



Memorandum from the Office of the Inspector General

November 6, 2007

John E. Long, Jr., WT 7B-K

REQUEST FOR FINAL ACTION – AUDIT 2007-030F – REVIEW OF TVA'S
HOSPITALITY EXPENSES

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 within one year from the date of this memorandum when final action is complete.

If you have any questions, please contact Andrea L. Williams, Auditor, at (865) 632-2612 or Lisa H. Hammer, Director (Acting), Financial and Operational Audits, at (865) 632-4731. We appreciate the courtesy and cooperation received from your staff during the audit.

Robert E. Martin
Assistant Inspector General
(Audits and Inspections)
ET 3C-K

LHH:JP

Attachment

cc (Attachment):

Tom D. Kilgore, WT 7B-K
Richard W. Moore, ET 4C-K
Emily J. Reynolds, OCP 1L-NST
Ben R. Wagner, ET 4C-K
OIG File No. 2007-030F



Office of the Inspector General

Audit Report

To the Chief Administrative Officer
and Executive Vice President,
Administrative Services

REVIEW OF TVA'S HOSPITALITY EXPENSES

Auditor
Andrea L. Williams

Audit 2007-030F
November 6, 2007

SYNOPSIS

As part of our annual audit plan, we reviewed hospitality expenses incurred by Tennessee Valley Authority's (TVA) organizations from October 1, 2005, through June 30, 2007. The objectives of our audit were to (1) determine the types and level of expenditures for hospitality activities in TVA organizations, (2) assess compliance with policies and procedures related to the hospitality program, and (3) compare previous and current hospitality policies and identify the differences.

In summary, we found:

- Total hospitality expenditures, including employee recognition expenses, have averaged about \$2.3 million during the past three fiscal years (FY),¹ representing a 64 percent reduction from FY 2003 spending. Discussed in this report are some of the more significant hospitality events held during FY 2006.
- For the expenses reviewed, TVA organizations generally complied with applicable hospitality policies and procedures except as related to obtaining preapproval of hospitality expenditures.
- Changes in the hospitality policy for FY 2007 include (1) an additional required preapproval by the Chief Executive Officer (CEO) for hospitality expenses \$5,000 and greater, (2) the removal of employee recognition expenses as hospitality expenses, (3) guidance regarding the purchase of alcoholic beverages, and (4) specific types of events that are not appropriate for hospitality.

TVA's Chief Administrative Officer and Executive Vice President, Administrative Services (CAO and EVP), responded to a draft of our report and provided planned actions to ensure all TVA organizations obtain preapproval for hospitality events and expenditures. In addition, the CAO and EVP stated that TVA's Business Practice 7 (BP 7) had been revised to require the use of form TVA 17901 when requesting preapproval for hospitality events and expenditures.

BACKGROUND

The TVA hospitality program is guided by BP 7, Hospitality. According to BP 7, TVA offers hospitality to official visitors, present and prospective customers and other invited guests, and contractor employees as a part of its business activities when it is determined to be in TVA's best business interests. BP 7 further states that providing "hospitality to stakeholders and others is an appropriate activity for TVA to engage in as part of its business activities; however, it must always be based on a sound business need, be prudent and appropriate to the occasion

¹ FY 2007 fourth quarter expenditures were projected for comparative purposes.

and circumstance, and be consistent with the need to maintain public confidence that TVA resources are used only for the benefit of the public which it serves."

According to BP 7, costs for hospitality included, but were not limited to:

- Meals.
- Refreshments.
- Banquet and food services.
- Room and equipment rents (associated with hospitality).
- Lodging, meals and travel expenses for visitors, other invited guests, and interviewees.
- Entertainment and noncash gifts associated with TVA-sponsored events.

Activities defined by BP 7 as appropriate for hospitality include (1) TVA-sponsored events such as open houses, site celebrations, and employee appreciation activities and (2) procurement of alcoholic beverages as appropriate for the occasion, but of a predetermined quantity and value (no open bars).

Inappropriate activities include (1) any activity that would likely be perceived by a reasonable member of the public as an improper or inefficient use of TVA resources and (2) expenditures for TVA contributions to charitable, civic, and other nonprofit organizations that fall under the guidance of Business Practice 21, Contributions.

The VISA Gold credit card is the preferred method of acquisition/payment for hospitality. Additionally, TVA's Expense Reimbursement System (ERS) may be used to obtain reimbursement of out-of-pocket or hospitality expenses obtained using the travel card by any TVA employee authorized to purchase hospitality. Prior approval of hospitality is also required when payment of hospitality is requested by subvoucher or convenience check.

According to TVA's CFO-SPP-13.2.6, hospitality transactions should be recorded as cost classification code 25W in TVA's Integrated Business System (IBS). The transactions classified as hospitality by all TVA organizations for FY 2006 were approximately \$2.7 million.

The Office of the Inspector General has previously conducted reviews covering hospitality expenses made during FYs 2003 and 2005.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objectives were to (1) determine the types and level of expenditures for hospitality activities in TVA organizations, (2) assess TVA organization's compliance with BP 7, and (3) compare previous and current hospitality policies

and identify the differences. We reviewed expenditures for FY 2006 and the first three quarters of FY 2007 incurred by TVA organizations. We further reviewed first quarter of FY 2007 expenses for compliance with BP 7. To achieve our objectives, we:

- Obtained general ledger reports from IBS showing hospitality expenses classified as cost class 25W recorded from October 1, 2005, through June 30, 2007. We also compared TVA's total hospitality spending for FYs 2003, 2005, 2006, and 2007 through third quarter.
- Obtained and reviewed purchases made with (1) TVA VISA Gold Cards, (2) TVA Purchasing Cards, and (3) convenience checks classified as hospitality to determine hospitality expenses for each organization.
- Summarized each organization's total expenses by type of expense (e.g., food/restaurant charges, hotel charges, etc.). We classified hospitality expenses based on the type of vendor to which the payment was made. In addition, where information was available, we identified the event associated with the expenses.
- Obtained documentation of preapproval of hospitality expenses from TVA organizations for event or expenditures requested and occurring in the first quarter of FY 2007. Each request for preapproval was reviewed for evidence of proper approval as required in the hospitality policy, evidence of approval prior to the date of the event, and that the type of event or expense was allowed under the hospitality policy.
- Using IBS and Integrated Credit Card System (ICCS) reports, we selected all transactions greater than \$500 with an effective date between October 1, 2006, and December 31, 2006, for review of compliance with BP 7.
- Compared TVA's current BP 7 dated October 2006 to the previous BP 7 dated April 2006 and identified any differences.

This audit was performed in accordance with generally accepted government auditing standards. Although we did not test for compliance with laws and regulations, nothing came to our attention during the audit that indicated noncompliance with laws and regulations except as noted in this report.

FINDINGS

In summary, we found the following:

- Total hospitality expenditures, including employee recognition expenses, have averaged about \$2.3 million during the past three FYs,² representing a 64 percent reduction from FY 2003 spending. Discussed below are some of the more significant hospitality events held during FY 2006.

² FY 2007 fourth quarter expenditures were projected for comparative purposes.

- For the expenses reviewed, TVA organizations generally complied with applicable hospitality policies and procedures except as related to obtaining preapproval of hospitality expenditures.
- Changes in the hospitality policy for FY 2007 include (1) an additional required preapproval by the CEO for hospitality expenses \$5,000 and greater, (2) the removal of employee recognition expenses as hospitality expenses, (3) guidance regarding the purchase of alcoholic beverages, and (4) specific types of activities that are not appropriate for hospitality.

HOSPITALITY EXPENSES

We identified \$2,699,355 in hospitality spending incurred by TVA organizations during FY 2006. We compared TVA's FY 2006 total hospitality expenses to FYs 2003 and 2005 expenses identified in our previous reviews as well as expenses incurred during the first three quarters of FY 2007. Hospitality expenses decreased approximately 64 percent from FY 2003 spending. Since FY 2003, hospitality spending has averaged about \$2.3 million per year (including employee recognition).

Hospitality spending for the first three quarters of FY 2007 totaled \$759,701. Although FY 2007 costs have decreased from FY 2006, FY 2007 expenses do not include approximately \$978,000 of employee recognition expenses, which were excluded from hospitality as of October 2006 (Figure 1).

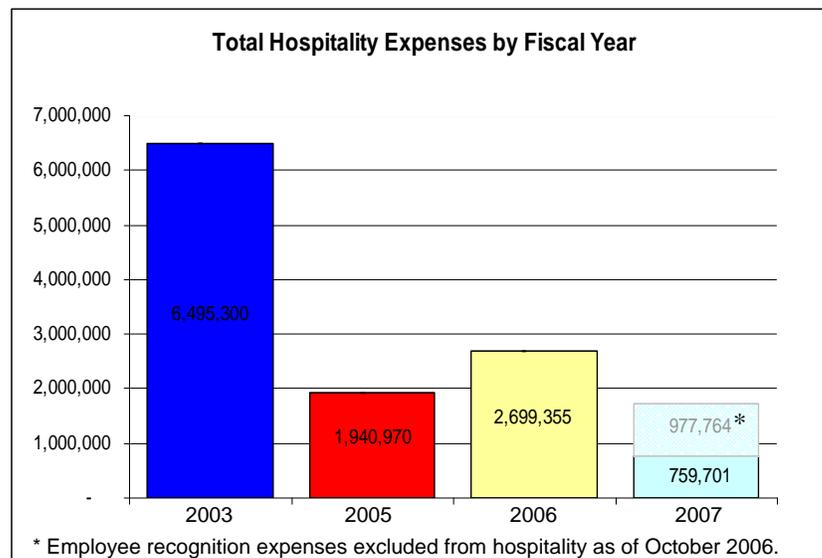


Figure 1

We reviewed \$2,191,430³ in FY 2006 hospitality expenses made by VISA Gold Cards, TVA Purchasing Cards, and convenience checks and categorized them by organization and expense type in Figure 2.

³ We did not include miscellaneous vouchers or expenses submitted through the ERS in our categorization.

Hospitality Expenses for FY 2006 (by Organization and Type)								
Org	Florists	Golf	Hotels⁴	Food	Retail	Tickets	Other	Total
Board				\$3,724			\$8	\$3,732
CAO	\$7,540		\$66,992	98,121	\$19,305	\$320	16,356	208,634
CEO			768	600	81		130	1,579
CFO	1,935		4,434	16,031	1,361		(4,454) ⁵	19,307
COO	27,011	\$819	148,389	263,342	402,454	4,499	127,373	973,887
Comm	386	4,859	16,921	61,178	17,331		14,571	115,246
CR	7,426	16,576	256,321	352,256	81,111	59,881	87,198	860,769
OGC				1,434			7	1,441
OIG	139		76	3,092	2,369		1,159	6,835
Total	\$44,437	\$22,254	\$493,901	\$799,778	\$524,012	\$64,700	\$242,348	\$2,191,430

Figure 2

In addition to our categorization of expenses as shown above, we identified any special events associated with the charges. We identified the following significant expenditures related to special events in FY 2006:

- Customer Resources (CR) hosted one event in Washington, D.C., and one event in Orlando, Florida, for the National Rural Electric Cooperative Association (NRECA). These events were held for TVA distributors during the NRECA annual conference and legislative rally. The total cost for the events was \$76,046 and primarily included food and room charges.
- CR also hosted events for site consultants and prospects in Atlanta, Georgia; Detroit, Michigan; and Chicago, Illinois. According to preapproval forms, the benefit of these events was to create jobs and investments in the Valley. The total cost of these events was \$97,733 and included food and room charges; tickets and suites at professional football, baseball, and hockey sporting events; and entertainment. Subsequent to these events, TVA revised BP 7 to prohibit "sky boxes, corporate suites or similar type arrangements for sporting or other public events" as activities appropriate for hospitality.
- Power System Operations (PSO) rewards its employees for safety excellence by holding safety-related events throughout the year at various locations. This includes regional events, such as the Transmission Operations and Maintenance Valley Tour, as well as safety meals provided by various PSO supervisors. During FY 2006, PSO purchases totaled \$336,393 and included safety meals, rental space for events, and safety awards. The safety awards included televisions, XBOX gaming systems, digital camcorders and cameras, DVD recorders, Apple iPods, Stihl chain saws, weed eaters, and leaf blowers.

⁴ Hotel costs may include room rentals for events and banquet charges.

⁵ Credit for charges in a prior period.

We also identified charges that should have been charged to other cost classifications than 25W. For example, we identified travel-related charges such as airport parking, rental cars, and meals. We did not quantify the amounts that could have been misclassified.

COMPLIANCE WITH HOSPITALITY POLICY

TVA's BP 7 requires that all hospitality events or expenditures greater than \$500 be preapproved. We obtained and reviewed 38 requests for approval of hospitality events or expenditures occurring in the first quarter of FY 2007 for compliance with policy preapproval requirements. We found:

- A request by Economic Development for a Tennessee Business Matchmaking event contained no evidence of preapproval.
- Fourteen of the thirty-eight requests were not approved prior to the date of the event. Thirteen of these requests were for events in the CR organization, and one request was for an event in the Fossil Power Group organization.

We discussed the above issues with the CR Controller. The CR Controller informed us that the first quarter of 2007 was a "learning experience" and that CR has gotten better at obtaining preapproval since that time. The CR Controller also provided an October 26, 2006, e-mail from the Executive Vice President of CR to the Vice President of Customer Service (CS) reinforcing that hospitality events need to be preapproved and will not be approved after the fact and that CS' General Managers should be informed of policy enforcement.

We also reviewed IBS reports and identified 48 transactions greater than \$500, with an effective date between October 1, 2006, and December 31, 2006, to determine whether these hospitality events or expenditures were preapproved. For these 48 transactions, we identified 44 individual credit card charges in ICCS that were \$500 or more. We found 22 of the 44 ICCS charges were not approved prior to the event. Ten of these charges were related to the thirteen CR events as shown above. In addition, preapproval could not be determined for one charge since the date of approval was not documented on the request.

Preapprovals were generally submitted using form TVA 17901, "Pre-Approval of TVA Employee Recognition/Hospitality Expenditure." However, BP 7 does not include a method for preapproval of hospitality events and expenditures, specifically use of form 17901. We discussed this with the Senior Manager, Disbursement Services, who advised us BP 7 will be revised to reference the use of form TVA 17901 when requesting preapproval of hospitality events and expenditures.

CHANGES IN HOSPITALITY POLICY

We compared the current hospitality policy dated October 2006 to the previous policy dated April 2006 and identified the following three differences as related to

(1) preapproval requirements, (2) employee recognition expenses, (3) procurement of alcoholic beverages, and (4) specific types of activities not appropriate for hospitality.

- TVA's current policy states that hospitality costing more than \$2,000 but less than \$5,000 must be preapproved by an officer reporting directly to the CEO. Previously, hospitality purchases within these limits were preapproved by a TVA officer (Vice President or above). Hospitality costing more than \$5,000 must now be preapproved by the CEO instead of an officer reporting directly to the CEO, as stated in the previous policy.
- TVA's current policy excludes spending related to employee recognition. TVA's Controller created a separate policy, Benefits Practice 5, Employee Recognition and Acknowledgement, as guidance for employee recognition related events and expenditures.
- TVA's current policy states that activities appropriate for hospitality include "Procurement of alcoholic beverages as appropriate for the occasion, but of a pre-determined quantity and value (no open bars)." TVA's prior policy was silent with regard to the purchase of alcoholic beverages.
- TVA's current policy identifies specific activities including "golf/country club or other social club individual memberships; sky boxes, corporate suites or similar type arrangements for sporting or other public events; and receptions or meetings held at unnecessarily lavish locations or settings" as not appropriate for hospitality. TVA's prior policy did not include specific activities considered not appropriate for hospitality.

MANAGEMENT RESPONSE

TVA's CAO and EVP responded to a draft of our report and provided planned actions to ensure all TVA organizations obtain preapproval for hospitality events and expenditures. According to the CAO and EVP, TVA organizations are now required to include hospitality expenses in their budget planning and track these expenditures for consistency and budget restrictions through preapproval forms. In addition, the CAO and EVP indicated preapproval forms must now be initialed by the business unit Controller prior to processing.

In addition, the CAO and EVP stated that BP 7 was revised as of October 22, 2007, to require the use of form TVA 17901 when requesting preapproval for hospitality events and expenditures.

We concur with the CAO and EVP's actions, planned and taken.

October 26, 2007

Ben R. Wagner, ET 3C-K

REQUEST FOR COMMENTS - DRAFT AUDIT 2007-030F - REVIEW OF TVA'S
HOSPITALITY EXPENSES

Findings. Pg 3

- **Finding:** For the expenses reviewed, TVA organizations generally complied with the applicable hospitality policies and procedures except as related to obtaining pre-approval of hospitality expenditures.
- **Response:** The TVA organization Controllers will be compiling a list of hospitality expenditures for 2008 which support the budget and will serve as the planning document for these types of expenditures. "Pre-Approval of TVA Employee Recognition/Hospitality Expenditures" will be tracked by each Controller's office for budget restrictions and consistency across the organization. Prior to submitting these forms for approval, this form will be initialed by the business unit Controller before processing.

Compliance with Hospitality Policy. Pg 6

We obtained and reviewed 38 requests for approval of hospitality events or expenditures in the first quarter of FY2007.

- **Finding:** Fourteen of the 38 requests were not approved prior to the date of the event.
- **Response:** The TVA organization Controllers will be compiling a list of hospitality expenditures for 2008 which support the budget and will serve as the planning document for these types of expenditures. "Pre-Approval of TVA Employee Recognition/Hospitality Expenditures" will be tracked by each Controller's office for budget restrictions and consistency across the organization. Prior to submitting these forms for approval, this form will be initialed by the business unit Controller before processing.

Compliance with Hospitality Policy. Pg 6

We reviewed IBS reports and identified 48 transactions greater than \$500 between October 1 and December 31, 2006.

- **Finding:** For these 48 transactions, we found 22 of the 44 ICCS charges were not approved prior to the event. Ten of these charges were related to the 12 Customer Resources events above.
- **Response:** The TVA organization Controllers will be compiling a list of hospitality expenditures for 2008 which support the budget and will serve as the planning document for these types of expenditures. "Pre-Approval of TVA Employee Recognition/Hospitality Expenditures" will be tracked by each

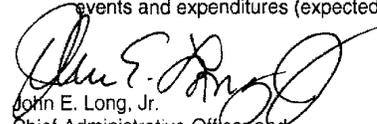
Ben R. Wagner
Page 2
October 26, 2007

Controller's office for budget restrictions and consistency across the organization. Process changes and/or controls will be put in place as appropriate to ensure pre-approvals are obtained before expenses are incurred.

Compliance with Hospitality Policy, Pg 6

Pre-approvals were generally submitted using form TVA 17901.

- **Finding:** TVA's BP 7 does not include a method for pre-approval of hospitality events and expenditures, specifically use of form 17901.
- **Response:** The Senior Manager of Disbursement Services is revising BP 7 to reference the use of form 17901 when requesting pre-approval of hospitality events and expenditures (expected to be finalized by 10/22/07).



John E. Long, Jr.
Chief Administrative Officer and
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