



Memorandum from the Office of the Inspector General

December 2, 2024

John J. Bradley
Melanie E. Farrell
Jeremy P. Fisher

**REQUEST FOR FINAL ACTION – AUDIT 2024-17480 – EXPENDITURES FOR
CONTRIBUTIONS, DONATIONS, AND GRANTS**

Attached is the subject final report for your review and final action. Your written comments, which addressed your management decision and actions planned or taken, have been included in the report. Please notify us when final action is complete. In accordance with the Inspector General Act of 1978, as amended, the Office of the Inspector General is required to report to Congress semiannually regarding audits that remain unresolved after 6 months from the date of report issuance.

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)

RLD:KDS

Attachment

cc (Attachment):

TVA Board of Directors
Monika Beckner
Janda E. Brown
Buddy Eller
David B. Fountain
Jeffrey J. Lyash
Jill M. Matthews
Dan P. Pratt
Stephen D. Surles
John M. Thomas III
Ben R. Wagner
OIG File No. 2024-17480



Office of the Inspector General

Audit Report

To the Senior Vice President,
Economic Development; and to the
Vice President, External Stakeholder
and Regulatory Oversight; and to the
Senior Vice President, Strategy and
Communication Officer, Commercial
Energy Solutions

EXPENDITURES FOR CONTRIBUTIONS, DONATIONS, AND GRANTS

Audit Team
Robert L. Dixon
Morgan A. Venturella

Audit 2024-17480
December 2, 2024

ABBREVIATIONS

CC	Community Contributions
CCF	Community Care Fund
CWA	Contract Work Authorization
CY	Calendar Year
ED	Economic Development
ESOC	External Strategy Operating Committee
ESRO	External Stakeholder and Regulatory Oversight
LPC	Local Power Company
PCE	Public and Community Engagement
SPP	Standard Programs and Processes
TVA	Tennessee Valley Authority

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
BACKGROUND.....	1
OBJECTIVE, SCOPE, AND METHODOLOGY	3
FINDINGS AND RECOMMENDATIONS	3
COMMUNITY CONTRIBUTIONS PROGRAM TRANSACTIONS WERE NOT CONSISTENTLY REVIEWED AND APPROVED IN ACCORDANCE WITH TVA-SPP-26.003 REQUIREMENTS	3
TVA'S GUIDANCE RELATING TO CONTRIBUTIONS IS INCOMPLETE	8
TRANSACTIONS MISCLASSIFIED IN THE GENERAL LEDGER	9

APPENDICES

- A. OBJECTIVE, SCOPE, AND METHODOLOGY
- B. COMMUNITY CONTRIBUTIONS PROGRAM GIVING PILLARS AND PRINCIPLES
- C. COMMUNITY CONTRIBUTIONS PROGRAM APPROVAL REQUIREMENTS
- D. MEMORANDUM DATED NOVEMBER 1, 2024, FROM MELANIE E. FARRELL TO DAVID P. WHEELER



Audit 2024-17480 – Expenditures for Contributions, Donations, and Grants

EXECUTIVE SUMMARY

Why the OIG Did This Audit

According to Tennessee Valley Authority (TVA) Standard Programs and Processes 26.003, *Community Contributions*, TVA helps enable a better quality of life in the communities it serves (1) through its work in energy, the environment, and economic development and (2) by supporting educational and community goals. Much of TVA's giving activity supporting educational and community goals is administered under formally established programs, including the Community Contributions and Community Care Fund programs. In addition, individual TVA organizations may initiate giving-related expenditures outside these programs at their discretion. During calendar years 2022 and 2023, TVA had approximately \$30.5 million in expenditures identified as contributions, donations, and grants in TVA's general ledger.

Due to large dollar expenditures made during calendar years 2022 and 2023, we performed an audit of TVA's expenditures for contributions, donations, and grants. Our audit objective was to determine if the expenditures were made in compliance with TVA policies and procedures.

What the OIG Found

We determined Community Contributions program transactions were not consistently reviewed and approved in accordance with TVA Standard Programs and Processes 26.003 requirements. We also determined there is no guidance addressing administration of the Community Care Fund program and contribution-related expenditures made by individual TVA organizations outside TVA's formal giving programs. In addition, we found instances where unrelated general expenditures made outside of TVA's formal giving programs were misclassified as contribution-related expenditures in the general ledger.

What the OIG Recommends

We made five recommendations to the Vice President, External Stakeholder and Regulatory Oversight, to strengthen internal controls and help improve compliance with TVA policies and procedures.

TVA Management's Comments

In response to our draft report, TVA management agreed with our recommendations and provided actions they have already taken, as well as those they plan to take to address each of our recommendations. See Appendix D for TVA management's complete response.



Audit 2024-17480 – Expenditures for Contributions, Donations, and Grants

EXECUTIVE SUMMARY

Auditor's Response

We agree with the actions already taken by TVA management as well as their planned actions.

BACKGROUND

According to Tennessee Valley Authority (TVA) Standard Programs and Processes (SPP) 26.003, *Community Contributions*, TVA helps enable a better quality of life in the communities it serves (1) through its work in energy, the environment, and economic development and (2) by supporting educational and community goals. Much of TVA's giving activity supporting educational and community goals is administered under formally established programs, including the Community Contributions (CC) and Community Care Fund (CCF) programs. In addition, individual TVA organizations may initiate giving-related expenditures outside these programs at their discretion. During calendar years (CY) 2022 and 2023, TVA had expenditures of approximately \$30.5 million identified as contributions, donations, and grants in TVA's general ledger. Details regarding each of these programs are included below.

Community Contributions

The CC program is administered by TVA's Public and Community Engagement (PCE) personnel, with overall governance provided by TVA's External Stakeholder and Regulatory Oversight (ESRO) organization. According to TVA-SPP-26.003, the CC program is an integral component of a broader corporate strategy to support educational activities, human services, community enrichment through civic/business partnerships, and other public interest activities that further TVA's mission. According to PCE personnel, total payments for contributions under the CC program were approximately \$9.4 million in CY 2022 and \$10.4 million in CY 2023.

TVA-SPP-26.003 describes the criteria, process, and approval roles for contributions and sponsorships requested by TVA organizations and provides a mechanism to ensure TVA has an accurate accounting of those expenditures. Further, the SPP states all contributions made by TVA must be processed through the PCE office to confirm consistent adherence to the approval requirements and minimize overlap of contributions, including sponsorships. Contributions under this program should fall under TVA's giving pillars and align with TVA's giving principles (see Appendix B). TVA-SPP-26.003 also includes additional guidelines and limitations to aid in selection and submission of requests under the CC program. Among these guidelines is the requirement that contributions should be targeted to nonprofit organizations or public institutions. According to PCE personnel, TVA-SPP-26.003 does not apply to contribution-related expenditures initiated outside the CC program.

Internal Control

The CC request form must be completed and all requests must be submitted by a TVA employee through TVA's online request and approval system. The request form is automatically sent to the appropriate approver based on the amount of funds requested, and all requests must be approved in accordance with approval levels outlined in TVA-SPP-26.003. The approval levels, including specific TVA management positions required, vary based on amount of the expenditure and the budget under which the request is to be funded (see Appendix C). TVA's External

Strategy Operating Committee (ESOC) reviews substantial contributions, including all contributions over \$100,000 and any other contribution determined to require reporting due to the contribution's high impact, uniqueness, or complexity.

Community Care Fund

In response to the global COVID-19 pandemic, TVA began administering the CCF program in April 2020 to provide matching grant funds to support and partner with local power companies (LPCs) to meet needs in their communities. Under this program, LPCs determine the initiatives in their area to support and select nonprofit agency partners to which TVA matching funds will be directed. TVA expanded the scope of this program in fiscal year 2023 to include projects that support any of the TVA giving pillars. Total payments for contributions under the CCF program were approximately \$3.6 million in CY 2022 and \$2.6 million in CY 2023.

The CCF is overseen by TVA's PCE personnel, with additional administrative services provided by a third-party contractor.¹ CCF information sheets distributed to LPCs provide details relating to program background and objective, eligibility and qualification requirements, limitations on contributions, and the application process. According to PCE personnel, there is no TVA policy or procedure related to this program.

Internal Control

CCF requests are submitted by LPCs through an online request form administered by the contractor, along with supporting documentation. According to PCE personnel, the requests are required to be reviewed and approved by personnel in three TVA management positions: the Director, Customer Relations; the Director, Government and Community Relations; and the Customer Relations Manager for the region in which the requesting LPC operates.

Other Giving-Related Expenditures

Aside from the two formal giving programs discussed above, individual TVA business units can make giving-related expenditures, including contributions, donations, grants, and sponsorships, at their discretion based on availability of funds and the specific needs of the organization. According to PCE personnel and other TVA personnel we interviewed, such expenditures are made with the approval of each individual organization's management and are generally subject to TVA's standard purchasing and supply chain requirements. In addition, they noted there is no specific SPP or other entity-wide guidance relating directly to these types of giving activities. Total payments for giving-related expenditures made outside TVA's formal giving programs were approximately \$3.1 million in CY 2022 and \$1.4M in CY 2023.

¹ The third-party contractor administers an online request form that LPCs submit for approval. Upon approval of requests by TVA management, the contractor provides payment to the respective organizations and invoices TVA for reimbursement.

We performed an audit of TVA's expenditures for contributions, donations, and grants due to large dollar expenditures made during CYs 2022 and 2023.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine if expenditures identified as contributions, donations, and grants were made in compliance with TVA policies and procedures. Our audit scope included approximately \$30.5 million in expenditures identified as contributions, donations, and grants in TVA's general ledger during CYs 2022 and 2023. A complete discussion of our audit objective, scope, and methodology is included in Appendix A.

FINDINGS AND RECOMMENDATIONS

We determined CC program transactions were not consistently reviewed and approved in accordance with TVA-SPP-26.003, *Community Contributions*, requirements. We also determined there is no guidance addressing administration of the CCF program and contribution-related expenditures made outside of TVA's formal giving programs. In addition, we found instances where unrelated general expenditures made outside of TVA's formal giving programs were misclassified as contribution-related expenditures in the general ledger.

COMMUNITY CONTRIBUTIONS PROGRAM TRANSACTIONS WERE NOT CONSISTENTLY REVIEWED AND APPROVED IN ACCORDANCE WITH TVA-SPP-26.003 REQUIREMENTS

Updates made to the management review and approval process for CC transactions are not currently documented in TVA-SPP-26.003. In addition, CC program transactions were not consistently reviewed and approved by the designated management personnel included in the SPP, and transactions meeting the threshold for review by the ESOC were not consistently presented for review. However, according to PCE personnel, TVA is in the process of updating the CC system to address identified errors and limitations, as well as revising TVA-SPP-26.003 to incorporate process revisions.

Undocumented Management Review and Approval Process Revisions

TVA's CC program, as well as TVA-SPP-26.003, were implemented in their current format in 2022.² However, PCE personnel instituted two key practices that were not documented in the SPP.

- PCE personnel were given administrative access to the system, which allows them to review and approve CC funding requests. As a result, they have the

² The CC program structure in place during our audit period was presented to the TVA Board of Directors External Stakeholders and Regulation Committee in October 2021. TVA-SPP-26.003, Revision 0, has an effective date of June 9, 2022, and remains the most current version as of the completion of our audit fieldwork in August 2024.

ability to approve a funding request, but the SPP does not grant them specific authority to do so, in place of the designated management approver. The Director, PCE, is a designated approver under TVA-SPP-26.003 for requests up to \$50,000 under the Valley-Wide CC budget but is not a designated approver for the other three CC program funding budgets listed at Appendix C.³

- PCE personnel made a unilateral change to the approval process to remove the requirement for approvers at the Executive Vice President level to log on and enter their approval for specific CC requests in the system, due to time and complexity concerns. This change was not reflected in TVA-SPP-26.003.

Inconsistent Management Review and Approval

We selected a sample of 73 transactions identified in TVA's general ledger as having an expenditure type relating to contributions, donations, and grants made during CYs 2022 and 2023. Of these sampled transactions, 41 were determined to have been made under the CC program. We reviewed supporting documentation for each transaction to determine compliance with TVA-SPP-26.003. See Appendix A for further information on the methodology used in our sample selection.

We determined that of the 41 CC expenditures included in our sample, 24 (59 percent) were reviewed and approved in the system by a person whose approval authority was inconsistent with that required by the SPP (see Appendix C). Specifically, we noted the following:

- Nineteen were approved in the system by personnel within the appropriate organization but with approval authority for amounts less than the expenditure under review.
- Five were approved in the system by personnel outside the organization submitting the request (four of these were approved by PCE personnel; the other request was approved by a manager in an unrelated organization as a result of being misrouted in the system).

In addition, we noted 12 of the 24 did not have documentation available to evidence review by the required level of management, either manually or in the system.

According to PCE personnel, system errors, as well as difficulties encountered in mapping individual business unit personnel in the system, resulted in incorrect routing of requests to the appropriate approver in some cases.

³ TVA-SPP-26.003, Revision 0, effective June 9, 2022, lists responsibilities relating to the CC program, including approval requirements, assigned to the Senior Manager, PCE. Subsequent to issuance of the SPP, the Senior Manager, PCE was promoted to Director, PCE. According to PCE personnel, approval responsibilities previously assigned to the Senior Manager, PCE now fall under the Director, PCE. In addition, this and other position title updates are expected to be included in the next revision to the SPP, which is expected to become effective in FY 2025.

We also noted instances where system errors and limitations resulted in the:

- Incorrect request/approval documentation linkage with individual transactions in the system.
- Inability to retrieve request/approval information and/or attached supporting documentation files in the system (attachments relating to our sampled expenditures were provided manually).
- System administrator having to manually adjust a request from “submitted” to “approved” status in the system.
- Lack of edit checks in place to prevent submission of request forms with noncompliant responses to required fields.

Inconsistent ESOC Review

In addition, of the 41 CC expenditures in our sample, 35 were for amounts equal to or greater than \$100,000. We found six of these expenditures were not reviewed by the ESOC, as required by TVA-SPP-26.003. PCE personnel did not provide a specific reason for the noncompliance for one of the expenditures, but acknowledged it should have been reviewed. They cited the following reasons for the other five expenditures.

- Timing – Three items required a response prior to the next scheduled ESOC meeting, and the decision was made to move forward with the requests without ESOC review.

PCE personnel informed us that a new process has since been implemented to address these situations. ESOC members are now notified by e-mail when an accelerated response time is required for a specific CC funding request. We reviewed an example e-mail relating to a funding request from April 2023, noting it was sent to the members of the ESOC along with relevant information for review, as well as a specified date for the ESOC members to provide feedback. TVA-SPP-26.003 was not updated to include this process revision.

- Recurring – Two items were noted as being recurring annual contributions, and each instance of the requests was not presented to the ESOC for review. TVA-SPP-26.003 and the ESOC charter do not provide exemption for recurring CC requests.

Planned CC System Updates and Guidance Revisions

According to PCE personnel, the CC system is expected to undergo updates toward the end of FY 2024 to address identified system errors and limitations. They also stated the process is being revised to route funding requests to the PCE organization for an initial compliance review, and the requests will then go to the designated management personnel for approval. Updates to the system are expected to become operational for FY 2025 CC funding requests.

In addition, PCE personnel stated TVA-SPP-26.003 is currently being revised to incorporate program updates made since the last revision in 2022, including updates to required approvers/job titles and funding budgets, and to remove the requirement for Executive Vice Presidents to approve requests in the system. An update on the CC program, including the revised approval thresholds, was presented to the TVA Board of Directors' External Stakeholders and Regulation committee in April 2024. Revisions are expected to be completed and become effective for FY 2025.

Internal Control

We considered the following three CC program internal controls to be significant to the audit objective.

- Review and approval of contributions is completed through TVA's online request and approval system.
- The request form will automatically be sent to the appropriate approver based on the amount of funds requested.
- The ESOC reviews substantial contributions, including all contributions over \$100,000.

The designs of the first two controls appear adequate and are capable of achieving the objective of ensuring that CC requests are reviewed and approved in the system by the appropriate personnel and that individual requests meet specified guidelines. The implementation of these controls also appears adequate as they exist and specific requirements have been placed into operation by inclusion in TVA-SPP-26.003. However, our review of 41 CC expenditures determined 24 (59 percent) were reviewed and approved in the system by a person whose approval authority was inconsistent with that required by the SPP; therefore, we determined these controls are not operating effectively.

The design of the third control appears adequate and is capable of achieving the objective of ensuring that CC requests are reviewed by the appropriate personnel. The implementation of this control also appears adequate as it exists and specific requirements have been placed into operation by inclusion in TVA-SPP-26.003. However, our review of 35 CC expenditures meeting the threshold for ESOC review found six were not reviewed by the ESOC; therefore, we determined this control is not operating effectively.

Recommendations – We recommend the Vice President, ESRO:

1. Update TVA-SPP-26.003 to reflect any process changes and revisions to approval requirements made since the previous update.

TVA Management's Comments – In response to our draft report, TVA management agreed with our recommendation and stated TVA-SPP-26.003, *Community Contributions*, was changed to TVA-SPP-36.001, *Community Contributions*, and has been updated to reflect current approval requirements for all contribution levels. In addition, TVA-SPP-36.001 was updated to reflect

the current TVA giving pillars. TVA-SPP-36.001 will enter the enterprise-wide concurrence stage in the first quarter of FY 2025. See Appendix D for TVA management's complete response.

Auditor's Response – We agree with TVA management's planned actions.

2. Update the CC system to:

- a. Require approval of CC requests by appropriate designated management personnel.
- b. Include requirement for any transactions approved in the CC system by PCE personnel to include documentation of approval by appropriate designated management personnel.
- c. Require ESOC review prior to processing of applicable CC funding requests in accordance with TVA policy.
- d. Address identified errors and limitations.

TVA Management's Comments – In response to our draft report, TVA management agreed with our recommendation and stated the following.

- The CC request process was updated to require initial review by the PCE team to confirm the request adheres to all contribution guidelines, and the request is routed to the appropriate approver(s). This was implemented with the launch of the FY 2025 contributions system in October 2024.
- All requests approved in the CC system by PCE personnel require the attachment of documentation of approval by the appropriate designated management personnel in the system. This was implemented in FY 2024.
- An approval e-mail is automatically routed to the PCE team and PCE director for any requests \$100,000 or greater for additional vetting and ESOC preparation. This was implemented with the launch of the FY 2025 contributions system in October 2024.
- The collective actions above will mitigate identified errors and limitations previously identified in the system.

See Appendix D for TVA management's complete response.

Auditor's Response – We agree with TVA management's actions taken.

3. Perform and document testing of updated CC system prior to implementation.

TVA Management's Comments – In response to our draft report, TVA management agreed with our recommendation and stated the PCE team worked in partnership with the External Analytics and Technology Services team to perform testing of the updated CC system prior to implementation of FY 2025 system rollout. Previous errors made in the archival of prior FYs

have been addressed by the External Analytics and Technology Services team. See Appendix D for TVA management's complete response.

Auditor's Response – We agree with TVA management's actions taken.

TVA'S GUIDANCE RELATING TO CONTRIBUTIONS IS INCOMPLETE

TVA's guidance related to contributions could be improved. Specifically, while we determined the identified key internal control relating to the CCF program was designed, implemented, and operating effectively, CCF administration guidelines are not formally documented. In addition, there is no formal guidance addressing contribution-related expenditures made outside TVA's formal giving programs. Without formal, complete guidance related to contributions, giving requests may not be consistently processed and accurately tracked.

Community Care Fund

As stated in the Background section, information sheets are distributed externally to LPCs to provide guidance on submission of CCF requests. However, there is no internal information available that formally documents program administration guidelines, including the specific TVA reviewers for CCF requests. According to PCE personnel, the three management reviewers currently required for CCF requests were determined at the inception of the program in 2020 and are still considered appropriate. Formally documenting program guidelines, including management review requirements, would help ensure consistent processing of requests and facilitate effective knowledge transfer among TVA personnel responsible for the program.

Other Entity-Wide Giving

TVA-SPP-26.003, *Community Contributions*, does not apply to contributions initiated outside the CC program. According to PCE personnel and other TVA personnel we interviewed, there is no entity-wide SPP or other guidance addressing contribution-related expenditures made by individual organizations outside TVA's formal giving programs. Supply chain and purchasing guidance is generally utilized in these instances, which is not specific to contributions. Establishing entity-wide guidance relating to expenditures made outside TVA's formal giving programs would help ensure consistency and facilitate accurate accounting and tracking of those expenditures.

Recommendations – We recommend the Vice President, ESRO:

4. Develop internal guidance documenting the requirements for administration of the CCF program, including the positions within TVA responsible for review and approval of CCF requests.

TVA Management's Comments – In response to our draft report, TVA management agreed with our recommendation and stated CCF program overview, administrative guidelines, and process documentation has been

added to TVA-SPP-36.001. TVA-SPP-36.001 will enter the enterprise-wide concurrence stage in the first quarter of FY 2025. See Appendix D for TVA management's complete response.

Auditor's Response – We agree with TVA management's planned actions.

5. Work with appropriate TVA organizations to develop guidance for giving activities initiated by individual TVA organizations outside the CC program.

TVA Management's Comments – In response to our draft report, TVA management agreed with our recommendation and stated TVA-SPP-36.001, *Community Contributions*, provides guidance to all TVA organizations on charitable giving. To help ensure all contributions are following this process, PCE will periodically review all expenditures identified as contributions, donations, and grants in TVA's general ledger system. See Appendix D for TVA management's complete response.

Auditor's Response – We agree with TVA management's planned actions.

TRANSACTIONS MISCLASSIFIED IN THE GENERAL LEDGER

Our sample of 73 expenditures included nine that were initiated by TVA's Economic Development (ED) organization outside of TVA's formal giving programs. ED personnel determined each of these transactions, totaling approximately \$204,000, were misclassified as contribution-related expenses in the general ledger. The expenditures should have instead been recorded as other types of general expenses. ED personnel determined the misclassifications resulted from staff members with inadequate training and an incomplete understanding of the requirements for assigning expenditure types and recording purchasing transactions.

ED personnel reviewed the remaining 86 transactions in our population that were identified as being initiated by their organization to determine whether other expenditures were misclassified. Of these 86 identified expenditures, ED personnel indicated that 55, totaling approximately \$543,000, were misclassified as contribution-related expenses in the general ledger and should have been recorded as other types of general expenses, similar to the nine in our sample noted above.

As a result of our audit identifying this issue, ED made the following changes to their procedures.

- Employees with responsibilities for recording purchase requisitions received updated training and work in a team to input and review transactions prior to submission.
- A checklist was implemented for ED contract and purchase requests, which requires a review for correctness before completing a purchase request.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine if expenditures identified as contributions, donations, and grants were made in compliance with Tennessee Valley Authority (TVA) policies and procedures. Our audit scope included approximately \$30.5 million in expenditures identified as contributions, donations, and grants in the general ledger during calendar years 2022 and 2023. To achieve our audit objective, we:

- Reviewed TVA Standard Programs and Processes (SPP) 26.003, *Community Contributions*, to identify key requirements applicable to the administration of TVA's Community Contributions (CC) program.
- Reviewed the External Strategy Operating Committee (ESOC) charter to identify review requirements applicable to CC program requests.
- Reviewed applicable guidance to identify key requirements relating to the administration of TVA's Community Care Fund (CCF) program, including:
 - TVA's contract with the third-party contractor (Contract No. 15991), including Contract Work Authorizations (CWA) 15991-2022-12, CWA-15991-2023-7, and CWA-15991-2024-8, which apply to transactions under this program occurring in calendar years 2022 and 2023.
 - CCF information sheets distributed to local power companies for fiscal years 2022 through 2024, detailing program background and objective, eligibility and qualification requirements, limitations on contributions, and the application process.
- Obtained an understanding of internal controls associated with TVA's formal giving programs, including information systems controls. We identified three key controls significant to the audit objective pertaining to the CC program and one pertaining to the CCF program.

CC Program

- Review and approval of contributions is completed through TVA's online request and approval system. We tested the operating effectiveness of this control through reviewing contributions for compliance with applicable policies and procedures, including evidence of review by the appropriate level of management.
- Based on the amount of funds requested, the request form will automatically be sent to the appropriate approver per TVA-SPP-26.003. We tested the operating effectiveness of this control by reviewing system settings relating to the routing of requests to appropriate approvers and determining whether the appropriate reviewer was assigned to each selected expenditure based on the amount of funds requested. We also reviewed contributions for compliance with applicable policies and procedures, including evidence of review by the appropriate level of management.

- The ESOC reviews substantial contributions, including all contributions over \$100,000. We tested the operating effectiveness of this control by reviewing contributions to determine whether the applicable requests were presented to the ESOC for review.

CCF Program

- All CCF program requests must be submitted for approval by a local power company through the online application system, including submission of required supporting documentation. We tested the operating effectiveness of this control by reviewing contributions made under the CCF program, to determine compliance with CCF program guidance, specifically submission and management review/approval requirements, as well as guidelines for individual expenditures.
- Interviewed TVA personnel from External Stakeholder and Regulatory Oversight, Commercial Energy Solutions, Economic Development, Financial Operations and Performance, Innovation and Research, Treasury and Risk, Regional Relations, and the Office of the Chief Executive Officer to gain an understanding of TVA's CC program, CCF program, and other expenditures for contributions, donations, and grants made outside these programs.
- Obtained a listing of payments recorded in general ledger accounts related to contributions, donations, and grants during the audit period¹ and performed procedures to assess the reliability of the data. The payment information obtained is summarized below.

Expenditures for Contributions, Donations, and Grants January 1, 2022 – December 31, 2023						
Payment Amount	CCF Program Contractor Invoices*		All Other Invoices		Total	
	Number of Payments	Total of Payments**	Number of Payments	Total of Payments	Number of Payments	Payments
\$100,000 or greater	19	\$4,148,282	41	\$12,874,584	60	\$17,022,866
Less than \$100,000	75	2,193,641	1,588	11,289,819	1,663	13,483,460
Subtotal	94	\$6,341,923	1,629	\$24,164,403		
	(1)	(140,000)	1	140,000		
Total	93	\$6,201,923	1,630	\$24,304,403	1,723	\$30,506,326
<p>* TVA utilizes a contractor to perform administrative services relating to the CCF program. We determined most invoices in our population from this vendor pertain to the CCF program. As such, we determined that payments made to this vendor would be stratified into a separate category for selection and testing of individual expenditures.</p> <p>** We determined one invoice from this contractor for \$140,000 was not related to a CCF program expenditure but rather was for a CC program expenditure pertaining to the same vendor. Therefore, the total of payments for this contractor relating to the CCF program was approximately \$6.2 million for January 1, 2022 through December 31, 2023. See footnote 3 on page 3 of this appendix for further information.</p>						

Table 1

¹ The payment listing obtained was comprised of transactions with associated general ledger expenditure types including: general contributions; charities and fundraisers; conference sponsorships; and operating and maintenance grants and contributions. The data was extracted based on the date the related invoice was received, including dates ranging from January 1, 2022, through December 31, 2023.

- Selected a judgmental sample of 15 payments made to the CCF program contractor, as follows:
 - Selected the 10 individual contributions² with amounts equal to or exceeding \$100,000 totaling \$1,555,000 to perform detailed reviews to determine compliance with key requirements and assess the design, implementation, and operating effectiveness of identified key internal controls.³
 - Randomly selected five individual contributions⁴ with amounts less than \$100,000 totaling \$77,500 to perform detailed reviews to determine compliance with key requirements and assess the design, implementation, and operating effectiveness of the identified key internal control.
 - Specifically, we evaluated whether each transaction (1) followed the CCF application process; (2) had adequate supporting documentation evidencing compliance with key program requirements, including eligibility, qualification, and limitations on contributions; and (3) was approved by appropriate TVA management personnel.
 - Since this was a judgmental sample, the results of the sample cannot be projected to the population.
- Selected a judgmental sample of 58 payments⁵ (excluding those made to the CCF program contractor), as follows:
 - Selected 41 payments with amounts equal to or exceeding \$100,000 totaling \$12,874,584 to perform detailed reviews.
 - Judgmentally selected 17 payments with amounts less than \$100,000 totaling \$489,844 to perform detailed reviews. Our selections were based on auditor judgement, including data analysis and assessment of the risk of noncompliance. Information reviewed in making these selections included descriptions, amounts, and other information included in the population.
 - For sampled transactions under the CC program, we evaluated whether each transaction (1) was properly submitted through the system; (2) had

² Payments to the contractor were made for invoices that contained one or more individual contributions to recipient organizations. We reviewed all invoices from this contractor during our audit period and selected all individual contributions equal to or greater than \$100,000. There were nine invoices with individual contributions greater than \$100,000 (with one invoice having two contributions greater than \$100,000).

³ We subsequently determined that one sampled payment for \$140,000 under this vendor was not a CCF program expenditure but rather a CC program expenditure where TVA used the CCF contractor to assist with distributing monies to qualifying individuals in a community affected by a natural disaster. We determined this item would remain in our overall sample but would be tested with CC program sample transactions and evaluated for compliance with key requirements of TVA-SPP-26.003.

⁴ We made our sample selections for these five items at the invoice level (from a population of 85 invoices, which excluded 9 invoices with individual contributions equal to or greater than \$100,000, which were reviewed separately). For invoices with more than one contribution, we selected the largest individual contribution on the invoice for testing.

⁵ Of these 58 sampled payments, 40 related to the CC program and 18 were giving-related expenditures made by individual business units outside of TVA's formal giving programs. As noted at footnote 3 above, one item for \$140,000 selected as part of our CCF contractor sample was subsequently determined to be a CC program expenditure. We determined this item would instead be tested with CC program sample transactions. As such, we tested a total of 41 CC program expenditures.

adequate supporting documentation evidencing compliance with key program requirements, including alignment with giving pillars, guidelines, limitations on contributions, and payment methods; (3) was reviewed by the ESOC, as applicable; and (4) was approved by appropriate TVA management personnel based on the funding budget and dollar amount. We also assessed the design, implementation, and operating effectiveness of identified key internal controls.

- For sampled transactions outside TVA's formal giving programs, we evaluated whether each transaction (1) had adequate supporting documentation, (2) followed applicable TVA supply chain and/or business unit guidance, and (3) was approved by appropriate TVA management personnel.
- Since this was a judgmental sample, the results of the sample cannot be projected to the population.

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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

COMMUNITY CONTRIBUTIONS PROGRAM GIVING PILLARS AND PRINCIPLES

The giving pillars listed below were included in Tennessee Valley Authority (TVA) Standard Programs and Processes 26.003, *Community Contributions*, Revision 0, which was applicable during our audit period (calendar years 2022 through 2023):¹

- **Education** – TVA supports K-12 schools and colleges and boards of education. Priority is given to supporting learning activities and educational programs that promote science, technology, engineering and math, and robotics skill areas that are vital to the region’s workforce.
- **Diversity and Inclusion** – TVA supports affinity groups and supplier diversity efforts.
- **Health, Hunger, and Housing** – TVA supports health organizations, food banks, and shelters; for health, priority is given to broad organizations rather than disease-specific organizations.
- **Workforce Development and Training** – TVA supports skills development and training of non-TVA employees in the Valley.
- **Community Enrichment** – TVA supports community events, community spaces, and parks and recreation.
- **Arts and Culture** – TVA supports visual and performance art, events and exhibits highlighting the diverse cultures of the Tennessee Valley, and more equitable access to arts and cultural activities.
- **Disaster Relief and Emergency Response** – TVA supports contributions to local communities affected by disaster, such as extreme weather or tragedy.

In addition, contributions should align with the following giving principles:

- **Aligned** – with TVA’s mission, giving pillars, values, and strategic goals.
- **Balanced** – considering annual donation across giving pillars, urban and rural areas, and customer segments.
- **Impactful** – quantifiable local impact; impact per dollar or hour of giving; effectiveness of recipient organization.
- **Engaging** – prioritize broad customer/stakeholder input, joint customer or business unit efforts.
- **Scalable** – start small with established end date to avoid over-commitment.

¹ According to TVA Public and Community Engagement personnel, as of August 2024, TVA is working on a revision to TVA Standard Programs and Processes 26.003 that is anticipated to include updated giving pillars. This revision is expected to be effective for fiscal year 2025.

COMMUNITY CONTRIBUTIONS PROGRAM APPROVAL REQUIREMENTS

The funding budgets and approval requirements listed below were included in Tennessee Valley Authority (TVA) Standard Programs and Processes (SPP) 26.003, *Community Contributions*, Revision 0, which was applicable during our audit period (calendar years 2022 through 2023):¹

Approval requirements for contributions made from a TVA **organization's budget** are as follows:

Contribution Amount	Approval Requirement
Up to \$25,000	Direct report to Business Unit Vice President
Greater than \$25,000 and up to \$50,000	Business Unit Vice President
Over \$50,000	Business Unit Senior Vice President

Approval requirements for contributions made from the **community contributions budget** are as follows:

Contributions from Regional Relations Community Contributions Budget

Contribution Amount	Approval Requirement
Up to \$25,000	Regional Director, Government & Community Relations
Greater than \$25,000 and up to \$50,000	Regional Vice President, Regional Relations
Over \$50,000	Senior Vice President, Regional Relations

Contributions from Valley-Wide Community Contributions Budget

Contribution Amount	Approval Requirement
Up to \$50,000	Senior Manager, Public & Community Engagement
Over \$50,000	Vice President, External Strategy & Regulatory Oversight

¹ The management positions listed in this appendix as approval requirements are those included in TVA-SPP-26.003, Revision 0, as of the effective date of June 9, 2022. Certain position titles have undergone revisions since that time. We included the positions as they appeared in TVA-SPP-26.003, Revision 0, for consistency. According to TVA Public and Community Engagement personnel, as of August 2024, TVA is working on a revision to TVA-SPP-26.003 that will include updates to the funding budgets and approval requirements. This revision is expected to be effective for fiscal year 2025.

Contributions from External Relations Strategic Business Unit Level Community Contributions Budget

Contribution Amount	Approval Requirement
Up to \$75,000	Senior Vice President, Regional Relations
Over \$75,000	Executive Vice President, External Relations

November 1, 2024

David P. Wheeler

TVA RESPONSE TO DRAFT AUDIT 2024-17480 – EXPENDITURES FOR CONTRIBUTIONS,
DONATIONS, AND GRANTS

TVA leadership has reviewed the subject draft audit and provided response below to the recommendations provided in the report. Overall, we agree with the recommendations and have begun to implement actions to address areas for improvement.

Response to Audit 2024-17480 Recommendations

1. Update TVA-SPP-26.003 to reflect any process changes and revisions to approval requirements made since the previous update.

Response

TVA-SPP-26.003, *Community Contributions*, was changed to TVA-SPP-36.001, *Community Contributions* and has been updated to reflect current approval requirements for all contribution levels, for both TVA organizational budgets and all Community Contributions budgets. In addition, TVA-SPP-36.001 was updated to reflect the current TVA giving pillars.

TVA-SPP-36.001 will enter the enterprise-wide concurrence stage in the first quarter of FY25

Owner – Althea Jones
Due Date – 12/31/2024

2. Update the Community Contribution (CC) system to:
 - a. Require approval to CC requests by appropriate designated management personnel.
 - b. Include requirement for any transaction approved in the CC system by Public & Community Engagement (PCE) personnel to include documentation of approval by appropriate designated management personnel.
 - c. Require ESOC review prior to processing of applicable CC funding requests in accordance with TVA policy.
 - d. Address identified errors and limitations.

Response

The CC request process was updated to require initial review by the PCE team to confirm the request adheres to all contribution guidelines, and the request is routed to the appropriate approver(s). This was implemented with the launch of the FY25 contributions system in October 2024.

All requests approved in the CC system by PCE personnel, require the attachment of documentation of approval by the appropriate designated management personnel in the system. This was implemented in FY24.

An approval email is automatically routed to the PCE team and PCE director for any requests \$100,000+ for additional vetting and ESOC preparation. This was implemented with the launch of the FY25 contributions system in October 2024.

The collective actions above will mitigate identified errors and limitations previously identified in the system.

Owner – Althea Jones / Kayla Counts

Due Date - **Complete** – All actions were completed with the launch of the FY25 contributions system in October 2024.

3. Perform and document testing of updated CC system prior to implementation.

Response

PCE team worked in partnership with External Analytics and Technology Services team to perform testing of updated CC system prior to implementation of FY25 system rollout. Previous errors made in the archival of prior fiscal years has been addressed by the External Analytics and Technology services team.

Owner – Kayla Counts / Abhi Wadagole

Due Date – **Complete** – Actions were completed with the launch of the FY25 contributions system in October 2024.

4. Develop internal guidance documenting the requirements for administration of the Community Care Fund (CCF) program, including the positions with TVA responsible for review and approval of CCF requests.

Response

CCF program overview, administrative guidelines, and process documentation has been added to TVA-SPP-36.001, *Community Contributions*. TVA-SPP-36.001 will enter the enterprise-wide concurrence stage in the FY25 Quarter 1.

Owner – Althea Jones

Due Date – 12/31/2024

5. Work with appropriate TVA organizations to develop guidance for giving activities initiated by individual TVA organizations outside the CC program.

Response

TVA-SPP-36.001 Community Contributions provides guidance to all TVA organizations on charitable giving. To help ensure all contributions are following this process, PCE will periodically review all expenditures identified as contributions, donations and grants in TVA's general ledger system.

This management review was completed in coordination with TVA's Economic Development and Commercial Energy Solutions teams. If there are questions or if additional information is needed, please contact me directly.

Thank you,

A handwritten signature in black ink that reads "Melanie Farrell". The script is cursive and fluid, with the first name and last name clearly distinguishable.

Melanie E. Farrell
Vice President
Valley Engagement & Strategy