



**Memorandum from the Office of the Inspector General**

November 24, 2020

Laura J. Campbell  
Diane T. Wear

**REQUEST FOR FINAL ACTION – AUDIT 2020-15694 – PURCHASING CARD USAGE**

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 Jennifer R. Bogus, Senior Auditor, at (865) 633-7372 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.

A handwritten signature in black ink that reads "David P. Wheeler". The signature is written in a cursive, slightly slanted style.

David P. Wheeler  
Assistant Inspector General  
(Audits and Evaluations)

JRB:KDS  
Attachment  
cc (Attachment):

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OIG File No. 2020-15694



Office of the Inspector General

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# *Audit Report*

To the Vice President, Supply Chain,  
and to the Vice President and  
Controller, Corporate Accounting

# **PURCHASING CARD USAGE**

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Audit Team  
Jennifer R. Bogus  
Melissa M. Neusel

Audit 2020-15694  
November 24, 2020

## **ABBREVIATIONS**

AO	Approving Official
CIGIE	Council of the Inspectors General on Integrity and Efficiency
ICCS	Integrated Credit Card Solution
MCC	Merchant Category Code
P-Card	Purchasing Card
OIG	Office of the Inspector General
SPP	Standard Program and Process
TVA	Tennessee Valley Authority
VP	Vice President

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## Audit 2020-15694 – Purchasing Card Usage

### EXECUTIVE SUMMARY

#### Why the OIG Did This Audit

We included an audit of purchasing card (P-Card) usage in our annual plan based on (1) findings from several Office of the Inspector General (OIG) audits<sup>i</sup> that indicated potential issues and/or misuse of P-Cards and (2) the findings and recommendations of the Council of the Inspectors General on Integrity and Efficiency, *Report on the Government Purchase Card Initiative*. Our audit objective was to determine if TVA personnel complied with TVA's P-Card policies and procedures. Our audit scope included approximately \$79.8 million in transactions from October 1, 2017, through September 30, 2019.

#### What the OIG Found

Our audit found multiple instances where TVA personnel did not comply with requirements in TVA's P-Card policies and procedures. Specifically, we found the following areas of noncompliance with policy requirements:

- Some approving officials were not performing their review duties properly.
  - Approximately \$847,000 of P-Card statements were not approved.
  - Approximately \$48 million, or 60 percent, of approved statements were not approved in a timely manner.
- Split transactions occurred.
- Disallowed and questionable (nonbusiness expense) transactions occurred.
- Only 25 percent of TVA's cardholders and approving officials completed the required annual P-Card training at least once between October 1, 2017, and September 30, 2019.
- Periodic audits of P-Card transactions by Supply Chain were not performed.
- Certain potentially fraudulent transactions by one cardholder had not been identified due to inadequate reviews of the cardholder statements. OIG Investigations subsequently found evidence the cardholder had used the P-Card to make several monthly rental payments to the apartment complex where the cardholder lived.

<sup>i</sup> Audit Report 2014-15228, *TVA Corporate Card*, December 10, 2015.  
Audit Report 2016-15424, *Audit of Tax Payments Made on TVA Credit Cards*, March 30, 2017.  
Audit Report 2018-15573, *Executive Travel*, September 11, 2019.  
Audit Report 2019-15624, *Employee Recognition Expenditures*, September 17, 2019.



## Audit 2020-15694 – Purchasing Card Usage

### EXECUTIVE SUMMARY

In addition, we found P-Cards were being used without determining if sources the Supply Chain and Financial Services Standard Programs and Processes rank ahead of the P-Card in its hierarchy were available.

#### What the OIG Recommends

We made 12 recommendations to TVA management to strengthen controls and help improve compliance with the P-Card policies by (1) implementing additional procedures and monitoring activities and (2) clarifying and updating the policies and related training.

#### TVA Management's Comments

TVA management agreed with the recommendations and provided actions they plan to take to address each of our recommendations. See Appendix B for TVA management's complete response.

## **BACKGROUND**

The Tennessee Valley Authority (TVA) purchasing card (P-Card) is a small-dollar purchase mechanism or alternative procurement method that is comanaged by two organizations: Supply Chain and Financial Services. Each organization has issued a Standard Program and Process (SPP) that addresses their areas of responsibility and the requirements for obtaining and using a P-Card:

- Financial Services' TVA-SPP-13.043, *TVA Purchasing Card Usage*, addresses accounting and card administration functions and processes.
- Supply Chain's TVA-SPP-04.003, *TVA VISA Purchasing Card Procedure*, addresses allowed and disallowed purchases.

Both SPPs specifically state that unless conditions warrant a separate written contract, organizations are required to utilize sources in the following hierarchy order: surplus, existing inventory, existing blanket contracts (not listed in Supply Chain SPP), existing purchase orders, and finally small-dollar purchase mechanism. According to both SPPs, a P-Card is provided to TVA organizations for purchases of small-dollar materials and services and is to be used when determined to be the best procurement vehicle for purchases up to and including \$5,000.

The Financial Services SPP states the default P-Card limit is \$5,000 for both the single transaction limit and monthly limit. However, the SPP also provides for these limits to be increased with appropriate justification and management approval, up to and including the Vice Presidents (VP) of the requestor's organization, Supply Chain, and Controller, Corporate Accounting.

The Supply Chain SPP states, "Transaction and monthly credit limits may be raised and the scope of allowed purchases may be expanded in genuine emergency situations." However, "every effort shall be made to ensure that lack of proper planning does not create an emergency," and "...great care should be exercised to preserve total cost savings to TVA. Unless the urgency of need prevents it, the user should know if an existing contract would provide greater value to TVA prior to using the P-Card."

### **Process for Payment and Approval of P-Card Statements**

Discussions with TVA Financial Services and Supply Chain personnel and review of the applicable SPPs identified the P-Card approval and payment process. Each month, TVA obtains a file of purchase transactions from the bank and loads the file into TVA's Integrated Credit Card Solution (ICCS) system. According to the Financial Services SPP, after a monthly statement is created each cardholder, or assigned reconciler, is to complete the following prior to verifying the statement:

1. Reconcile each expense.

2. Provide a description/comment of each line item.
3. Allocate the appropriate amount of each transaction to the appropriate account code (project/task) or work order.
4. Attach receipts.
5. Certify the verification is complete and accurate.

The ICCS system was designed to send an e-mail notification to the approving official (AO) (assigned to the cardholder per the cardholder's card profile in ICCS), after the cardholder clicks the verification box indicating the statement is ready for review and approval. Approval cannot be delegated. The Human Resource system does not update the ICCS system with a new manager; i.e., new AO, when a cardholder changes jobs/departments; therefore, updating the ICCS system with a cardholder's new AO is required. Until July 2018, a form was required to be completed and submitted to update the information in ICCS, but as of July 2018, the information can be submitted within ICCS. To approve a statement, the Financial Services SPP requires an AO perform the following:

1. Review each transaction and comment to ensure compliance with TVA policies and procedures.
2. Verify all receipts are attached and accurate.
3. Verify all account codes are correct.
4. Certify the approval is complete and accurate by clicking the approval box on the statement.

According to TVA Disbursement Services personnel, an automated clearing house (ACH) payment to the bank is made 30 days in arrears from the beginning of the statement period; e.g., payment on Jan 20<sup>th</sup> is for the 30 days, November 21 through December 19. TVA pays the total amount of P-Card transactions loaded each month from the bank regardless of whether or not cardholders review, reconcile, and attach receipts, or AO's approve cardholders' monthly statements.

### **Merchant Category Code**

A Merchant Category Code (MCC) is a four digit number that classifies the type of goods and/or services a vendor sells. The October 2019 *Visa Merchant Data Standards Manual* lists 885 MCCs and corresponding descriptions. A total of 223 MCCs were charged and/or credited during the audit period. As shown in Table 1 on the following page, charges to 10 MCCs accounted for more than 50 percent of the \$79,808,055 in P-Card purchases from October 1, 2017, to September 30, 2019.

MCC – Description	Amount Spent	Percentage of Total
5085 – Industrial Supplies (Not Elsewhere Classified)	\$9,323,685	11.68%
5065 – Electrical Parts and Equipment	7,407,933	9.28%
5046 – Commercial Equipment (Not Elsewhere Classified)	4,971,437	6.23%
5111 – Stationery, Office Supplies, Printing and Writing Paper	3,651,970	4.58%
5200 – Home Supply Warehouse Stores	3,136,127	3.93%
5137 – Men’s Women’s, Children’s Uniforms and Commercial Clothing	3,087,186	3.87%
5039 – Construction Materials (Not Elsewhere Classified)	2,989,647	3.75%
5251 – Hardware Stores	2,496,865	3.13%
7399 – Business Services (Not Elsewhere Classified)	2,236,530	2.80%
4900 – Utilities – Electric, Gas, Water, and Sanitary	2,150,600	2.69%
<b>Totals</b>	<b>\$41,451,980</b>	<b>51.94%</b>

Table 1

### Contract Payments Made with Purchasing Card

To assist in using P-Cards for certain items, TVA has executed contracts with four vendors to be paid via P-Card. According to the P-Card data obtained, purchases were made with only three of these vendors for the following categories of items:

- Fire retardant clothing - \$2,848,698.
- Office supplies - \$2,523,493.
- Backup diesel generator fuel or non-nuclear fuel - \$10,234.

### CIGIE Report on the Government Purchase Card Initiative

In July, 2018, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) issued a *Report on the Government Purchase Card Initiative*. The objective of the initiative was to analyze and review government purchase card data to determine risks associated with purchase card transactions. The initiative included 1,255 high risk transactions selected for review by the 20 participating OIGs. The OIGs found 501 of the transactions did not comply with applicable policies in the following categories:

- Split transactions.
- Sales tax transactions.
- Transactions from unauthorized third-party merchants.
- Transactions from prohibited MCCs.
- Transactions from questionable MCCs.

The report stated while the OIGs did not find evidence of fraudulent behavior, they did find weaknesses in policy, monitoring, and training that reduced program efficiency and increased the risk of unauthorized purchases on government purchase cards.

We included an audit on P-Card usage in our annual plan based on (1) findings from several Office of the Inspector General (OIG) audits<sup>1</sup> that indicated potential issues and/or misuse of individuals' using P-Cards and (2) the findings and recommendations in CIGIE's *Report on the Government Purchase Card Initiative*.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

Our objective was to determine if TVA personnel complied with TVA's P-Card policies and procedures. Our audit scope included approximately \$79.8 million in transactions from October 1, 2017, through September 30, 2019 (TVA fiscal years 2018 and 2019). A complete discussion of our audit objective, scope, and methodology is included in Appendix A.

## **FINDINGS AND RECOMMENDATIONS**

Our audit found multiple instances where TVA personnel did not comply with requirements in TVA's P-Card policies and procedures. Specifically, we found the following areas of noncompliance with SPP requirements:

- Some AOs were not performing their review duties properly.
  - Approximately \$847,000 of P-Card statements were not approved.
  - Approximately \$48 million, or 60 percent, of approved statements were not approved in a timely manner.
- Split transactions occurred.
- Disallowed and questionable (non-business expense) transactions occurred.
- Only 25 percent of TVA cardholders and AOs completed the required annual P-Card training at least once between October 1, 2017, and September 30, 2019.
- Periodic audits of P-Card transactions by Supply Chain were not performed.
- Certain potentially fraudulent transactions by one cardholder had not been identified due to inadequate reviews of the cardholder statements.

In addition, we found P-Cards were being used without determining if sources the Supply Chain and Financial Services SPPs rank ahead of the P-Card in its hierarchy were available.

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<sup>1</sup> Audit Report 2014-15228, *TVA Corporate Card*, December 10, 2015.  
Audit Report 2016-15424, *Tax Payments Made on TVA Credit Cards*, March 30, 2017.  
Audit Report 2018-15573, *Executive Travel*, September 11, 2019.  
Audit Report 2019-15624, *Employee Recognition Expenditures*, September 17, 2019.

## NONCOMPLIANCE WITH STANDARD PROGRAMS AND PROCESSES

As noted above, we reviewed P-Card transactions, approvals, training records, and additional information to determine if TVA personnel complied with TVA's P-Card policies and procedures and found several instances of noncompliance with the two SPPs.

### Some Approving Officials Were Not Performing Their Review Duties Properly

We found some AOs were not performing their review duties properly. Specifically, as shown in Table 2, we found (1) 417 monthly statements, totaling \$847,342, were not approved and (2) AOs approved approximately \$48 million (over 60 percent) of purchases after the payment due date.

	Approved On/Before Payment Due Date	Approved After Payment Due Date	Total Approved	Not Approved	Total Purchases
<b>Dollar Amount</b>	\$30,964,205	\$47,996,508	\$78,960,713	\$847,342	\$79,808,055
<b>Percent</b>	38.80%	60.14%	98.94%	1.06%	100.00%

Table 2

We found 224 cardholders had 417 statements totaling \$847,342 that were not approved. We determined there was at least 1 statement in each month of the 24 month audit period that had not been approved. The AOs responsible for approving these 417 statements were not identified in the data. Additionally, the date the cardholder submitted a statement for approval was not included in the data. One of the 224 cardholders, who worked in a transmission department, had 16 statements totaling \$276,506 that were not approved.

We found 558 of the 578 (96.5 percent) AOs approved approximately \$48 million (60.1 percent) of purchases after the payment due date. The number of days statements were approved after the payment due date ranges from 1 to 588 days, as shown in Table 3.

Days Approved After Payment Due Date	Dollar Amount
1 to 10	\$23,773,891
11 to 45	21,562,184
46 to 90	1,330,014
91 to 364	1,275,437
365 to 588	54,982
<b>Totals</b>	<b>\$47,996,508</b>

Table 3

We also found the following regarding the 578 AOs' approval of statements:

- One AO approved \$3,678,997 of the total P-Card amount and \$2,610,581 of the statements for these purchases were approved after each statement's payment due date.
- 48 AOs (8.30 percent) approved all statements after each statement's payment due date. The total of these 242 statements was \$488,774.
- 30 AOs (5.19 percent) approved 39 statements totaling \$54,982 from 365 days to 588 days after the payment due date.
- Only 20 AOs (3.46 percent) approved every statement on or before each statement's payment due date with required receipts attached. The total of these 57 statements was \$81,001.

According to Disbursement Services and Supply Chain personnel, the AO review of cardholder transactions is the primary control for ensuring P-Card purchases are in compliance with the SPPs. Financial Service's SPP includes the following responsibilities for the AO:

- Ensuring P-Card expenses are reasonable, within the organization's approved budget, and in accordance with TVA policies and procedures.
- Ensuring purchases are within established credit limits (card limit and single transaction limit) and allocated to the appropriate account codes.
- Ensuring statements include all documentation (such as itemized receipts, additional approvals, or signed contracts).
- Approving P-Card limits based on business needs.
- Reviewing and approving P-Card statements in ICCS prior to the communicated deadline.

Although the intent and requirements of the P-Card process is for the AO to ensure receipts are attached and statements are approved before the payment due date, indicating the transaction was a proper business expense, this is not happening. Therefore, TVA management's primary control is not effective.

### **Split Transactions**

The AO approval process is not effectively identifying and/or stopping split transactions from occurring. Both SPPs state it is not acceptable to split the purchase amount (of a material or service) with the intent to circumvent transaction limits assigned to a cardholders P-Card. The Financial Services SPP also states that the violation of procedural guidelines may result in cancellation and/or suspension of the P-Card.

We identified 54 instances, totaling \$470,733, where multiple charges were made to the same vendor in excess of the P-Card's transaction limit indicating they were split transactions. For example, one split transaction identified was a

purchase totaling \$22,997 split into five transactions. The cardholder's single transaction limit was \$5,000. The five transactions included four for \$5,000 each and one for \$2,997.

Our initial data analysis identified 597 instances, totaling \$4,670,329, where a cardholder used their card multiple times on the same day with the same merchant for an amount totaling more than their single transaction limit. We judgmentally selected 13 of these 597 transactions for testing. We identified another 24 instances, totaling \$120,000, where the amount spent on a single transaction was exactly equal to the cardholder's transaction limit. We judgmentally selected 13 of these for testing. We determined 24 of the 26 instances tested, totaling \$235,114, had multiple charges to the same vendor in excess of the card's transaction limit indicating they were split transactions. While reviewing the monthly statements for the 26 sampled items, we identified an additional 28 split transactions totaling \$221,743. In addition, during testing of transactions made to questionable MCCs, we noted 1 split transaction totaling \$7,426. During testing of highest spender/high dollar purchases, we noted 1 split transaction totaling \$6,450.

The large number of exceptions found provide clear evidence of a deficiency in the AO review as a primary control; therefore, we determined additional testing was not necessary.

### **Disallowed and Questionable Transactions**

The AO approval process is not effectively identifying and/or stopping some disallowed or questionable<sup>2</sup> purchases from occurring. The Supply Chain SPP specifically states what purchases are allowed and disallowed on the P-Card. We identified \$319,109 in transactions with MCCs related to (1) a specifically disallowed category, or (2) questionable business expenses. We judgmentally selected 31 potentially disallowed or questionable transactions totaling \$29,445 for testing. While performing testing, we identified an additional \$5,915 of disallowed and/or questionable purchases. As shown in Table 4 on the next page, we identified \$21,355 of charges specifically disallowed by the Supply Chain SPP and questionable transactions totaling \$18,652 that did not appear to be appropriate business expenses.

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<sup>2</sup> We defined a questionable transaction as a purchase that did not seem to be an appropriate business expense based on the corresponding MCC description.

Description	Total
<b>Disallowed Transactions per SPP</b>	
Business meeting (room rental, AV equipment, food, etc.)	\$12,677
Vehicle rentals	6,145
Shuttle service	2,142
Overnight hotel stays	391
<b>Total Disallowed</b>	<b>21,355</b>
<b>Questionable Transactions</b>	
Event (bowling, company picnic, float trip, ice cream catering)	7,595
Table refurbishment	1,092
Boat rental	720
Apple AirPods	634
Radio/music subscription	516
Decorative office items	331
Monthly rental payments*	7,764
<b>Total Questionable</b>	<b>18,652</b>
<b>Total Disallowed and Questionable Transactions</b>	<b>\$40,007</b>
* See the "Potentially Fraudulent Use of P-Card" finding below regarding these items	

Table 4

Any MCC that corresponds to a disallowed category can be blocked, and consequently, transactions at a vendor with a blocked MCC would not be processed. During the audit period, TVA blocked only 36 of the 885 MCCs listed in the October 2019 *Visa Merchant Data Standards Manual*. Accordingly, MCCs for items shown in Table 4 for hotels, transportation, etc., can be blocked to reduce disallowed and questionable transactions.

### Annual Training Not Completed

The Financial Services' SPP states all cardholders and AO's must complete the online P-Card training course. The training is revised yearly and is mandatory as an annual refresher. The updated training materials define "annual" as 365 days from the day the P-Card training was previously completed. However, we found only 474 of the 1,903 cardholders and AOs (25 percent) completed the required annual P-Card training at least once between October 1, 2017, and September 30, 2019. Additionally, only 13 of the 474 completed the required annual P-Card training twice between October 1, 2017, and September 30, 2019.

According to TVA Financial Services personnel, this gap in training completion had already been identified, which led to an update to the SPP, effective May 30, 2020, and to the training materials. Financial Services personnel stated they would require all cardholders and approvers to take the new training in June 2020 and, going forward, validate training has been completed prior to issuing a card. The training was revised effective June 25, 2020.

### Periodic Audits of Purchasing Card Transactions by Supply Chain Not Performed

The Supply Chain SPP states Supply Chain personnel will (1) periodically audit P-Card transactions to determine if purchases are in compliance with allowed and disallowed categories listed in the SPP and (2) ensure contract ceilings are

monitored for Visa expenditures. The SPP also states it solely covers the use of the P-Card to purchase appropriate goods and services for TVA. We found Supply Chain personnel periodically performed only limited, high level reviews of P-Card transactions and only for P-Cards assigned to the Nuclear Group. In addition, contract ceilings for the three contracts paid via P-Card were not being monitored.

Monitoring P-Card purchases is an appropriate control Supply Chain should be performing to ensure (1) purchases are valid business expenses, (2) contract ceilings are not exceeded, and (3) allowed and disallowed categories are updated as needed.

### **Potentially Fraudulent Use of Purchasing Card**

We identified a P-Card used eight times during our audit period for \$7,764 in charges to an apartment complex and coded as direct charge material/ supplies. According to information in TVA's Human Resources system, the cardholder resided at the apartment complex. In addition, only two of the eight card statements were approved in ICCS by the assigned AO. Information on the apartment complex' Web site indicated the amount charged was very close to the monthly amount the complex charges for a two bedroom/ two bath apartment.

We referred this information to OIG Investigations for follow up and their investigation found a ninth charge to the apartment complex as well. The nine charges were for the cardholder's personal monthly rental payments to the apartment complex totaling \$8,734. OIG Investigations found the evidence supports a finding the cardholder improperly and intentionally used the P-Card for personal benefit by presenting the P-Card to the apartment complex for rental payments on nine separate occasions between August 2017 and October 2019. TVA documentation in ICCS shows these transactions totaled \$8,734. However, the cardholder did reimburse TVA \$1,941 for two of the unauthorized transactions through ERS. The outstanding balance still due TVA for unauthorized transactions, is \$6,793.

In reviewing the cardholder's P-Card transactions within ICCS, OIG Investigations identified multiple months where the cardholder failed to upload transaction receipts to reconcile the corresponding P-Card statements. These occurred every month between June 2018 and January 2019; June 2019 and July 2019; and September 2019 and November 2019. Consequently, these transactions were not reviewed or approved by the cardholder's AO.

A review of the cardholders' training records showed the cardholder only took the P-Card training on one occasion: July 6, 2020. The AO for the card took the P-Card training on two occasions: January 6, 2016, and July 16, 2020. Neither the cardholder nor the AO, took the required P-Card training during the annual period when the unauthorized transactions occurred.

The above situation illustrates what can occur when TVA's SPPs are not enforced. As noted previously, P-Card transactions are paid whether they are approved by the AO or not. In this instance:

- The cardholder was found to have improperly used the card on two occasions, reimbursed TVA, but retained the card and suffered no disciplinary action.
- The cardholder did not upload transaction receipts to ICCS as required, yet retained the card.
- The AO did not perform the required reviews of monthly P-Card statements.
- Neither the cardholder nor AO took the required annual P-Card training during the period as required, yet retained the card and their AO status.

**Recommendations** – We recommend TVA's VP and Controller, Financial Services:

1. Update the Financial Services' SPP to include consequences for an AO when approval responsibilities are not performed.

**TVA Management's Comments** – TVA management agreed with the recommendation and stated Disbursement Services will update the SPP to include language outlining possible consequences for AO noncompliance.

2. Perform regular reviews of reports from ICCS listing statements for AOs that are (a) not approved and (b) approved after the statement due date and take appropriate actions when the AO does not perform their responsibilities.

**TVA Management's Comments** – TVA management agreed with the recommendation and stated Disbursement Services will review, escalate to leadership, and suspend P-Cards for late/unapproved statements.

3. Implement a periodic review for (a) split transactions and (b) disallowed and/or questionable transactions and enforce the Financial Services' SPP by having cardholders reimburse TVA and/or suspending or revoking the card as applicable.

**TVA Management's Comments** – TVA management agreed with the recommendation and stated Disbursement Services began compliance testing for P-Card transactions in September 2020 and will continue to conduct testing to identify purchases made out of compliance with TVA's policies

4. Update the Financial Services' SPP to align with any changes made to the Supply Chain SPP.

**TVA Management's Comments** – TVA management agreed with the recommendation and stated Disbursement Services will update the Financial Services SPP to align with any changes made to the Supply Chain SPP.

5. Update annual training with the new instructions due to any changes made to SPP requirements.

**TVA Management's Comments** – TVA management agreed with the recommendation and stated Disbursement Services will update the annual training to reflect changes made to the P-Card SPPs.

We recommend TVA's VP, Supply Chain:

6. Implement an annual review of MCCs from what has been purchased and the MCC listing applicable to the TVA P-Card then (a) update the list of blocked versus allowed MCCs as appropriate to reduce questionable or disallowed purchases, (b) provide the updated list to Financial Services, and (c) update the SPP to include the allowed and disallowed MCCs.

**TVA Management's Comments** – TVA management agreed with the recommendation and stated Supply Chain will (1) coordinate with Disbursement Services to access and review the MCCs and (2) determine how to address this review going forward.

7. Perform the monitoring functions on P-Card transactions as required in the Supply Chain SPP to help ensure (a) P-Card purchases are valid business expenses and only materials and services Supply Chain has determined are allowed have been purchased and (b) purchases do not exceed the P-Card contract ceilings.

**TVA Management's Comments** – TVA management agreed with the recommendation and stated Supply Chain will develop a plan to ensure regular monitoring of P-Card transactions is performed per the SPP.

## HIERARCHY OF SOURCES

Our analysis of P-Card transaction data indicated the P-Card was being used without determining if sources the Supply Chain and Financial Services SPPs rank ahead of the P-Card in its hierarchy were available. The Supply Chain and Financial Services SPPs list the specific order of sources; i.e., hierarchy, to be utilized for material or services, but the order listed for the source hierarchy in each SPP differs, as shown in Table 5.

Source Hierarchy	Supply Chain SPP*	Financial Services SPP
First	Surplus	Surplus
Second	Existing Inventory	Existing Inventory
Third	Blanket Purchase Order	Existing Blanket Contracts
Fourth	Small-Dollar Purchase Mechanism (i.e., P-Card)	Existing Purchase Orders
Fifth		Small-Dollar Purchase Mechanism (i.e., P-Card)

\* The Supply Chain SPP does not include "Existing Purchase Orders" in the hierarchy.

Table 5

Both SPPs state the P-Card is used when “determined to be the best procurement vehicle for purchases up to and including \$5,000.” However, neither provides guidance on how this determination should be made. Both SPPs also require utilizing the hierarchy of sources, but do not require the determination that the P-Card was the best procurement vehicle be documented. Consequently, no evidence exists documenting the other sources in the hierarchy were considered before determining the P-Card was the best procurement vehicle.

We found multiple P-Card purchases were made from vendors with whom TVA had current or previous contracts. Items purchased from these vendors are listed in Table 6.

Description of Item (Number of Vendors)	Total Amount of Purchases
Tools and construction materials (3 vendors)	\$2,987,164
Rock, gravel, stone and sand (2 vendors)	1,843,233
Electrical supplies, tools (5 vendors)	857,569
Office trailer, storage unit/containers (1 vendor)	503,484
Fire retardant clothing, clothing (1 vendor)*	267,552
Safety glasses (1 vendor)	227,565
Auto parts (1 vendor)	21,058
<b>Totals</b>	<b>\$6,707,625</b>

\* This is a different vendor from the company TVA has a contract with to purchase fire retardant clothing using the P-Card.

Table 6

The purchases noted in Table 6 indicate that the P-Card is potentially being used prior to determining if other higher ranked sources for the purchase are available. We also noted that although both SPPs require organizations to utilize sources according to the hierarchy stated in TVA-SPP-04.0, *Management of the TVA Supply Chain Process*, (unless conditions warrant a separate written contract), we found TVA-SPP-04.0 does not contain specific purchasing source hierarchy.

In addition to making purchases with a P-Card at vendors with whom TVA had current or previous contracts, we found repetitive purchases for similar categories of materials and services to other vendors. Because the P-Card is intended to be used for small dollar purchases when determined to be the best procurement vehicle, multiple purchases for the same items indicate either (1) the hierarchy of sources was not used or (2) TVA may need to execute contracts for those items. Potential contracts could be considered for the items purchased from multiple vendors listed in Table 7 (Table 7 does not include amounts from the vendors with whom TVA currently has or previously had contracts listed in Table 6 on the following page).

Description of Item	Total Purchases
Auto parts, tires	\$5,321,588
Electrical supplies, tools	4,105,510
Dumpster, storage, office trailer	2,278,820
Rock, gravel, stone and sand	1,247,793
Portable toilets, wash stations	651,975
<b>Total</b>	<b>\$13,605,686</b>

Table 7

Not utilizing the hierarchy of sources could prevent TVA from achieving the objective of purchasing goods or services at the required quality, lowest cost, or otherwise provide the best value.

**Recommendations** – We recommend TVA’s VP, Supply Chain, coordinate with the VP and Controller, Financial Services, and:

- Implement a mechanism cardholders and AOs can use to determine if materials or services exist within TVA’s surplus, inventory, or are available through an existing contract, and update the SPPs accordingly.

**TVA Management’s Comments** – TVA management agreed with the recommendation and stated Supply Chain will review the established hierarchy and reevaluate for intent and purpose for possible improvement.

- Determine if all or only certain P-Card purchases over a defined amount should require utilization of the source hierarchy and update the SPPs with instructions on how to document the P-Card purchase is the best procurement vehicle in the source hierarchy.

**TVA Management’s Comments** – TVA management agreed with the recommendation and stated Supply Chain will determine a dollar threshold for purchases for which the source hierarchy will apply.

- Update TVA-SPP-04.0, *Management of the TVA Supply Chain Process*, with specific purchasing source hierarchy and update the SPPs to correctly list the hierarchy of sources as determined by Supply Chain.

**TVA Management’s Comments** – TVA management agreed with the recommendation and stated Supply Chain will update TVA-SPP-04.0 based on the hierarchy review.

We recommend TVA’s VP and Controller, Financial Services:

- Update annual training with the new instructions on (a) how to use the mechanism implemented by Supply Chain to determine if needed materials or services are available within TVA’s surplus, inventory, or on an existing contract or purchasing order with a vendor and (b) including documentation indicating the P-Card is the best procurement vehicle.

**TVA Management's Comments** – TVA management agreed with the recommendation and stated TVA VP and Controller will update annual P-Card training to address sourcing hierarchy as necessary.

We recommend TVA's VP, Supply Chain:

12. Implement a periodic review of purchases to determine if it would be more advantageous for TVA to execute contracts with vendors for certain materials or services.

**TVA Management's Comments** – TVA management agreed with the recommendation and stated Supply Chain will implement a review of purchases to determine when it is more advantageous to issue blanket contracts versus using the P-Card.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

Our objective was to determine if Tennessee Valley Authority (TVA) personnel complied with TVA's purchasing card (P-Card) policies and procedures. Financial Services' TVA Standard Program and Process (SPP) 13.043, *TVA Purchasing Card Usage*, and Supply Chain's TVA-SPP-04.003, *TVA VISA Purchasing Card Procedure*, were the applicable TVA policies during our audit period. We also relied on the Council of the Inspectors General on Integrity and Efficiency, *Report on the Government Purchase Card Initiative*, to identify potential problem areas with government P-Cards and best practices for the same. The report identified the issues with the following categories:

- Split transactions.
- Sales tax transactions.
- Transactions from unauthorized third-party merchants.
- Transactions from prohibited Merchant Category Code (MCC).
- Transactions from questionable MCCs.

Our audit scope included approximately \$79.8 million in cardholder transactions from October 1, 2017, to September 30, 2019.

To achieve our objective, we:

- Reviewed Financial Services' TVA-SPP-13.043, *TVA Purchasing Card Usage* and Supply Chain's TVA-SPP-04.003, *TVA VISA Purchasing Card Procedure*, to identify key requirements applicable to P-Card usage.
- Reviewed Supply Chain TVA-SPP-04.0, *Management of the TVA Supply Chain Process*, specifically referred to in both P-Card SPPs, for the hierarchy of sources that organizations are required to utilize when making purchases.
- Obtained Integrated Credit Card Solutions data for purchases made on the P-Card during the audit period and performed data analysis to assess the reliability of the data.
- Received bank cardholder information applicable during the audit period and performed data analysis to assess the reliability of the data.
- Obtained Learning Management System data of completion records for the required annual P-Card training.
- Obtained an understanding of internal controls associated with P-Card process. We identified the approving official (manager) review of P-Card transactions as an internal control that is significant to the audit objective. During the audit period, TVA had 578 approving officials of which 205 were also cardholders. Our primary method for testing the operating effectiveness of this control was reviewing P-Card transactions for compliance with applicable policies and procedures.

- Performed data analysis of all P-Card transactions to identify instances where P-Card transactions and/or procedures may not have complied with TVA policies or were in one of the top five problem categories identified by Council of the Inspectors General on Integrity and Efficiency.
- Judgmentally selected 26 transactions from 621 instances (totaling \$4,790,329) where multiple purchases were made by a cardholder to the same vendor to determine if a split transaction occurred. The transactions were selected for testing based on the amount of potential split transactions for the cardholder or merchant, the cardholder's transaction limit, and the total spent.
- Judgmentally selected 31 transactions (totaling \$29,445) from 1,156 transactions (totaling \$319,109) made to 50 MCCs, to determine if disallowed or questionable items were purchased. The 31 transactions were selected for testing because the MCC description appeared to be related to either a specifically disallowed or nonbusiness related category.
- Judgmentally selected 20 transactions to determine if the purchase was made in accordance with policies and procedures. The 20 transactions were chosen from cardholders (1) who spent over \$1,000,000, (2) with the highest total spend of transactions over \$5,000, and (3) in departments that spent over \$1,000,000.
- Reviewed supporting documentation for P-Card transactions to determine compliance with TVA policies.
- Compared the 1,903 cardholders and approvers to the list of completed training to determine compliance with TVA policies.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

November 20, 2020

David P. Wheeler, WT 2C-K

RESPONSE TO REQUEST FOR COMMENTS - DRAFT AUDIT 2020-15694 - PURCHASING  
CARD USAGE

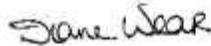
Our response to your October 27, 2020, request for comments regarding the subject draft report is attached.

TVA takes very seriously its commitment to be good stewards of resources. As such, TVA appreciates the Office of Inspector General helping us identify areas where we can improve our processes, and procedures. We are committed to a culture of continuous improvement at TVA, and this is another opportunity for us to improve.

In response to this audit, TVA's planned actions will be coordinated with Resource Management & Operations Services/Supply Chain. We have concluded from our review of the recommendations that there are opportunities for improvement in the following areas:

- Policy clarification
- Training
- Material sourcing

We would like to thank Rick Underwood, Jennifer Bogus, and you for the professionalism and cooperation in conducting this audit. If you have any questions please contact Diane Wear at (865) 368-2297, or Laura Campbell at (423) 751-2129.



Diane Wear  
Vice President & Controller  
Corporate Accounting



Laura Campbell  
Vice President  
Supply Chain

DTW:STB:MAC  
Attachment

cc (Attachment):

James R. Dalrymple, MR 3H-C  
David Fountain, WT 6A-K  
M. Scott Fugate, WT 3A-K  
Jennifer A. Johnson, BR 5A-C  
Janet D. Jones, WT 4A-K  
Ronald R. Sanders II, MR 5E-C  
Michael D. Skaggs, WT 7B-K  
John M. Thomas III, MR 6D-C  
Gabriel A. Trotter, BR 5A-C  
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Heather S. Young, WT 3A-K  
OIG File No. 2020-15694

ATTACHMENT  
RESPONSE TO REQUEST FOR COMMENTS  
DRAFT AUDIT 2020-15694 - Purchasing Card Usage  
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OIG RECOMMENDATION	TVA PLANNED ACTIONS	TVA COMMENTS
(1) TVA VP and Controller: Update the Financial Services' SPP to include consequences for an AO when approval responsibilities are not performed.	Disbursement Services will update the Financial Services Purchasing Card SPP to include language outlining possible consequences for AO noncompliance.	TVA management agrees with this recommendation.
(2) TVA VP and Controller: Perform regular reviews of reports from ICCS listing statements for AOs that are (a) not approved and (b) approved after the statement due date and take appropriate actions when the AO does not perform their responsibilities.	Disbursement Services will review, escalate to leadership, and suspend Purchasing Cards for late/unapproved statements.	TVA management agrees with this recommendation.
(3) TVA VP and Controller: Implement a periodic review for (a) split transactions and (b) disallowed and/or questionable transactions and enforce the Financial Services' SPP by having cardholders reimburse TVA and/or suspending or revoking the card as applicable.	Disbursement Services started compliance testing for Purchasing Card transactions in September 2020, and will continue to conduct compliance testing to identify purchases made out of compliance with TVA's policies.	TVA management agrees with this recommendation.
(4) TVA VP and Controller: Update the Financial Services' SPP to align with any changes made to the Supply Chain SPP.	Disbursement Services will update the Financial Services SPP to align with any changes made to the Supply Chain SPP.	TVA management agrees with this recommendation.
(5) TVA VP and Controller: Update annual training with the new instructions due to any changes made to SPP requirements.	Disbursement Services will update the annual training to reflect changes made to the Purchasing Card SPPs.	TVA management agrees with this recommendation.

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DRAFT AUDIT 2020-15694 - Purchasing Card Usage  
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<p>(6) TVA VP, Supply Chain: Implement an annual review of MCCs from what has been purchased and the MCC listing applicable to the TVA P-Card then (a) update the list of blocked versus allowed MCCs as appropriate to reduce questionable or disallowed purchases, (b) provide the updated list to Financial Services, and (c) update the SPP to include the allowed and disallowed MCCs.</p>	<p>Supply Chain will coordinate with Disbursement Services to access and review the MCCs. Supply Chain will determine how to address this review going forward.</p>	<p>TVA management agrees with this recommendation.</p>
<p>(7) TVA VP, Supply Chain: Perform the monitoring functions on P-Card transactions as required in the Supply Chain SPP to help ensure (a) P-Card purchases are valid business expenses and only material and services Supply Chain has determined are allowed have been purchased and (b) purchases do not exceed the P-Card contract ceilings.</p>	<p>Supply Chain will develop a plan to ensure regular monitoring of P-Card transactions are performed per the SPP.</p>	<p>TVA management agrees with this recommendation.</p>
<p>(8) TVA VP, Supply Chain coordinate with TVA VP and Controller: Implement a mechanism cardholders and AOs can use to determine if materials or services exist within TVA's surplus, inventory, or are available through an existing contract, and update the SPPs accordingly.</p>	<p>Supply Chain will review the established hierarchy and reevaluate for intent and purpose for possible improvement.</p>	<p>TVA management agrees with this recommendation.</p>
<p>(9) TVA VP, Supply Chain coordinate with TVA VP and Controller: Determine if all or only certain P-Card purchases over a defined amount should require</p>	<p>Supply Chain will determine a dollar threshold for purchases for which the source hierarchy will apply.</p>	<p>TVA management agrees with this recommendation.</p>

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<p>utilization of the source hierarchy and update the SPPs with instructions on how to document the P-Card purchase is the best procurement vehicle in the source hierarchy.</p>		
<p>(10) TVA VP, Supply Chain coordinate with TVA VP and Controller: Update TVA-SPP-04.0, <i>Management of the TVA Supply Chain Process</i>, with specific purchasing source hierarchy and update the SPPs to correctly list the hierarchy of sources as determined by Supply Chain.</p>	<p>Supply Chain will update TVA-SPP-04.0 based on the hierarchy review.</p>	<p>TVA management agrees with this recommendation.</p>
<p>(11) TVA VP and Controller: Update annual training with the new instructions on (a) how to use the mechanism implemented by Supply Chain to determine if needed materials or services are available within TVA's surplus, inventory, or on an existing contract or purchasing order with a vendor and (b) including documentation indicating the P-Card is the best procurement vehicle.</p>	<p>TVA VP and Controller will update annual P-Card training to address sourcing hierarchy as necessary.</p>	<p>TVA management agrees with this recommendation.</p>
<p>(12) TVA VP, Supply Chain: Implement a periodic review of purchases to determine if it would be more advantageous for TVA to execute contracts with vendors for certain materials or services.</p>	<p>Supply Chain will implement a review of purchases to determine when it is more advantageous to issue blanket contracts verses using the Purchasing Card.</p>	<p>TVA management agrees with this recommendation.</p>