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BY THE COMPTROLLER GENERAL

Report To Senator Jim Sasser

OF THE UNITED STATES

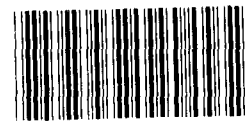
TVA's Internal Audit Improved But Inspector General May Still Be Needed

Until recently three separate groups performed internal audit and evaluation functions at the Tennessee Valley Authority. These groups

- lacked an efficient planning system,
- did not focus on expanded scope audits,
- did not have a formal process for following up on recommendations, and
- had not been totally independent.

In January 1982 the groups were combined into an Office of Internal Audit and Evaluation reporting to the General Manager's Office with the option of reporting to the Board of Directors. However, most of the problems GAO identified will continue unless the new Office takes specific actions.

Therefore, the Congress should monitor the Office over the next several months to determine if it is an adequate substitute for an Inspector General.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-206776

The Honorable Jim Sasser
United States Senate

Dear Senator Sasser:

You have been keenly interested in the billions of Federal dollars lost through fraud, waste, and abuse. In that regard, you have continually expressed concern about the Tennessee Valley Authority's (TVA's) internal control activities and whether TVA needs an Inspector General (IG). Because of your concerns, you asked that we:

--Assess TVA's Office of Internal Audit focusing on the organizational location of this group, how it identifies and plans areas for review, whether it has access to all areas, where its reports are submitted, and whether the reports have had any impact.

--Assess whether TVA's Office of Internal Audit or the Audit Review Group is a viable option to an IG at TVA.

The need for an IG at TVA has been an issue for several years. TVA has had three separate groups responsible for internal auditing (1) the Auditing Branch, (2) the Corporate Industrial Engineering Branch, and (3) the Program Evaluation Staff. To stem the rising sentiment to establish an IG, TVA has taken several actions, establishing an Audit Review Group (ARG) and combining the three groups listed above in an Office of Internal Audit and Evaluation. However, these two actions do not go far enough in providing the same functions as an IG.

The ARG has been in existence for eight months. But in that time frame, it has only held three meetings, has not developed a mission statement, or decided what its role will be in regard to internal evaluations. Also, the Office of Internal Audit and Evaluation is not yet operational. Organizational functions have been transferred from the three audit groups, but there is no indication any changes have been made in the operation of these groups. Therefore, problems we noted are areas which still need improvement.

Our analysis of the work of the three groups responsible for internal audit and evaluation functions before the recent organizational changes disclosed that TVA did not

- have a system of formal planning to ensure coverage of all TVA programs and operations, and does not prioritize its audit efforts;
- emphasize audits directed at identifying opportunities for more efficient, economical, and effective operations;
- have a formal process for following up on non-recurring audits to ensure recommendations are implemented; and
- have audit groups that are totally independent.

AUDITS NOT ADEQUATELY
PLANNED

The importance of good planning in any organization--including setting work priorities so the most important tasks are done first--is widely recognized. It is the cornerstone of good management and adds structure and direction to an organization. Without good planning, an organization tends to tackle problems and situations on a day-to-day basis and thus has little assurance that it is producing the best returns in terms of staffdays expended, cost of assignments, or identification of potential problems. In fact, the Office of Management and Budget (OMB) has developed detailed requirements for all Federal agencies to use in developing annual audit plans.

Generally, TVA's planning process is informal and does not follow OMB requirements. We found that only the Auditing Branch has prepared an annual plan of areas to be evaluated but does not prioritize its work. This plan lists the titles of the assignments the Auditing Branch intends to begin in the short term. The plan, however, does not list all the programs subject to audit, explain the criteria used to select and prioritize the assignment, discuss the frequency of audit coverage, or explain the anticipated benefits to be obtained from individual audits.

The other two evaluation groups in TVA do not prepare plans. The Program Evaluation Staff and the Corporate Industrial Engineering Branch identify programs for review through discussions with TVA's line offices, internal "brainstorming" sessions, and inquiries from TVA's General Manager and Board of Directors. Neither group prepares a written work plan or establishes formal priorities for the potential evaluations identified.

TVA EFFORTS NOT AIMED
AT EXPANDED SCOPE AUDITS

Due to the magnitude of TVA's operations and the broad authority granted the TVA Board, the functions performed by its audit group should play an important role in promoting economy and efficiency assessing program results reviews and financial compliance, what GAO refers to as "expanded scope audits." The audit functions should also have the support and attention of top management. This has not been the case, however.

The Auditing Branch has concentrated most of its efforts on financial controls and performing work relating to the year-end audit. Not until 1979 did it even have an operational audit section. That is, a section devoting time to reviewing and evaluating TVA activities for compliance with management plans and policies, adequacy of controls, and economy, efficiency, and effectiveness of operations. However, this group has focused on rather narrow program areas and has not undertaken any expanded scope audits of such recent critically important areas as demand forecasting as it relates to the nuclear construction program. Although Auditing Branch employees believe, for the most part, they should be conducting audits relating to policy matters, they were not asked to do so because of a general perception within TVA that the Auditing Branch should only conduct financial audits--a perception echoed by TVA's Board of Directors in discussions with us.

NO FORMAL FOLLOWUP
CONDUCTED

An audit or an evaluation is most effective when management implements the report's recommendations. Thus, procedures must be established to formally followup on actions taken by management in response to a report's recommendations.

After an audit is prepared, the organization audited has 60 days to respond to the audit reports. Except for recurring audits, no procedures exist to followup on the responses to ensure that corrective actions were in fact implemented. For recurring audits, we were told followup occurs annually; but for nonrecurring audits, it may not occur for several years, if ever.

TVA has stated that a primary focus of the ARG is followup. But, as previously stated, the actions of the ARG at this time are unclear. Therefore, we could not determine if they have had any impact on improving followup.

AUDIT AND EVALUATION ORGANIZATIONS
AT TVA ARE NOT INDEPENDENT

Independence is the cornerstone of an effective internal evaluation activity. The Comptroller General's "Standards For

Audit of Governmental Organizations, Programs, Activities, and Functions" places upon individuals and organizations the responsibility for maintaining independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. Individuals and organizations engaged in internal evaluation at TVA do not meet this standard of independence.

In other words, the auditing function should report to the head or deputy head of the governmental entity and should be organizationally located outside the staff or line management function of the unit under audit. The Auditing Branch failed this test because its audit plan was oriented toward financial audits while organizationally it reported to the Comptroller.

The Program Evaluation Staff and the Corporate Industrial Engineering Branch are described by TVA as part of its accountability system. These organizations make no assertion of independence.

The creation of the Office of Internal Audit and Evaluation should elevate the independence of the evaluation groups at TVA. Instead of reporting to program officials, the new Office will enjoy higher visibility in that it is located in the Office of the General Manager and will report to a newly created Assistant General Manager for Administration with authority to report to the Board. Therefore, the new Office will be operationally independent from individual program managers. However, since final authority rests solely with the Board, independence would be better assured if they take an active role in the new Office's activities.

TVA'S INTERNAL EVALUATION GROUPS DO NOT
REFLECT THE ROLE OF AN INSPECTOR GENERAL

Statutory IGs were established by the Congress as independent and objective units to conduct and supervise audits and investigations. Furthermore, IGs are expected to provide leadership and coordination in promoting economy, efficiency, and effectiveness and in detecting and preventing fraud and abuse. Legislation establishing IGs also contained other provisions enhancing the IGs ability to target problem areas for inquiry, compel information by subpoena, and protect the identity of departmental employees who report fraud, waste, abuse or mismanagement. The Congress intended for the IGs to have the requisite independence to do an effective job. Therefore, the IG reports to and is under the general supervision of the head of the department or agency and can report to the Congress.

Because TVA is a Federal entity, the largest electric utility in the Nation, and was established to set an example for the rest of the electric utility industry, it must assure that

its programs are performing in an economical manner free of waste so that power costs are as low as possible. TVA now has a single office responsible for internal evaluations. However, the type of audit efforts performed by this group is different than the investigative type work performed by an IG which is directed to identify fraud and waste.

In addition, independence, the main ingredient in an IG, may still be a problem at TVA in spite of the creation of the Office of Internal Audit and Evaluation. As stated previously, this office reports to an Assistant General Manager with the option to report to the TVA Board of Directors. This contrasts with IGs that have been established with reporting levels to the head of the department or agency and even to the Congress.

CONCLUSIONS

TVA's internal audit functions have not been well planned or prioritized to assure the right work is being done at the right time. Neither has there been a formal system to followup on audit reports to ensure that recommendations are implemented. TVA has recently taken actions to improve its internal audit activities, but no actions have been taken to address these problems.

In addition, TVA's internal audit activities do not fulfill the role of an IG. First, IGs were established to focus on fraud, waste, and mismanagement as well as improvements in programs. Few of TVA's past audit efforts have been directed in these areas and there is no assurance that the efforts of the Audit and Evaluation Office will be directed in these areas since it has yet to become operational.

Second, IGs are totally independent and report to the head of the agency with a secondary responsibility to report to the Congress. TVA's Audit and Evaluation Office reports to an Assistant General Manager with the option of reporting to the Board of Directors. Independence is not guaranteed because the General Manager is responsible for the day-to-day operations of TVA.

RECOMMENDATION TO TVA

We recommend the Chairman, TVA require the Office of Internal Audit and Evaluation to (1) develop, within OMB policies, an annual audit plan which will prioritize planned efforts and which can act as a guide in determining the type and scope of audits to be performed and (2) establish a formal followup system to ensure recommendations are acted upon.

MATTERS FOR CONSIDERATION BY THE CONGRESS

While the new Office of Internal Audit and Evaluation is an improvement, it does not fully fit the role the Congress has out-

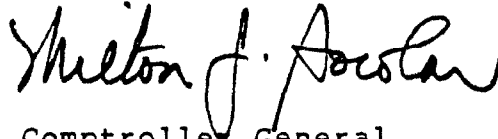
lined for IGs. However, since the new Office has yet to become operational, it is too early to determine if it may be able to fulfill the role of an IG. This will become apparent as the new Office determines the type of work it will perform and how its reporting levels and stature in the organization evolves. Therefore, the Congress should monitor this Office's actions over the next several months in determining whether an IG is needed at TVA.

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Detailed information about our analysis is found in the following appendices. Appendix I contains our objectives, scope, and methodology. Appendix II contains our detailed analysis of TVA's auditing activities as they relate to your questions.

As you requested, we did not obtain TVA's comments, and the report will be restricted until March 23, 1982, unless you decide to release it earlier.

Sincerely yours,



Acting Comptroller General
of the United States

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OBJECTIVES, SCOPE,
AND METHODOLOGY

Our objectives were to assess the functions, as requested, of TVA's Auditing Branch 1/ focusing on its location within the agency, how it identifies and plans its work, its accessibility to all areas of the agency, where its reports are submitted, whether its reports have had any impact, and whether the Auditing Branch or the Audit Review Group (ARG) could be a viable option to an Inspector General (IG) at TVA. Since TVA had two other groups besides the Auditing Branch that performed internal evaluation functions, we included them in the scope of our review. These groups were the Corporate Industrial Engineering Branch and the Program Evaluation Staff.

We analyzed these three organizational units within TVA and assessed their roles in relation to those of the recently created ARG. We (1) analyzed the locations of these units within TVA to determine their independence and reporting levels, (2) looked at how work was planned (including accessibility of areas), coordinated, and identified in each group, and (3) determined whether each group's functions were independent and aimed at promoting economy, efficiency, and effectiveness of TVA programs. To determine the impact of the audit reports, we had planned to analyze the followup procedures of the evaluation groups. However, we found that, while program officials are required to respond to audit reports, there are no formal followup procedures to determine whether corrective actions were actually implemented. Therefore, it was difficult to fully assess the reports' impacts because time constraints did not allow us to analyze TVA's records to determine what followup actions were taken. The scope of our audit did not include an assessment of the quality of the reports published by the various audit groups, nor did we assess the appropriateness of the amount of resources dedicated to auditing. Also, we did not verify the accuracy of the monetary savings reported by one of the audit groups.

The criteria used to assess the adequacy of TVA's internal evaluations were generally accepted guidelines for the audit of Federal operations and programs--Office of Management and Budget (OMB) Circular A-73 and GAO's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." We conducted our review in accordance with the GAO standard and also relied on GAO's internal planning system for guidance as to how evaluations could be planned. These documents, as well as the Congress' rationale for establishing IGs to eliminate fraud, waste, and abuse and improve economy and efficiency of operations, enabled us to determine whether TVA's current evaluation efforts are a viable option to an IG.

1/The Auditing Branch is the office primarily responsible for internal evaluations at TVA.

Our methodology also included reviewing internal TVA documents and interviewing key officials of the Auditing Branch, Office of General Counsel, the Corporate Industrial Engineering Branch, Program Evaluation Staff, and ARG. We also discussed with the TVA Board of Directors and the General Manager their perceptions of the current evaluation units' roles and the need for and value of an IG at TVA.

In response to your suggestion at TVA's fiscal year 1982 appropriation hearings that TVA consider establishing a "watchdog" organization to monitor waste, inefficiency, and fraud, TVA announced the formation of the ARG in July 1981 composed of the General Manager, the General Counsel, the Manager of the Office of Planning and Budget, the Comptroller, and the Director of the Public Safety Service. The ARG's purpose, as stated by the General Manager, is to ensure a well-functioning, internal monitoring system that yields savings to ratepayers and taxpayers through aggressive oversight of all TVA operations. We reviewed the actions and mission of the ARG to determine if it could substitute for an IG.

Also related to your suggestion for a "watchdog" agency, TVA hired the accounting firm of Coopers and Lybrand, to review TVA's system for procurement, plant, inventory and management control. As part of this review, Coopers and Lybrand reviewed the internal monitoring function at TVA. We reviewed the Coopers and Lybrand report which recommended establishing a separate independent office responsible for all internal monitoring and evaluation activities. As a result of the Coopers' report, TVA established, in January 1982, an Office of Internal Audit and Evaluation in the General Manager's Office. We looked at TVA's action to determine if this new office could be a substitute for an IG.

ANALYSIS OF INTERNAL AUDITACTIVITIES AT TVABACKGROUND

Until January 1982, the responsibility for internal evaluations at TVA rested with three groups. Two of these groups, the Auditing Branch and the Corporate Industrial Engineering Branch, were located within the Office of Management Services--one of six line divisions within TVA reporting to the General Manager (see chart I). The other evaluation unit, Program Evaluation Staff, was located within the Office of Planning and Budget which also reports to the General Manager. In addition, TVA formed an ARG in July 1981, under the General Manager, to monitor internal evaluations.

In January 1982, TVA combined the three audit groups into an Office of Internal Audit and Evaluation which will report to an Assistant General Manager. The new Audit and Evaluation Office is not yet operational. Therefore, our description of TVA's evaluation functions reflects the responsibilities of the old groups since there is no indication any changes have been made in the operation of these groups other than the organizational location. The problems we noted are areas which still need improvement.

Auditing Branch

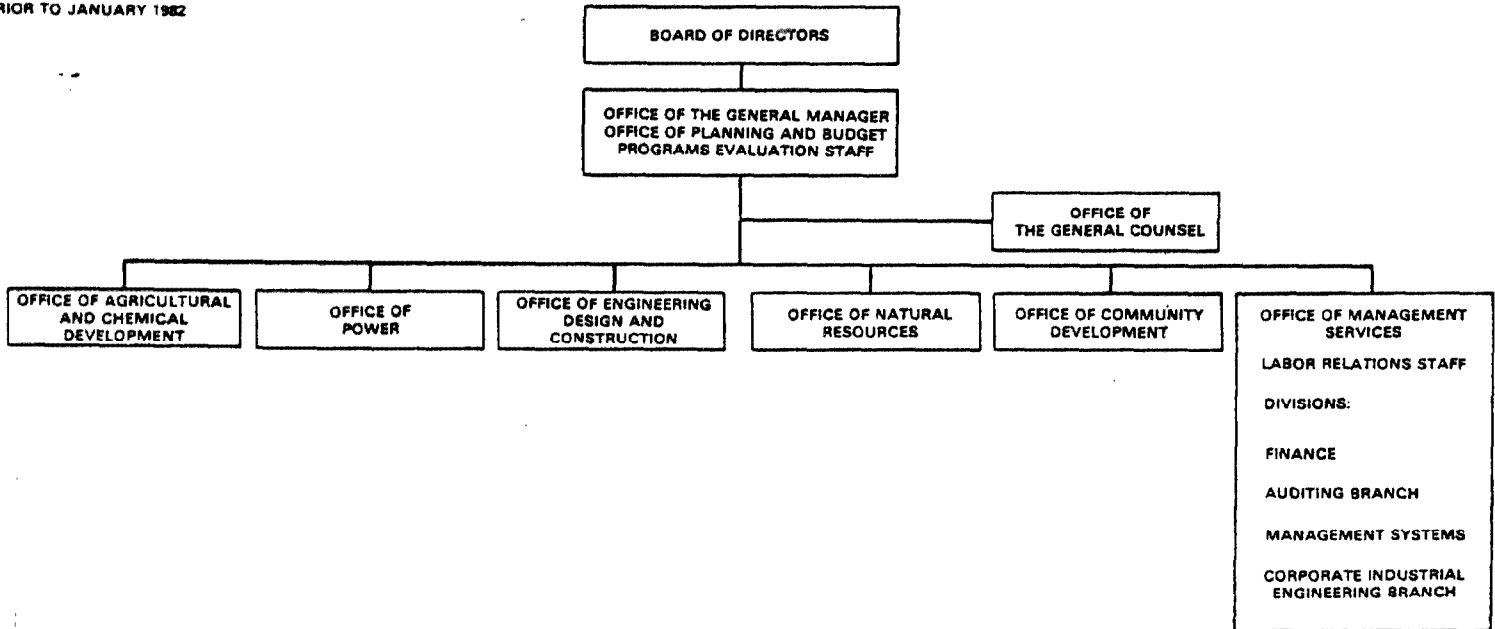
The Auditing Branch (see chart I) was organizationally located in the Division of Finance which is headed by the Comptroller. The branch audits, among other things, TVA's accounting records and financial statements; reviews accounting systems for internal control; reviews TVA contracts and rate schedules for accounting and auditing purposes; audits the records and operations of certain outside contractors to determine contract compliance; reviews and evaluates existing and new-developing computer systems for security, protection, and control; performs limited operational audits of TVA activities; and makes special audits upon request.

The primary focus of the Auditing Branch's activities is on accounting controls and financial transactions--areas for which the Comptroller has control and responsibility. In fact, for fiscal year 1981, about 28 percent of the branch's activities were devoted to "year-end" audits in preparation for the annual financial audit by an independent accounting firm.

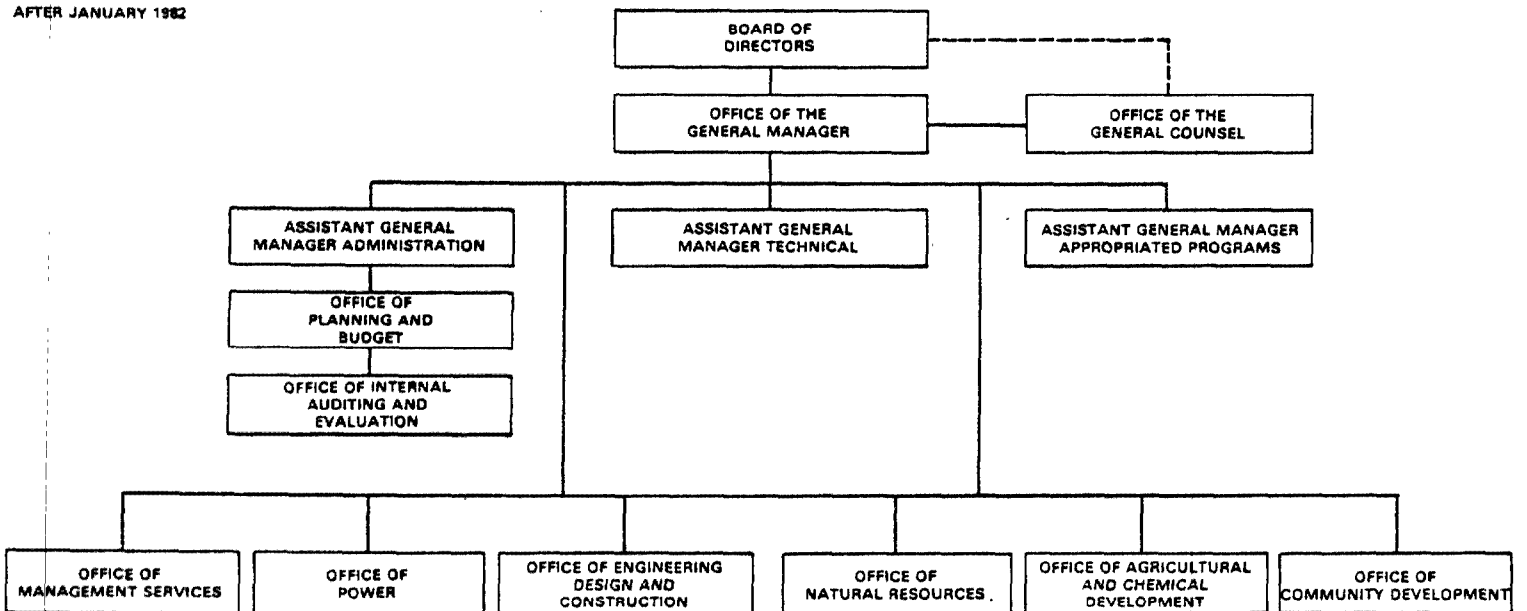
The Auditing Branch has 67 staff members, 49 of which are classified as professional employees, and had a budget of \$2.3 million in fiscal year 1981. The branch completed 90 audits in calendar year 1981. The audit reports prepared by the branch are submitted to the Director, Office of Management Services and resulted in monetary savings to TVA of about \$6.9 million. Over 75 percent of the dollar savings related to contract audits.

CHART I
ORGANIZATION OF THE TENNESSEE VALLEY AUTHORITY

PRIOR TO JANUARY 1982



AFTER JANUARY 1982



Corporate Industrial Engineering Branch

The Corporate Industrial Engineering Branch was located in the Division of Management Systems (see chart I) and provided industrial engineering support and internal management services. In the latter role, the branch provides management consulting services through management evaluations and operational reviews of TVA's organizational elements; conducts studies of selected problem areas; and provides consultation advice to managers as requested. Reviews and evaluations of organizational elements are conducted to identify opportunities for improved efficiencies in management and operational practices. Special studies are conducted to assist line managers in perceived problem areas and to recommend appropriate actions.

In fiscal year 1981, the Corporate Industrial Engineering Branch expended about 52 professional staff-years--about 30 percent of which was on internal management consulting. Among the reviews completed in fiscal year 1981 were (1) the use of power funds for all activities and services performed by the Office of Natural Resources and (2) management practices, organization, staff utilization, employee morale, and opportunities for improvements in the nuclear plant health physics program. The Corporate Industrial Engineering Branch usually undertakes its studies at the request of a head of a particular program office and its reports are addressed to the requesting official.

Program Evaluation Staff

The Program Evaluation Staff was located in the Office of Planning and Budget (see chart I) and participated as part of a team in evaluations aimed at analyzing the manner and extent to which TVA programs achieve their objectives. The staff develops future courses of action a program should follow. The team is frequently composed of representatives from the program office being evaluated, Office of General Counsel, Program Evaluation Staff, and other TVA organizations involved. The team is led by the representative from the office responsible for the program which is being evaluated. The Program Evaluation Staff's role is to identify areas of inquiry which the program office might otherwise overlook. According to a TVA official, the General Counsel and the Program Evaluation Staff provide the evaluation team with a fresh outlook and provide sufficient outside interest to protect the evaluation's integrity. A completed program evaluation typically results in a briefing to the General Manager who then decides whether a report should be written and presented to the TVA Board of Directors.

Two employees are assigned full time to program evaluation and three or four other employees devote about 25 percent of their effort to program evaluation. One of the reviews the program evaluation staff participated in during fiscal year 1981 was an evaluation of TVA's practice of using its own employees to engineer, design, and construct its facilities.

Audit Review Group

The ARG was established in July 1981 with the objective of ensuring a well-functioning, internal monitoring system that yields savings to ratepayers and taxpayers through aggressive oversight of all TVA operations. The ARG, which is under the direction of the General Manager, consists of the General Manager, the General Counsel, the Manager of the Office of Planning and Budget, the Comptroller, and the Director of the Public Safety Service. The primary purpose of the ARG, as set out by the General Manager, is to test TVA's internal monitoring system as well as to ensure that the existing organizational approach to conducting audits, investigations, and evaluations results in needed studies and followup on the implementation of recommendations. In the eight months since it has been established, the ARG has held three meetings. However it has not yet developed a mission statement or decided what its role will be in monitoring or coordinating the efforts of the other audit and evaluation functions, according to the General Manager. The recent reorganization of the three evaluation groups did not affect the status of this group.

Because the ARG has not defined its role, we were unable to relate its function to those of an IG. Therefore, we were not able to include the ARG in our evaluation of TVA's audit efforts.

OPPORTUNITIES TO IMPROVE
TVA'S AUDIT AND EVALUATION FUNCTIONS

Based on considerable GAO work and other guidance for internal auditing, it is recognized that any effective audit organization must have (1) a capable, professional, and motivated staff; (2) an adequate planning and prioritization system; (3) a set of policies, procedures, and mechanisms for guiding and monitoring the staff, (4) a system for following up on past work; and (5) independence in carrying out its functions. Weaknesses in any one of these areas can contribute to work which is lacking in quality, timeliness, and impact.

Using the above as a guide, we found a number of areas where changes could lead to improvements in TVA's auditing and evaluation functions. These weaknesses occurred in TVA's system before the January 1982 reorganization and have not yet been corrected. Specifically, TVA did not

--have a system of formal planning to ensure coverage of all TVA programs and operations, and did not prioritize its audit efforts;

--emphasize audits directed at identifying opportunities for more efficient, economical, and effective operations;

- have a formal process for following up on nonrecurring audits to ensure recommendations are implemented; and
- have audit groups that are totally independent.

TVA lacks formal
planning process

The importance of good planning in any organization--including prioritizing work so the most important tasks are done first--is widely recognized. It is the cornerstone of good management and adds structure and direction to an organization. Without good planning, an organization tends to tackle problems and situations on a day-to-day basis and thus has little assurance that it is producing the best returns in terms of staffdays expended, cost of assignments, or identification of potential problems. In fact, the value of good audit planning has long been recognized by both GAO and OMB. For instance OMB Circular No. A-73 requires all Federal agencies, at a minimum, to develop annual audit plans which reflect

- all the agency programs and operations subject to audit;
- the programs and operations selected for audit, with priorities and specific reasons for selection;
- the audit cycle or frequency of each audit, the locations to be audited, and why; and
- any anticipated benefits to be obtained from the audits. 1/

GAO has stated that adequate planning is essential to identify the areas to be covered by the audit staff and to permit systematic scheduling of work and the best use of staff. 2/

Generally, TVA's planning process is informal and does not follow OMB requirements. Only the Auditing Branch has prepared an annual plan of areas to be evaluated but does not prioritize its work. This plan lists the titles of the assignments the Auditing Branch intends to begin in the short term. The plan, however, does not list all the programs subject to audit, explain the criteria used to select and prioritize the assignment, discuss the frequency of audit coverage, or explain the anticipated benefits to be obtained from individual audits. In short, the plan does not comply with OMB requirements.

1/TVA believes it is not obligated to follow OMB guidance; however, it does point out that it tries to adhere to the spirit of OMB Circulars.

2/"GAO Policy and Procedures Manual for Guidance of Federal Agencies" in the development of their accounting systems and internal auditing program.

The TVA Comptroller stated that he did not believe TVA needed the kind of audit plan outlined in OMB Circular A-73. He said the Auditing Branch largely devotes its resources to regular and recurring audits of TVA financial and accounting functions and that he has the flexibility to assign resources to discretionary audits without an extensive audit plan. While the TVA Comptroller may view the current system as providing flexibility, it does not substitute for a planning process to assure that the right work is done at the right time. Further, the audit plan is only submitted to the Comptroller for approval. As a result, the TVA Board of Directors have no assurance that the Auditing Branch plan is adequately covering major areas of responsibility or concern.

The other two evaluation groups in TVA do not prepare plans. The Program Evaluation Staff and the Corporate Industrial Engineering Branch identify programs for review through discussions with TVA's line offices, internal "brainstorming" sessions, and inquiries from TVA's General Manager and Board of Directors. Neither group prepares a written work plan or establishes formal priorities for the potential evaluations identified.

This lack of formal planning has caused TVA to have coordination problems. For example, the Auditing Branch recently scheduled and staffed an audit of TVA's energy conservation loan program. When the Auditing Branch staff held their initial meetings with conservation loan program officials, they learned that the Corporate Industrial Engineering Branch had already begun a management review of this program.

This example, along with some of the concerns about planning expressed above, could be improved as a result of the recent reorganization. For example, coordination problems should be reduced and any audit plan developed will receive higher level attention. However, the reorganization has not resulted in any action to develop a planning system in accordance with OMB requirements.

TVA efforts not aimed at expanded scope audits

OMB Circular A-73 provides guidance for conducting audits and investigations by making reference to standards outlined in GAO's "Standards For Audit of Governmental Organizations, Programs, Activities, and Functions." In addition, on December 13, 1978, former President Carter ordered that a special effort be made in each Federal agency to eliminate fraud, waste, and inefficiency. This same message has been echoed by President Reagan.

The question then arises as to what function internal audit or evaluations should play in TVA in identifying fraud and promoting economy and efficiency, assessing program results reviews, and financial compliance, what GAO refers to as "expanded scope audits." TVA is the largest electric utility in the country with estimated revenues of about \$4.5 billion in fiscal year 1983. Any large organization needs internal monitoring to ensure its opera-

tions are free of waste and are being carried out in an economical and efficient manner. Also, TVA was chartered to perform as a "yardstick" for the electric utility industry, and as such needs to play a very important role for the Federal Government and the electric utility industry. Because of the magnitude of TVA's operations and the broad authority granted the TVA Board, the functions performed by its audit group should play an important role in promoting economy and efficiency and should also have the support and attention of top management. This has not been the case, however.

The Auditing Branch, while organizationally reporting to the Comptroller, has concentrated most of its efforts on financial controls and performing work relating to the year-end audit. Not until 1979 did the Auditing Branch even have an operational audit section. That is, a section devoting time to reviewing and evaluating TVA activities for compliance with management plans and policies, adequacy of controls, and economy, efficiency, and effectiveness of operations. However, our review of the fiscal year 1981 audit plan for this audit section disclosed that audit efforts were focused on rather narrow programs such as potential abuses of long distance telephone use or the use of van pools vs. buses for transporting workers to construction projects. Thus far, the Auditing Branch has not undertaken any expanded scope reviews, such as demand forecasting as it relates to the nuclear construction program (areas of great controversy with a great deal of money involved.) The Auditing Branch Chief said that demand forecasting could be a good area for a future review. Employees of the Auditing Branch, for the most part, believe they should be conducting broad based audits relating to policy matters, but were not asked to do so because of a general perception within TVA that the Auditing Branch should only conduct financial audits.

This perception (conducting only financial audits) was echoed by TVA's Board of Directors. They told us that they did not see the Auditing Branch having a role in broad reviews. One director said that the Auditing Branch should stick to what it does best-- financial audits.

We believe this statement reflects the general attitude toward the audit functions at TVA. It indicates that many areas within TVA are not considered potential audit areas and even more important, the scope of audits are limited. The following example illustrates the pitfalls of such an approach.

Due to the limited scope of its audits, the Auditing Branch has concentrated on reviewing a single automatic data processing (ADP) system at a time. While such efforts may be beneficial, they are no substitute for an overall assessment of ADP requirements. An Auditing Branch official told us that they should be performing ADP system development work, but staffing and workload have precluded this. TVA has identified about 130 ADP systems critical to its operations. The Auditing Branch plans to audit eleven of these systems in fiscal year 1982, but has no plans for an overall assessment of ADP requirements.

Congressional interest in the management of ADP resources resulted in a request by the Chairman of the House Government Operations Committee for GAO in 1980 to look at TVA's ADP capability and its planned acquisition of new ADP equipment. We looked at TVA's overall ADP capability and assessed the need for additional capability. We found that TVA was not making full use of its TVA-wide computing capability; therefore, the need for additional resources was questionable. Subsequent to our report, TVA has validated its ADP needs and has forgone expenditures of about \$20 million for ADP equipment.

No formal
followup conducted

An audit or an evaluation is most effective when management implements the report's recommendations. Thus, procedures must be established to formally followup on actions taken by management in response to a report's recommendations.

Auditing Branch officials said that after an audit is prepared, the organization audited has 60 days to respond to the audit report. We found responses to the audit reports were generally received by the Auditing Branch within the prescribed time frame. However, Auditing Branch officials said that, except for recurring audits, no procedures exist to followup on the responses to ensure that corrective actions were in fact implemented. For recurring audits, we were told followup occurs annually; but for nonrecurring audits, it may not occur for several years, if ever.

TVA management has recognized the need for aggressive followup on audit reports. A June 5, 1981, analysis by the Office of Planning and Budget on the need for an IG at TVA recognized that TVA does not have "rigorous follow-up and follow-through systems." Also, TVA has stated that a primary focus of the ARG is followup. An August 28, 1981, letter from TVA's Board Chairman to you notes that one of the dual purposes of the ARG is to ensure that "follow-up actions to improve management efficiencies are taken promptly."

As previously stated, the actions of the ARG at this time are unclear. Therefore, we could not determine if they have had any impact on improving followup. The consolidation of the audit and evaluation functions within the General Manager's office could correct this followup problem if formal followup procedures on all audit reports are adopted and adhered to. Thus far, no such procedures have been established.

Audit and evaluation organizations
at TVA are not independent

Independence is the cornerstone of an effective internal evaluation activity. The Comptroller General's "Standards For

Audit of Governmental Organizations, Programs, Activities, and Functions," provides that

"In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, must be free from personal or external impairments to independence, must be organizationally independent, and shall maintain an independent attitude and appearance."

This standard places upon individuals and organizations the responsibility for maintaining independence so that opinions, conclusions, judgements, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. Individuals and organizations engaged in internal evaluation at TVA did not meet this standard of independence.

The Auditing Branch was the most active of the organizations engaged in internal evaluation at TVA. The Comptroller General's guidelines state, to help achieve maximum independence, the audit function should report to the head or deputy head of the governmental entity and should be organizationally located outside the staff or line management function of the unit under audit. The Auditing Branch failed this test because its audit plan was oriented toward financial audits while organizationally it reported to the Comptroller.

The Comptroller and the Auditing Branch Chief agreed the organizational placement and operational responsibilities of the Auditing Branch could create a perception to third parties that it was not independent. However, each official was satisfied that the branch operated independently. The Auditing Branch Chief viewed his operational responsibilities and organizational location as a plus which provided him with better insight into TVA's operations. Individual auditors, however, did not share the Branch Chief's view of independence. For example, we were told that

--recommendations for changes in the accounting procedures are simply not made,

--strict criticism of the Division of Finance was inappropriate.

The majority of the auditors stated that, if the Auditing Branch reported to the General Manager, the audit reports would carry more clout and managers would feel compelled to implement recommendations.

The Program Evaluation Staff and the Corporate Industrial Engineering Branch are described by TVA as part of its accountability system. These organizations make no assertion of independence. The Corporate Industrial Engineering Branch Chief described his relationship to the program offices as a client relationship.

The branch's studies are usually undertaken at the request of the program office and their reports are addressed to the program office. The Branch Chief stated his job is to get the voluntary cooperation of the program office to make needed changes. He said that on occasion he has not included all the problem areas identified by the branch studies in the written report to avoid alienating a program office. The Program Evaluation Staff likewise does not perform independent evaluations of TVA programs, rather it participates with program office staff as part of an internal evaluation team.

The ARG apparently enjoys independence in the sense that it is composed of TVA's top managers and reports to the General Manager. This independence can be questioned, however, from the standpoint of whether these managers will request reviews of their operations which might result in critical reports that would be transmitted to the TVA Board of Directors.

The Coopers and Lybrand report also noted a lack of independence. For example, the report concluded that the internal audit function should report directly to senior management rather than officials responsible for departments subject to internal review. Also, evaluations which rely on resources of the evaluated offices may not be independent. The report recommended TVA look at the current reporting channels of its internal audit groups to ensure each one's independence.

Independence may still be a problem
with the Office of Internal Audit and
Evaluation

The creation of the Office of Internal Audit and Evaluation should elevate the independence of the evaluation groups at TVA. Instead of reporting to program officials, the new Office will enjoy higher visibility in that it is located in the Office of the General Manager and will report to a newly created Assistant General Manager for Administration (see chart I). Therefore, the new office would be operationally independent from individual program managers.

The Office of Internal Audit and Evaluation will not, however, enjoy the independence associated with an IG. To ensure independence, statutory IGs report to the head of the agency and the Congress. The Office of Internal Audit and Evaluation will report to an Assistant General Manager with the option of reporting to the Board. Since final authority for the agency rests solely with the Board of Directors, independence can only be assured if they take an active role in the Office's activities.

TVA'S INTERNAL EVALUATION
GROUPS DO NOT REFLECT THE
ROLE OF AN INSPECTOR GENERAL

Statutory IGs were established by the Congress as independent and objective units to conduct and supervise audits and investigations. Furthermore, IGs are expected to provide leadership and coordination in promoting economy, efficiency, and effectiveness and in detecting and preventing fraud and abuse. Legislation establishing IGs also contained other provisions enhancing the IGs ability to target problem areas for inquiry, compel information by subpoena, and protect the identity of departmental employees who report fraud, waste, abuse, or mismanagement.

TVA has been performing some internal evaluation functions which operate in marked contrast to an IG. TVA's latest organizational change--the creation of the Office of Internal Audit and Evaluation--is certainly an improvement in elevating the visibility of the auditing functions but does not conduct the type of investigative reviews performed by an IG. Because TVA is the largest utility in the Nation and was established to set an example for the rest of the industry, it must assure itself that its programs are performing in an efficient and economical manner so that power costs are as low as possible. The Congress gave the Board complete autonomy in carrying out this and other responsibilities. However, an independent group reporting to the TVA Board on all aspects of its operations could help the Board in carrying out their duties.

Role of Inspector
General Offices

The first statutory IG was created in the Department of Health, Education, and Welfare (HEW) in October 1976. The establishment of this Office followed extensive congressional investigation of fraud, abuse, and program mismanagement in HEW. The Congress found the Secretary was unaware of problem areas, which precluded him from taking corrective action. Moreover, HEW's investigative and audit groups lacked the necessary independence to uncover fraud and abuse.

The Inspector General Act of 1978 (Public Law 95-452) established Offices of Inspector General at 12 Federal departments and agencies. ^{1/} Each Inspector General is appointed by the President and confirmed by the Senate. The Congress intended for the IG to have the requisite independence to do an effective job. Therefore, the IG solely reports to and is under the general supervision of the head or the officer next below in rank of the department or agency. These officers may not prevent or inhibit the IG in performing any audits or investigations. The IG is required to submit semiannual

^{1/}Congress added an additional Inspector General at the Department of Education in 1979.

reports to the Congress, which are first reviewed by the agency head. While the agency head can send his or her comments along with the semiannual reports to the Congress, they cannot prevent them from going to the Congress nor change their contents. IGs were established to stem the rising tide of fraud, waste, and abuse in the Federal Government. IGs also look into all facets of an organization to improve economy and efficiency of operations. Department or agency heads cannot prohibit, prevent, or limit the IG from undertaking and completing any audits or investigations which the IG deems necessary.

The need for an IG at TVA has been an issue for several years. To stem the rising sentiment to establish an IG, TVA has taken several actions--it established the ARG and created the Office of Internal Audit and Evaluation. These two actions are a step toward more independence but they may not go far enough.

As previously stated, IGs were set up (1) to be the focal point for internal evaluations, (2) to look into areas of fraud, waste, and abuse as well as program economy, efficiency, and effectiveness and (3) to be an independent office reporting directly to the agency head. With the creation of the Office of Internal Audit and Evaluation, TVA now has a single office responsible for internal evaluations. However, the type of audit efforts performed by this group is different than the investigative type of work performed by an IG which is directed towards identifying fraud and waste. In fact, the Coopers and Lybrand report stated that the thrust of internal evaluation at TVA should be expanded into operational review areas focusing more on waste, abuse, economy, and efficiency.

Independence, the main ingredient in an IG, may still be a problem at TVA inspite of the creation of the Office of Internal Audit and Evaluation. As stated previously, this Office reports to an Assistant General Manager, with the option to report to the TVA Board of Directors instead of reporting to the agency head. This contrasts with IGs that have been established with reporting levels to the Congress.

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