



Memorandum from the Office of the Inspector General

February 14, 2008

Paul R. LaPointe, WT 3A-K

**FINAL REPORT – INSPECTION 2007-10994 – REVIEW OF TVA CONTRACTOR
PURCHASING CARD USAGE**

Attached is the subject final report for your review and action. As discussed with Procurement personnel on January 22, 2008, 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 that 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.

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

RCU:BKA
Attachment

cc (Attachment):

William H. Bonham, WT 3A-K
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OIG File No. 2007-10994



Review of TVA Contractor Purchasing Card Usage

2007-10994

February 14, 2008



Summary of Findings

- ◆ We reviewed use of TVA contractor purchasing cards and found instances of noncompliance with TVA policies and procedures. Specifically, our review of 111 randomly and judgmentally selected TVA contractor purchasing card transactions found the following instances of noncompliance:
 - Two purchases approved for items specifically disallowed by the purchasing card policy.
 - Three purchases approved without detailed receipts showing items purchased, quantity of items purchased, and/or item descriptions.
 - Nine purchases approved without receipts.
- ◆ Our review also noted areas where controls over the use of TVA contractor purchasing cards could be improved. Specifically:
 - Purchases made where supporting receipts/invoices provided no indication that TVA was acquiring the goods and the source of payment was TVA. Receipts/invoices showed the contractor as responsible for payments.
 - Some approving officials were (1) not aware of specific needs of jobs for which the goods and services were being purchased and/or (2) responsible for review of purchases made by contractors working in another location.
 - Transactions were split which gives the appearance of an attempt to circumvent required approval level authority.
 - Cardholders and other individuals obtaining reward points at retailers when making purchases that would earn gift certificates or other rebates that could have been applied to future TVA purchases. In one instance, neither the cardholder nor the approving official was aware that points were being earned on the purchases. The cardholder supplied the card to someone else to make the purchase.



Background

Our review of applicable TVA policies and procedures and discussions with TVA Procurement personnel found that:

- ◆ Purchasing cards are provided to TVA organizations for purchases of small-dollar materials and services when it is determined to be the best procurement vehicle for purchases; as a general rule, up to and including \$5,000.
- ◆ Purchasing card charges are paid by TVA.
- ◆ Purchasing cards are to be used in accordance with the TVA procurement policy titled “VISA Purchasing Card Procedure.”
 - Training must be completed prior to issuance of the card.
 - Annual refresher training must be completed.
- ◆ In addition to issuing purchasing cards to TVA employees, TVA has also issued purchasing cards to contractors. Cards issued in the name of contractors are commonly referred to as contractor purchasing cards.
- ◆ TVA purchasing cards have been issued to contractors who are not located at a TVA site.
- ◆ There were 21 contractors with TVA purchasing cards during the period under review.



Background (cont.)

Our analytical review of transaction and statement data from the Integrated Credit Card System (ICCS) from March 28, 2004, to March 24, 2007, identified:

- ◆ 35,605 transactions made by individuals identified by TVA management as contractors.
- ◆ Approximately \$16.7 million was purchased by contractors with TVA purchasing cards.
- ◆ Six cardholders had purchases that exceeded \$1 million.
- ◆ The top 20 vendors* accounted for over 20,000, or 56.48 percent of the 35,605 total transactions, and over \$9.5 million, or nearly 57 percent of the \$16.7 million in purchases.

*See chart on next page for top 20 vendor information.



Background (cont.)

- ◆ The top 20 vendors based on dollar purchases during the period under review are shown below.

Name	Transaction Count	Transaction Amt	% Count	% \$
LEWIS ELECTRIC SUPPLY	3,643	1,922,334	10.23%	11.49%
STOKES ELECTRIC CO	769	846,349	2.16%	5.06%
PORTER WALKER LLC	3253	783,404	9.14%	4.68%
MCCARTHY JONES AND WOODAR	216	779,715	0.61%	4.66%
G.B.I	1,001	703,313	2.81%	4.20%
IRVING MATERIALS	530	475,862	1.49%	2.84%
THURMAN-BRYANT ELECTRIC	1,102	384,909	3.09%	2.30%
VULCAN MATERIAL COMPANY	794	337,886	2.23%	2.02%
RENTAL SERVICE CORP	598	337,335	1.68%	2.02%
BEN PARKER CO	306	335,326	0.86%	2.00%
CARDINAL TOOL SUPPLY	321	334,489	0.90%	2.00%
SISKIN STEEL & SUPPLY CO	545	322,865	1.53%	1.93%
FASTENAL	2,295	312,335	6.44%	1.87%
CONSOLIDATED PIPE & SUPPLY	656	293,246	1.84%	1.75%
DIVERSIFIED SUPPLY INC	532	259,937	1.49%	1.55%
MAYER ELECTRIC SUPPLY INC	407	256,144	1.14%	1.53%
LOWE'S	1,621	232,880	4.55%	1.39%
SHERWIN WILLIAMS	884	218,462	2.48%	1.31%
ENCO MATERIAL	350	199,617	0.98%	1.19%
INDUSTRIAL WELDING SUPPLY	296	196,347	0.83%	1.17%
Total	20,119	9,532,755	56.48%	56.96%



Objective, Scope, and Methodology

Objective

To determine whether contractor purchasing card usage during the period under review was for a valid business purpose and in compliance with TVA VISA Purchasing Card Procedures.

Scope

TVA Contractor VISA Purchasing Card purchases made from March 28, 2004, to March 24, 2007.

Methodology

To achieve our objective, we:

- ◆ Obtained an understanding of the key processes and control activities relating to the purchasing card program by:
 - Reviewing applicable TVA policies and procedures.
 - Interviewing TVA Procurement personnel and VISA Purchasing Card approving officials.
- ◆ Conducted an analytical review of all 35,605 purchasing card transactions made by contractors to gain a perspective on the types and magnitude of charges.



Objective, Scope, and Methodology (cont.)

Methodology (cont.)

- ◆ Reviewed training records to ensure that all contractors with VISA Purchasing Cards and their approving officials had completed required online training.
- ◆ Randomly selected 50 transactions totaling \$47,870 and judgmentally selected another 61 transactions totaling \$96,054 to:
 - Assess the adequacy of supporting documentation.
 - Determine if purchases were allowed under TVA policies.
 - Determine if purchases were made in a manner compliant with TVA policies.*
- ◆ For the ten cardholders related to the 50 randomly sampled and the 61 judgmentally selected transactions, we also determined whether TVA 17470, Visa Purchasing Card Request Form, or an e-mail was sent from the appropriate TVA manager to the TVA purchasing card program administrator requesting issuance of a card.
- ◆ In addition to the sample transactions, we also reviewed supporting documentation for the other transactions on the supplied purchasing card statements.

This inspection was conducted in accordance with the “Quality Standards for Inspections.”

*Our sample selection was not made with the intention of projecting the results of our tests to the entire population of TVA contractor purchasing card transactions.



Finding 1 - Compliance with Policies

We reviewed 111 sampled transactions (i.e., 50 randomly selected and 61 judgmentally selected) and found the following in regard to the use of TVA contractor purchasing cards and compliance with TVA policy and procedures.

Control Tests	Test Results
Determine if VISA Purchasing cardholders and approving officials completed the online purchasing card training module.	We noted no exceptions for the cardholders and approving officials in our sample.
Determine if approving officials are electronically approving statements in the TVA ICCS as required by the VISA Purchasing Card Procedure.	We noted no exceptions for statements found in the sample.
Determine if approving officials are TVA employees as required by the VISA Purchasing Card Procedure.	We noted no exceptions for approving officials found in the sample.
Determine if VISA Purchasing Card charges were supported by a receipt. (TVA organizations are required by policy to maintain terminated contractor's documentation for review.)	No receipt was provided to support the expenditure for 9 of the 111, or 8.1 percent, of the sampled transactions we reviewed.*

* Six of the nine transactions with no supporting receipts were on purchasing cards assigned to two individuals who are either no longer contractors with TVA or no longer have purchasing cards. The associated approving official for five of the six transactions is no longer with the company as well.



Finding 1 - Compliance with Policies (cont.)

Control Tests	Test Results
Determine if receipts provided contain adequate documentation to determine what was purchased and the amount paid.	We identified 3 receipts of the 111 sample transactions, or 2.7 percent, with little or no detail.
Determine if purchases were for items allowed under TVA policies.	We noted that 2 of the 111 sample transactions, or 1.8 percent, were for fuel which would be considered a disallowed purchase under the policy if the purchase was made in relation to travel.
Determine if purchases above the standard \$5,000 transaction limit received proper approval.	We noted no exceptions for transactions above \$5,000 found in the sample.
Determine whether TVA 17470, Visa Purchasing Card Request Form, was completed and approved as required or an e-mail was sent from the appropriate TVA manager to the TVA purchasing card program administrator requesting issuance of the respective VISA Purchasing Card.	We noted no exceptions for cardholders found in the sample.



Finding 1 - Compliance with Policies (cont.)

- ◆ In addition to the supporting documentation for our sample transactions, we performed a judgmental review of supporting documentation for other transactions that appeared on the same monthly statements as our sample transactions. Review of this documentation found:
 - 35 transactions specifically disallowed by policy. These included computer equipment, computer software, fuel purchases, rental of heavy equipment, and rental of vehicles.
 - 120 transactions where it appears that the total charges were split to stay below the \$5,000 standard transaction limit and requirement for additional approval. If the transactions had not been split, there would have been 41 transactions.
 - 58 transactions with no detailed receipt.
 - 17 transactions with no receipt.
 - 7 transactions with receipts that were illegible.
 - 1 transaction where the receipt quantities and prices do not support the charge.



Finding 2 – Control Improvement Opportunities

- ◆ During our review of sample transactions and associated statements, we observed the following:
 - Purchases made where supporting receipts/invoices indicate that the purchase was made with contractor funds rather than by TVA.
 - This increases the opportunity for contractors to bill TVA again by submitting the invoices/receipts for reimbursement.
 - We identified 61 transactions where there is a potential for double-billing.
 - Some approving officials were (1) not aware of specific needs of the jobs for which the goods and services were being purchased and/or (2) responsible for review of purchases made by contractors working in another location.
 - This increases the risk that inappropriate purchases are approved because the approving official may not have direct knowledge of work being performed or materials/supplies that are needed.
 - Six transactions where the charges were linked to a store rewards program.
 - Two transactions were linked to Best Buy’s Rewards Zone program. This resulted in approximately \$155 in gift certificates that can be used at Best Buy. Neither the purchasing cardholder nor the approving official was aware that points were earned on the transactions, as the cardholder supplied the card to someone else to make the purchase.*

* The TVA purchasing card policy allows the cardholder to supply his/her card to someone else to make a purchase. While this is a common practice at TVA, we believe it increases the risks of fraud, waste, and abuse.



Recommendations

We recommend the Senior Vice President, Procurement:

- ◆ Establish controls designed to reduce the risks of:
 - Disallowed items being purchased with a TVA contractor purchasing card without prior documented approval.
 - Contractors splitting a transaction to avoid approval requirements.
 - Transactions being approved without detailed supporting documentation that includes descriptions of items purchased, quantities purchased, and unit costs.
 - Supporting documentation not being retained when employees and/or contractors leave the organization.
- ◆ Require supporting receipts/invoices for purchasing card transactions to indicate that TVA made the purchase rather than another party.
- ◆ Require approving officials have knowledge of the work to be performed and the goods and services required to perform that work.
- ◆ Develop a formal policy concerning the use of purchase reward programs.

The Senior Vice President, Procurement, concurred with the report and our recommendations. They plan to implement appropriate actions by March 31, 2008. The Appendix contains the details of these planned actions with which we concur.



February 8, 2008

Robert E. Martin, ET 3C-K

DRAFT AUDIT REPORT - REVIEW OF TVA CONTRACTOR PURCHASING CARD USAGE -
INSPECTION 2007-10994

Reference: Your memorandum to me dated February 1, 2008.

Thank you for your review of TVA Contractor Purchasing Card Usage. We will take the findings from this audit to further improve our program. We concur with your report facts, conclusions, and recommendations. Specifically, we intend to implement the actions listed below in response to your recommendations.

Establish controls designed to reduce the risks of:

- **Disallowed items being purchased with a TVA contractor purchasing card without prior documented approval.**

Procurement concurs with the recommendation. Reviews are conducted on a continuous basis to identify these types of purchases. Communication will be sent to all cardholders and approving officials reminding them of the charges allowed and disallowed. We will also revise the Procurement purchasing card procedure to be more specific.

- **Contractors splitting a transaction to avoid approval requirement.**

Our procedure and annual training covers this subject and states that charges should not be split to circumvent the cardholder's transaction limit. Additional communication will be sent to all cardholders and approving officials reminding them that charges are not be split to circumvent the transaction limit. Reviews will be performed to identify these types of transactions.

- **Transactions being approved without detailed supporting documentation that includes descriptions of items purchased, quantities purchased, and unit costs.**

Procedure states a receipt must be obtained for all purchases and retained in the files. Communication will be sent to all cardholders and approving officials reminding them of this requirement.

- **Supporting documentation not being retained when employees and/or contractors leave TVA.**

Communication will be sent to all cardholders and approving officials reminding them the documentation must be retained by the approving official if the cardholder leaves TVA or the information can be sent to Procurement.

Robert E. Martin
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- **Require supporting receipts/invoices for purchase card transactions to indicate that TVA made the purchase rather than another party.**

We concur with the recommendation.

Contractors will be informed that all receipts must have TVA as the purchaser instead of the name of their employer (contractor to TVA).

Reviews will be performed to ensure TVA's name is on the receipts from the supplier.

- **Require approving officials have knowledge of the work to be performed and the goods and services required to perform that work.**

We concur with the recommendation.

We will discuss with the approving officials and establish an approving official who is knowledgeable of the work to be performed and works in a close proximity to the contractor.

Discuss with approving officials and establish the best TVA manager to approve the charges.

- **Develop a formal policy concerning the use of purchase reward programs.**

Procurement concurs that the procedure does not address this practice. Procurement will establish a policy for purchase rewards programs and revise the procedure to include this policy. The policy will be communicated to all cardholders and approving officials.

Procedures and controls will be revised and communicated to all cardholders and approving officials by March 31, 2008.

If you have any questions, please contact Bill Bonham at (865) 632-2078 or Robin Presnell-Evans at (865) 632 8139.



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