



Memorandum from the Office of the Inspector General

May 17, 2007

Randall P. Trusley, WT 4B-K

FINAL REPORT – INSPECTION 2006-540I – REVIEW OF TVA’S VISA GOLD CARD USAGE

Attached is the subject final report for your review and action. As discussed with you on March 1, 2007, the subject report is being issued in presentation format. 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.

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

If you have any questions, please contact Rick C. Underwood, Project Manager, at (423) 751-3108 or Gregory C. Jaynes, Deputy Assistant Inspector General, Inspections, at (423) 751-7821. We appreciate the courtesy and cooperation received from your staff during this review.

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

RCU:BKA
Attachment
cc (Attachment):

M. Lynne Bartlett, WT 4A-K
John M. Hoskins, WT 7B-K
Tom D. Kilgore, WT 7B-K
Richard W. Moore, ET 4C-K
Kim R. Patterson, WT 4A-K
Emily J. Reynolds, OCP 1L-NST
OIG File No. 2006-540I



Review of TVA VISA Gold Executive Expense Card

2006-5401

May 17, 2007



Summary of Findings

We found:

- ◆ VISA Gold Executive Expense Cards (Gold Card) are generally being used in accordance with TVA policies and procedures.
- ◆ Policies addressing Gold Card use could be improved.
- ◆ Gold Card expenditures were for various purposes, including travel, meals, hospitality/gifts, economic development, and employee meetings. We noted instances where documented justifications (i.e., purpose, risk to TVA, and benefit to TVA) did not appear adequate to show the potential benefits warranted the expenditures.

Management generally agreed with our findings and indicated that modifications would be made to policies and forms to strengthen controls governing Gold Card usage. The full text of TVA management's response can be found in the Appendix. We agree with the planned actions which address our recommendations.

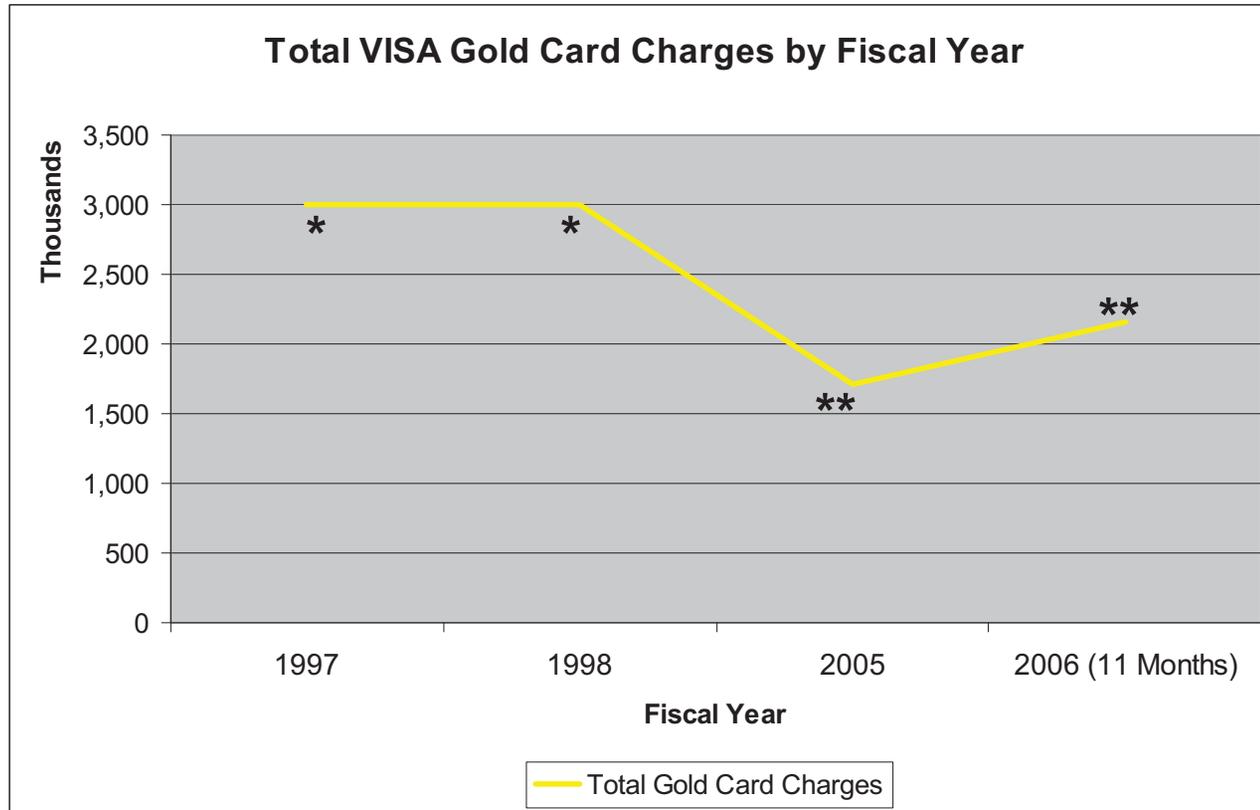


Background

- ◆ Gold Cards are issued to TVA Board members, officers, and other designated employees for travel, entertainment, hospitality, and incidental miscellaneous expenses.
- ◆ Gold Card charges are directly billed to TVA.
- ◆ Gold Cards are to be used in accordance with TVA policy including the (1) VISA Gold Executive Expense Procedure; (2) Business Practice 3, Credit Cards; and (3) Business Practice 7, Hospitality.
- ◆ Business Practice 7, Hospitality, as revised in October 2006, specifically disallows certain charges such as golf/country club memberships, skyboxes and corporate suites at sporting/public events, and receptions/meetings held at unnecessarily lavish settings.
- ◆ A previous OIG review of the Gold Card Program found that at the end of Fiscal Year (FY) 1998 TVA had over 320 cardholders. As of August 28, 2006, there were 215 active Gold cardholders.



Background (continued)



* The figures for charges from FY 1997 and FY 1998 are taken from a prior OIG review.

** These totals and our review scope exclude purchases made as part of the Dell Employee Purchase Program. Payments to Dell totaled about \$1.8 million in FY 2005 and \$1.3 million in FY 2006. The Dell Employee Purchase Program began in FY 2001, and payments to Dell are made via Gold Cards issued to TVA Employee Accounting personnel. An employee accounts receivable is created for each Dell purchase, and payments to TVA are made via payroll deduction.



Background (continued)

- ◆ Of the 272 cardholders, 10 accounted for about 34 percent of all charges during the 23-month period of our review.

TOP 10 VISA GOLD CARDHOLDERS BASED ON AMOUNTS SPENT		
TITLE	DEPARTMENT	TRANS DSBN AMT
Manager, Customer Relations	Customer Service	\$ 303,155.83
Business Support Representative-Multi	Customer Service	\$ 301,755.83
Project Manager, Community & Employee Relations	Community & Employee Relations Fossil Power Group	\$ 245,339.56
Senior Manager, Resource Management	Research & Technology Applications, Resource Management, River System Ops & Environment	\$ 97,493.51
General Manager, Customer Service	Customer Service - Alabama	\$ 76,186.54
General Manager, Customer Service	Customer Service - Mississippi	\$ 60,705.05
Specialist, Target Market	Global & Community Development, Economic Development	\$ 56,591.75
Plant Manager, Nuclear	Browns Ferry Nuclear Site, TVA Nuclear	\$ 56,316.06
Project Manager, Economic Development Initiatives	Global & Community Development, Economic Development	\$ 55,795.53
General Manager, Market Development & Field Operations	Global & Community Development, Economic Development	\$ 49,716.80



Objective, Scope, and Methodology

Objective

To determine whether Gold Cards are being used in accordance with TVA policies and procedures.

Scope

Gold Card purchases made from October 1, 2004, to August 28, 2006.

Methodology

To achieve our objective, we:

- ◆ Obtained an understanding of the key processes and control activities relating to the Gold Card program by:
 - Reviewing applicable TVA policies and procedures.
 - ◆ VISA Gold Executive Expense Procedure
 - ◆ Business Practice 3, Credit Cards
 - ◆ Business Practice 7, Hospitality
 - ◆ Business Practice 11, Travel
 - ◆ Accounting Procedure 15, Travel Allowance and Reimbursement
 - ◆ Customer Service and Marketing Business Practice 14, Visa Gold Card
 - Interviewing TVA Employee Accounting Personnel.



Objective, Scope, and Methodology (continued)

Methodology (continued)

- ◆ Assessed the completeness of approvals for Gold Card statements with due dates between 10/16/2004 and 10/16/2006 using Audit Control Language Software.
- ◆ Compared our population of 23,087 Gold Card transactions with reimbursements to cardholders made through the Employee Reimbursement System (ERS) to identify any transactions where TVA paid the Gold Card provider and reimbursed the cardholder.
- ◆ Reviewed TVA training records to ensure that all TVA Gold cardholders and approvers had completed required on-line training.
- ◆ Conducted an analytical review of all 23,087 Gold Card transactions to gain a perspective on the types and magnitude of charges.
- ◆ Randomly selected 99 transactions totaling \$13,335 and judgmentally selected another 181 transactions totaling \$718,947 to:
 - Assess the adequacy of supporting documentation
 - Determine if purchases for travel, entertainment, hospitality, and incidental miscellaneous expenses (including supplies and services) were allowed under TVA policies
 - Determine if purchases were made in a manner compliant with TVA policies
 - Determine if the transactions were accounted for in the appropriate TVA cost classification



Objective, Scope, and Methodology (continued)

Methodology (continued)

- ◆ For the 90 cardholders related to the 99 statistically* sampled and the 181 judgmentally** selected transactions, we also determined whether TVA Form 17567, Request for VISA Gold Card, was completed and approved, as required, before issuance of the respective Gold Card.

This inspection was conducted in accordance with the “Quality Standards for Inspections.” In addition to our review of Gold Card expenditures, we plan to conduct a separate review of hospitality expenditures.

* We used statistical attribute sampling methodology to identify the sample size, and the sample selections were made randomly. The sample size was based on a 95 percent confidence level, a 5 percent maximum tolerable error rate, and a 5 percent risk of incorrect acceptance.

** Our judgmental sample included all transactions that were \$4,980 or greater.



Finding 1 - Compliance with Policies

Based on the results of our review, it appears that Gold Cards generally are being used in compliance with TVA policy.

Control Tests	Test Results
<p>Determine if approving managers are electronically approving statements in the TVA Integrated Credit Card Solution (ICCS) system, as required by the VISA Gold Card Executive Expense Procedure.</p>	<p>We found that 76 of the 4,876, or 1.6 percent, of the VISA Gold Card statements during our review period were not approved. The last unapproved statement noted was dated 10/23/05.</p>
<p>Determine if TVA paid any VISA Gold Card charges that were also reimbursed to cardholders.</p> <ul style="list-style-type: none"> • According to TVA Business Practice 3, "TVA pays the monthly statement for all VISA Gold Executive Expense Cards which are reviewed by the users and approved by his or her approving official. Those who use the card for travel, should file travel vouchers through TVA's <u>Expense Reimbursement System</u> (ERS) only for travel expenses not charged to the card." 	<p>For our review period, we found 39 of the 23,087 VISA Gold Card transactions appeared to have been reimbursed to the cardholder through the ERS and paid by TVA through the VISA Gold Card Program. The questioned transactions totaled \$801.</p>
<p>Determine if VISA Gold cardholders and approving officials completed the on-line Hospitality training module, as required by Business Practice 3.</p>	<p>We noted no exceptions for the cardholders and approving officials applicable to our review period.</p>



Finding 1 - Compliance with Policies (continued)

Control Tests	Test Results
Determine if VISA Gold Card charges were supported by a receipt. (TVA organizations are required by policy to maintain terminated individual's documentation for review.)	No receipt was provided to support the expenditure for 13 of the 280, or 4.6 percent, of the sampled transactions we reviewed. ¹
Determine if purchases were for items allowed under TVA policies.	We noted no exceptions for the 280 sampled transactions we reviewed.
Determine if purchases were made in a manner compliant with TVA policies. ²	For five of the transactions in our samples that were expended for travel related charges, we found the Gold Card was used to pay for travel expenses of other VISA Gold cardholders and non-card holding TVA employees. ³

¹ Four individuals for which five receipts in the above total were not supplied are no longer with TVA.

² Per Travel Allowance and Reimbursement Accounting Procedure 15, "Employees are prohibited from charging travel expenses of other TVA employees who are in travel status except where it is impractical to separate charges, where doing so would interfere with the conduct of business, or where an event is coordinated for a large group."

³ Classification of transactions is based on the TVA Cost Class Code assigned to the transactions by the cardholder.



Finding 1 - Compliance with Policies (continued)

Control Tests	Test Results
Determine whether TVA Form 17567, <i>Request for VISA Gold Card</i> , was completed and approved, as required, before issuance of the respective VISA Gold Card.	Employee Accounting was unable to provide the required TVA Form 17567 for 67 of the 90, or 74.4 percent, of the cardholders applicable to our random sample.
Determine if purchases were made in a manner compliant with TVA policies. ⁴	For five of the transactions in our samples that were classified as hospitality, the highest ranking TVA official did not put hospitality expenses on his/her VISA Gold Card. ^{5, 6}
Determine if purchases were accounted for in the appropriate TVA cost classification.	We found 46 of 280 sampled transactions, or 16.4 percent, were coded to a TVA cost class that appeared to be incorrect. Examples included: \$8,473 biological material cleanup charged to executive travel and \$9,180 of Logan’s gift cards charged to in-valley travel.

- ⁴ Business Practice 7, Hospitality, states: “As a general rule, at restaurants and other similar events, the highest ranking TVA official in attendance should charge the expenditure to his/her Gold Card.”
- ⁵ Classification of transactions is based on the TVA cost class code assigned to the transactions by the cardholder.
- ⁶ Additionally, for one transaction classified as hospitality, we found the cardholder was the pre-approving official for hospitality charged to their own Gold Card.



Finding 2 - Adequacy of Policies

During our review of TVA policies and procedures applicable to the “Gold Cards,” we noted:

- ◆ Only Accounting Procedure 15, Travel, requires detailed receipts showing description of items purchased, quantities purchased, and unit price.
- ◆ Only Business Practice 7, Hospitality, addresses having the highest ranking TVA official charge the expenditure to his/her Gold Card when more than one TVA employee is present.
- ◆ Business Practice 7, Hospitality, does not require detailed documentation of entertainment expenses.* Specifically, documenting:
 - The nature of the business discussion or activity is not required.
 - Names, titles, or other key information about the recipients which discloses their business relationship to TVA is not required.**

* Hospitality paid for and provided by TVA may include (1) meals; (2) refreshments; (3) banquet and food services; (4) room and equipment rental (associated with hospitality); (5) lodging, meals, travel expenses for visitors and other invited guests, and interviewees; and (6) entertainment and non-cash gifts associated with TVA-sponsored events.

** We noted that Internal Revenue Service guidelines for other corporate entities require the detailed documentation of entertainment expenses. TVA could consider adopting a similar policy or other best practices.



Finding 2 - Adequacy of Policies (continued)

We observed the following control weaknesses which increase the risk of Gold Card misuse and/or fraud in addition to the non-compliances noted above:

Number of Instances	Control Weakness Observations Noted During Our Review of Randomly and Judgmentally Selected Transactions
135	Receipt provided did not clearly identify the item/service provided (e.g., receipt only showed a lump-sum total of charges and vendor name).
34	Hospitality pre-approvals were requested by someone other than the cardholder, which, in our opinion, facilitates a lack of accountability.
27	Hospitality pre-approvals (1) were not filled out completely, (2) were signed after the event date, and/or (3) did not cover all hospitality expenditures (i.e., charges exceeded the pre-approved amounts).
10	Gold cardholder used another employee’s Gold Card to pay for non-travel related charges. While this does not violate any TVA policy, this practice makes it difficult to ensure accountability.
8	Transactions were split* that, if combined, would have required pre-approval.
6	Gold Card account number was distributed via e-mail and/or fax.

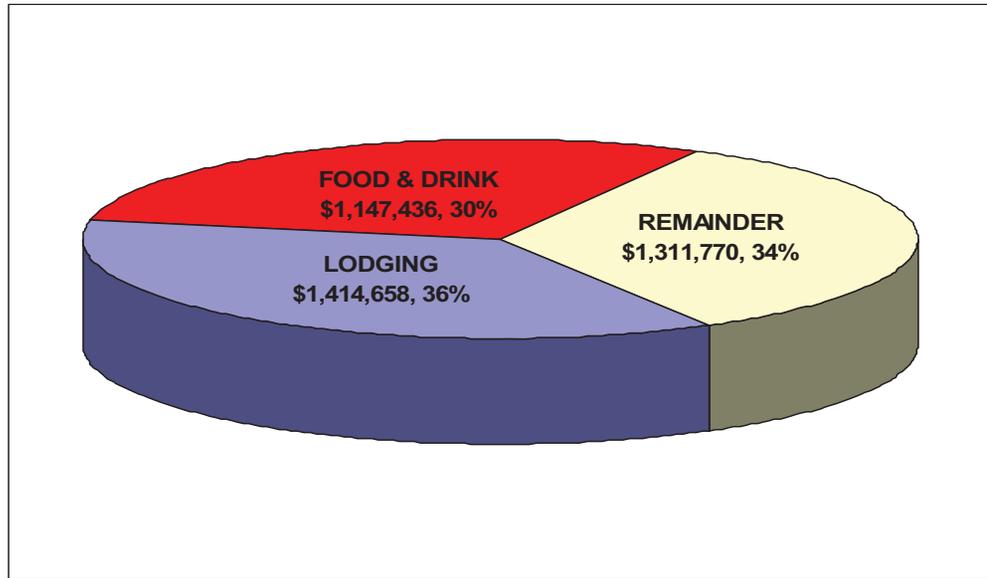
* Through analytical review, we identified those transactions where charges had been made at the same vendor on the same day for amounts that, when added together, were within a range of the \$500 and \$5,000 pre-approval limits for Hospitality charges.



Finding 3 - VISA Gold Card Use

Our review of Gold Card expenditures found the use of the Gold Card was for various purposes, including travel, meals, hospitality/gifts, economic development, employee meetings and employee appreciation, and employee recruitment.

- ◆ Based on the Merchant Category Code provided by the bank administering the Gold Card Program, we determined that Food & Drink and Lodging represented 30 percent and 36 percent of the total expenditures, respectively.



Finding 3 – VISA Gold Card Use (continued)

- ◆ \$981,000 of the \$1.312 million shown as remaining expenditures in the chart above applies to the following 13 vendor types.
 - Retail Stores - \$156,000
 - Direct Marketers - \$114,000
 - Recreation - \$94,000
 - Other Business Services - \$89,000
 - Non-restaurant Food - \$84,000
 - Rental Cars - \$69,000
 - Florists - \$69,000
 - Auto Repair/Fuel Service - \$68,000
 - Membership Organizations - \$64,000
 - Airlines - \$52,000
 - Golf Courses - \$52,000
 - Charities and Social Service Organizations - \$41,000
 - Universities, Pro Schools, Junior Colleges - \$29,000



Finding 3 – VISA Gold Card Use (continued)

We noted instances where the documented justifications for Gold Card use for activities such as limousine service; alcohol consumption; sporting events; and gifts and gratuities, primarily for employee meetings and economic development events, were not adequate to show that potential benefits warranted the expenditures.

Travel, Employee Meetings, and Employee Appreciation

Taxi/Limousines – We noted 33 charges totaling approximately \$13,215, an average of \$400. In the transactions selected for testing, we noted two transactions with American Executive Limousine Service for ground transportation in the Washington, D.C., area. Specifically:

- A TVA senior vice president spent \$525 on May 2, 2006, for limousine service in the Washington, D.C., area.
 - ◆ Supporting Justification – While no explanation or justification was originally included with the supporting documentation for the transaction, the organization provided additional information after reviewing our proposed report. The additional information stated the charge was for limousine service on May 6 and 9, the first and last days of a four-day trip. Limousine service was used on those days due to the business nature of the meetings, timeliness, and safety. The justification included the relatively short time frames to get to the meetings, the high-level nature of the meetings, and the late ending time. Meeting times on March 7 and 8 allowed for metro service.

- On February 23, 2006, a TVA executive vice president and three others used the limousine service for travel from Dulles International Airport to a meeting and back at a cost of \$542.75.
 - ◆ Supporting Justification – The justification provided was that TVA has participated in the highly visible event, Federal Engineer of the Year Award Ceremony, for several years and has used this service for the event. The justification provided to us stated, “We believe this service is the most cost-effective and efficient means for transporting the participants to and from the event.”



Finding 3 - VISA Gold Card Use (continued)

- ◆ 2005 TVA Super Challenge – Our review also noted a VISA Gold Card charge for the Renaissance Hotel in Nashville, Tennessee, of \$5,185. This was for a 2005 TVA Super Challenge planning meeting on February 3 and 4, 2005, consisting of 19 employees and one spouse. Documentation provided as support for a separate transaction indicated that the 2005 TVA Super Challenge itself would only cost a total of \$8,073. Included in the \$5,185 charges for the planning meeting were:
 - \$241 for valet parking even though each attendee was given a coupon for self-parking at no additional charge
 - \$659 for alcoholic beverages
 - \$75 for a bartender at dinner
 - ◆ Supporting Justification – No additional explanations/justification were provided

- ◆ Customer Service and Marketing (CS&M) Meeting – Our review of sampled transactions noted that approximately \$17,751 was spent on a CS&M all employee meeting held at Cedarvine Manor in Lebanon, Tennessee, on November 29, 2005. Approximately \$10,971 of the charge was for employee appreciation gifts.
 - Supporting Justification – On TVA Form 17901, TVA Pre-Approval of TVA Hospitality Expenditure, it stated the “Potential Benefit or Risk To TVA” was “The purpose of this meeting is to allow several key leaders within TVA to provide employees with information regarding TVA’s and CS&M’s strategic direction.”



Finding 3 – VISA Gold Card Use (continued)

- ◆ Gift Cards – We noted several transactions where gift cards were purchased at various businesses including Wal-Mart, Red Lobster, Bath and Body Works, Bass Pro Shops, and Logan’s Roadhouse. Supporting documentation received for the majority of these transactions did not indicate whether records were kept on the distribution of the gift cards.

Hospitality and Economic Development*

- ◆ Wine Tasting Event – Our review of sampled transactions noted that \$3,055 was spent at Ciccone Vineyard in Traverse City, Michigan, for a wine tasting event for automotive executives. The event was held on August 10, 2006.
 - Supporting Justification – On TVA Form 17901, TVA Pre-Approval of TVA Hospitality Expenditure, no apparent risk was noted. It did state:
 - ◆ The event purpose was “Hospitality event for automotive executives attending Management Briefing Seminar in Traverse City.”
 - ◆ The potential benefit to TVA was, “Marketing Exposure.”

* We noted several events outside the Valley with the documented purpose being to promote the Valley, show customer appreciation, and attract new clients.



Finding 3 - VISA Gold Card Use (continued)

- ◆ Sporting Events – Our review of sampled transactions noted that approximately \$106,384 was spent on tickets and food purchased at sporting and theatrical events. Tickets for sporting events included the New York Yankees, Detroit Tigers, Detroit Lions, Anaheim Mighty Ducks, and Dallas Mavericks; as well as teams located within the Tennessee Valley.
 - \$4,250 was spent on a New York Yankees’ game in May 2005. In February 2006, an additional \$7,500 was spent on a suite for a Yankees’ game to be played in May 2006.
 - ◆ Supporting Justification – No explanation or justification was provided for the \$4,250 charge.
 - ◆ Supporting Justification – A TVA Form 17901, TVA Pre-Approval of TVA Hospitality Expenditure, was provided for the \$7,500 charge. No apparent benefit or risk was noted on the form dated January 26, 2006. It did state:
 - The event purpose was, “Hospitality Event for Site Consultants and Prospects.”
 - The total estimated cost was \$12,000.
 - \$5,650 was spent on a suite, platinum parking passes, and four extra tickets at an April, 7, 2005, Dallas Mavericks’ game.
 - ◆ Supporting Justification – On TVA Form 17901, TVA Pre-Approval of TVA Hospitality Expenditure, which was provided to us as supporting documentation for the expenditure showed that (1) no potential benefit or risk to TVA was noted and (2) no approval by a TVA officer, as required, was found. It did state:
 - The event purpose was, “Networking with site selection consultants, clients and potential clients located in the Dallas area.”
 - The total estimated cost was \$10,000.



Finding 3 - VISA Gold Card Use (continued)

- ◆ Georgia Aquarium – Our review of sampled transactions noted that approximately \$16,321 was spent on a February 13, 2006, event at the Georgia Aquarium. Supporting documentation showed total costs of \$16,986. Later adjustments were made which reduced the total to \$16,321. The \$16,986 included (1) 2,200 for facility rental; (2) 9,677 for reception food; (3) 2,622 for standard bar charge; and (4) 2,487 set-up fee (i.e., audio visual services, parking, coat check, and aquarium admission). In addition, \$2,495 was spent on glasses as gifts to be distributed at the event.
 - Supporting Justification – A TVA Form 17901, TVA Pre-Approval of TVA Hospitality Expenditure, was provided for the charges. No apparent benefit or risk was noted on the form. It did state:
 - The event purpose was, “Networking reception for Site Consultants and Prospects.”
 - The total estimated cost was \$15,000 to \$20,000.

- ◆ Cigar Store Purchases – Our review of sampled transactions noted 14 transactions at Cigar Stores totaling approximately \$2,138. All 14 transactions were on one individual’s Gold Card. We reviewed two transactions for \$150.00 and \$158.04, dated January 11, 2006, and February 4, 2006.
 - Supporting Justification for the \$150.00 transaction indicated that it was for gifts during talks with legislators and administrative officials about ethics reform.
 - Supporting Justification for the \$158.04 transaction noted it as “gifts.”



Recommendations

We recommended the vice president and controller:

- ◆ Revise Gold Card policies and procedures to:
 - Require detailed supporting documentation for each transaction including the description of the materials or services, the quantity, unit price, and amount
 - Require documentation of the nature of the business discussion or activity and occupations or other information such as names, titles, or other designations about the recipients that show their business relationship to TVA for all hospitality expenditures
 - Require the highest ranking TVA official present to charge the event to his/her Gold Card for non-travel related charges. (Travel should be charged to each individual employee's Travel Card per the Travel policy.)
 - Prohibit splitting of transactions; thereby circumventing approval requirements
 - Prohibit the sharing of Gold Card numbers and security data with other TVA employees and personnel external to TVA via e-mail and fax
 - Require Gold cardholders to use their own card rather than another Gold Card for purchases to ensure cardholder accountability
- ◆ Reemphasize the importance of Gold Card, Hospitality and Travel procedure compliance, including:
 - Ensuring Gold Card purchases are not also reimbursed through ERS
 - Ensuring expense documentation provided meets policy requirements
 - Ensuring the proper cost class is associated with the transaction
 - Ensuring retention of supporting documentation when employees leave the organization
 - Ensuring retention of Gold Card justification forms
 - Ensuring that Hospitality pre-approvals are filled out completely (with risks, benefits, purpose, etc.), signed prior to the event date, and that charges do not exceed the pre-approved amounts



May 15, 2007

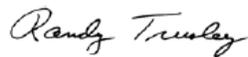
Ben Wagner
ET 3C-K

TRANSMISSITAL OF DRAFT INSPECTION REPORT - INSPECTION 2006-540I - REVIEW OF
TVA'S VISA GOLD CARD USAGE

This is in response to your memorandum to me dated April 16. Our comments on the report recommendations by the OIG are as follows:

- Require detailed supporting documentation for each transaction including the description of the materials or services, the quantity, unit price, and amount--- *The Visa Gold card procedure currently requires the retention of receipts. We will agree to add this requirement in the definition of "roles" contained in Business Practice 3.*
- Require documentation of the nature of the business discussion or activity and occupations or other information such as names, titles, or other designations about the recipients that show their business relationship to TVA for all hospitality expenditures--- *We will agree to enhance form 17901-Pre-Approval of TVA Employee Recognition/Hospitality Expenditures, in the Event Purposes field as a means of improving the completeness of information available applicable to attendees at hospitality events.*
- Require the highest ranking TVA official present to charge the event to his/her Gold Card for non-travel related charges--- *This requirement is currently in Business Practice 7, no additional change is necessary.*
- Prohibit splitting of transactions; thereby circumventing approval requirements--- *We will agree to add this verbiage in the Pre-Approval section of Business Practice 7.*
- Prohibit the sharing of Gold Card numbers and security data with other TVA employees and personnel external to TVA via e-mail and fax--- *We agree to add appropriate verbiage in the Misuse of Card section of the Gold Card procedure in Accounting Procedure 15.*
- Require Gold cardholders to use their own card rather than another Gold Card for purchases to ensure cardholder accountability--- *We agree to add appropriate verbiage in the Misuse of Card section of the Gold Card procedure in Accounting Procedure 15.*

We agree to address all items listed for reemphasis in upcoming periodic communications to cardholders, reviewers, and approvers.



Randy Trusley
Vice President & Controller
WT 4B-K

KP:KMc

cc: M. Lynne Bartlett, WT 4A-K
John M. Hoskins, WT 7B-K
Kim R. Patterson, WT 4A-K