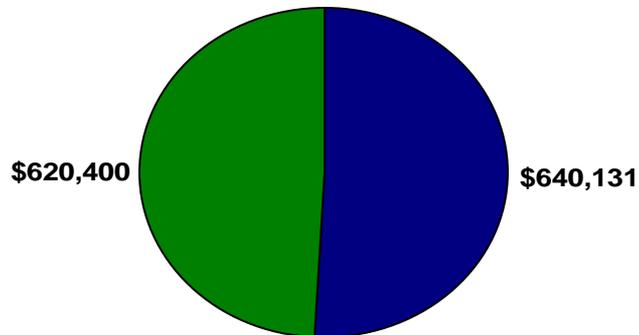
- ▶ Reviewed a judgmental sample of 132 contribution payments to determine if the payments were (1) approved in accordance with BP 21 – Contributions, (2) documented, and (3) classified correctly as contributions. Specifically, we reviewed:
 - ▶ 90 payments made through the Corporate Contributions organization totaling \$509,514.
 - ▶ 14 payments exceeding \$10,000 each totaling \$982,732 representing contribution payments that were made outside the Corporate Contribution organization and approved prior to BP 21.
 - ▶ 28 contributions made by convenience checks, totaling \$19,085, that were outside the Corporate Contributions organization.

Audit was performed in accordance with generally accepted government auditing standards.

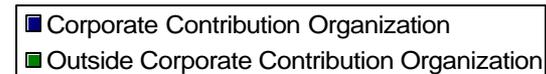
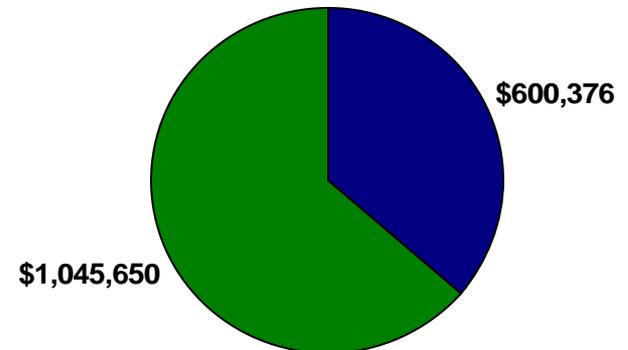
FINDING 1 – LEVEL / TYPES OF EXPENDITURES

According to TVA's IBS financial accounting system, TVA classified \$1.261 million and \$1.646 million in FY 2003 and 2004 as 41Z cost classification charges which represents contribution dollars.

**Total Fiscal Year 2003
Contributions - \$1,260,531**



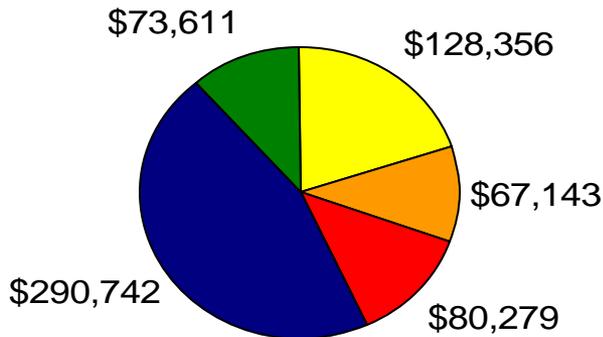
**Total Fiscal Year 2004
Contributions - \$1,646,026**



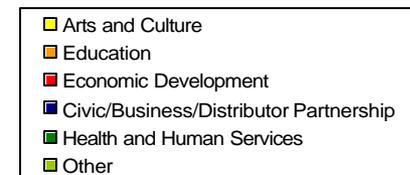
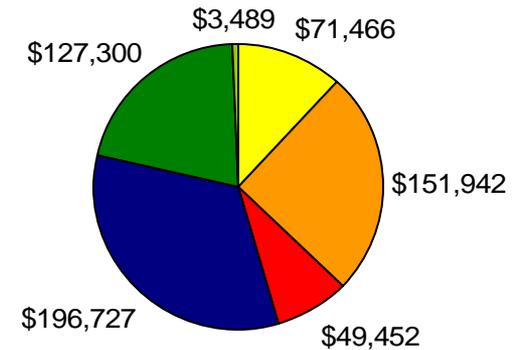
FINDING 1 – LEVEL / TYPES OF EXPENDITURES

- ▶ Contributions administered by the Corporate Contribution organization totaled \$640,131 and \$600,376 in FY 2003 and 2004, respectively. The largest category of contributions was the Civic/Business/Distributor Partnership category.

FY 2003 Totalled \$640,131



FY 2004 Totalled \$600,376



FINDING 1 – LEVEL / TYPES OF EXPENDITURES

- ▶ Contributions administered outside the Corporate Contribution organization totaled \$620,400 and \$1,045,650 in FY 2003 and 2004, respectively.
- ▶ The largest individual contributions were not administered through Corporate Contributions, including \$200,000 to the Country Music Foundation in FY 2003 and 2004.

FINDING 1 (cont'd)

Top five contributions by dollar amount per FY:

<u>FY 2003</u>		<u>FY 2004</u>	
Corporate Contributions *			
▶ United Way of Knoxville	\$50,000	United Way of Knoxville	\$50,000
▶ United Way of Memphis	\$50,000	Knox Sports Corp	\$30,000
▶ Knox Chamber	\$23,230	Boys & Girls Club of Knox	\$20,000
▶ Boys & Girls Club of Knox	\$20,000	River Bend Festival	\$20,000
▶ River Bend Festival	\$20,000	Various	\$10,000
Outside Corporate Contribution Organization **			
▶ Country Music Foundation	\$200,000	Country Music Foundation	\$200,000
▶ Memphis Reg. Chamber	\$200,000	Tennessee Aquarium	\$100,000
▶ Mid South Min. Business	\$100,000	Mid South Minority Business	\$100,000
▶ TVA Power Distributors	\$ 80,640	TVA Power Distributors	\$ 42,732
▶ Alabama Rural Electric	\$ 25,000	University of Tennessee	\$ 30,000

* According to Communications and Government Relations personnel, TVA's Board of Directors, as the governing body of TVA, approved the above contributions over \$10,000 which did not go before the Contributions Committee.

**The contributions were for commitments made prior to BP 21.

FINDING 2 – COMPLIANCE WITH BUSINESS PRACTICE 21

- ▶ We reviewed 132 contributions totaling \$1,511,331 and noted the following exceptions:
 - ▶ 34 transactions greater than \$10,000, totaling \$1,369,527, were not reviewed by the Contribution Committee as required by BP 21. However, 14 were approved prior to BP 21 and 20 were approved by the TVA Board of Directors.
 - ▶ 22 transactions, totaling \$13,635, were charged to incorrect cost classifications.
 - ▶ 2 transactions, totaling \$350, were not properly documented.

FINDING 3 – OTHER ISSUES

- ▶ We identified \$160,580 in purchasing card payments outside of Corporate Contributions during FY 2003 and 2004 that appear to be contributions that were charged to a cost classification other than IBS cost classification 41Z. We did not verify these payments were contributions but based on the payee and dollar amount, the payments appear to be contributions.
- ▶ Corporate Contributions maintains a Contribution Tracking System to obtain information on cash contributions that TVA reports to Valley communities and other stakeholders. Organizations contribute to the tracking system on a voluntary basis only. The tracking system is not reconciled to the IBS 41Z cost classification (contributions) charges. Therefore, the tracking system may not reflect all TVA contributions.

RECOMMENDATIONS

- ▶ **We recommend the Vice President, External Communications, in consultation with the TVA Controller, consider the following improvement opportunities:**
 - ▶ Revise BP 21 to either (1) acknowledge the TVA Board's authority to make contributions without Contribution Committee approval or (2) ensure Contribution Committee review of Board contribution activities.
 - ▶ Improve monitoring of contribution activity by requiring Business Service Managers to accurately report all contributions in the Contribution Tracking System.
 - ▶ Ensure contributions are properly classified in accordance with Accounting Procedure 9.