January 20, 2009

Terrell M. Burkhart, WT 3A-K

FINAL REPORT – INSPECTION 2007-11481 – REVIEW OF TVA'S PURCHASING CARD PROGRAM

Attached is the subject final report for your review and 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.

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) 785-4824 or Gregory C. Jaynes, Deputy Assistant Inspector General, Inspections, at (423) 785-4810. We appreciate the courtesy and cooperation received from your staff during the inspection.

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    OIG File No. 2007-11481

Inspection Report

REVIEW OF TVA'S PURCHASING CARD PROGRAM

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APPENDIX

MEMORANDUM DATED JANUARY 12, 2009, FROM TERRELL M. BURKHART
TO ROBERT E. MARTIN

TVA Office of the Inspector General

Background

The Office of the Inspector General (OIG) performed this review to provide a comprehensive review of the TVA purchasing card program to the TVA Chief Executive Officer.

TVA's purchasing card program has grown significantly in use since the TVA VISA purchasing card procedure was first issued in 1995. Usage has grown steadily from fiscal year (FY) 1997, $23 million in purchases, to the highest usage point dollar-wise in FY 2003, approximately $82.6 million.

In performing this review, the OIG:

- Obtained and reviewed background information relating to the TVA purchasing card program.
- Identified controls currently in place over the TVA VISA purchasing cards.
- Obtained and analyzed purchasing card data to determine areas and transactions of potential concern.
- Identified best practices in government purchasing card programs and compared and contrasted those to TVA's VISA purchasing card procedure.
- Selected both a statistical and judgmental sample of purchasing card transactions for testing.
- Interviewed cardholders and approving officials (AO).

Recommendations

We make several recommendations in this report designed to improve the internal controls over the purchasing card program.

INSPECTION 2007-11481 REVIEW OF TVA'S PURCHASING CARD PROGRAM

Findings

Internal control weaknesses in the TVA purchasing card program expose the company to fraud, waste, abuse, and loss of assets. When testing internal controls over the program to identify and assess their operating effectiveness and determine if they incorporate identified best practices, the OIG asked cardholders to provide documentation on selected transactions and interviewed cardholders and AOs regarding the transactions and their participation in the purchasing card program. In summary, key internal controls were not functioning as intended. Specifically, we found:

- No, or inadequate, AO review of transaction supporting documentation.
- No, or inadequate, cardholder review of supporting documentation for purchases made by someone other than the cardholder. However, we did note instances where cardholders and/or AOs identified and properly handled fraudulent transactions. However, TVA employees did not report all instances of known or suspected waste, fraud, and abuse or violation of the law to the OIG, as required by Business Practice 2.
- Transaction limit controls were bypassed by splitting purchases into multiple transactions.
- Purchases that were specifically disallowed by the VISA purchasing card procedure or disallowed by other TVA policies.
- Purchases where it appears the cardholder purchased an item for which government need was questionable.

Some best practices for government purchasing cards were not incorporated in the TVA purchasing card program. As a result, we found that:

- Lack of accountability and physical control over items purchased lead to fraudulent transactions.
- There is no documentation maintained of policy enforcement or discipline related to the purchasing card program.
- Regular system reviews and data mining to test for AO span of control, split transactions, and infrequent use of the cards could help strengthen control over the purchasing card program.

BACKGROUND

In January 1995, TVA Procurement issued the TVA VISA purchasing card procedure. The TVA VISA purchasing card, a small-dollar purchase mechanism or alternative procurement method (APM), is managed by the Procurement organization and is provided to TVA organizations for purchases of small-dollar materials and services when it is determined to be the best procurement vehicle. As a general rule, VISA purchasing cards are to be used for purchases up to and including $5,000. The purchasing card can also be used in any emergency when normal procurement methods are not available. TVA's purchasing card program has grown significantly in use based on information obtained from the Integrated Credit Card Solution (ICCS)[1] since 1995. The low point in total dollar value of purchases was in fiscal year (FY) 1997, approximately $23 million, and the highest usage dollar-wise was in FY 2003, approximately $82.6 million. The value of purchasing card expenditures was $75.6 million in FY 2007. Figure 1 shows the purchasing card transaction history for FYs 1995-2007.

Figure 1.

TVA VISA Purchasing Card Transaction History

Legend: —— Dollar Value of Purchasing Card Transactions —— Number of Purchasing Card Transactions

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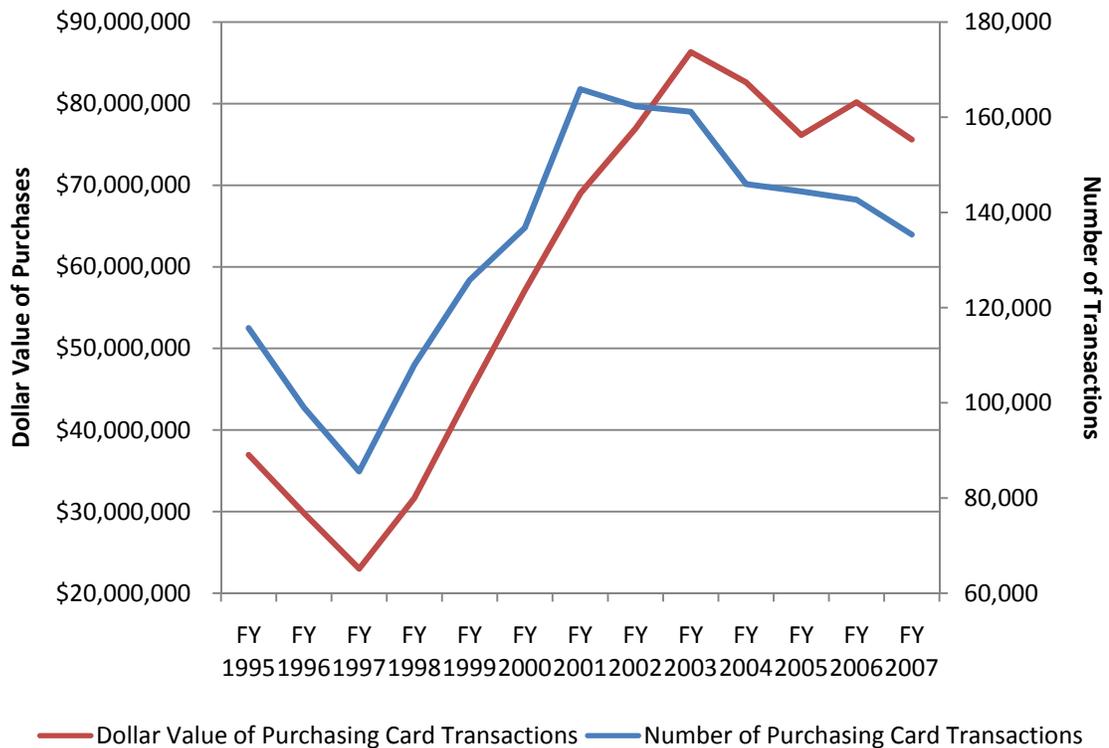
[1] The ICCS is a Web-based system for VISA purchasing cards. ICCS functions allow cardholders to view and print credit card statements, redistribute charges to multiple short codes, and perform online verification of statement charges. ICCS allows approving officials to view and approve cardholder charges online. **Online verification and approval is required** for each VISA statement and should be performed by the end of each month.

While the purchasing card was initiated as a small-dollar purchase mechanism or an APM, Figure 2 shows how much the purchasing card has been used for purchases greater than $5,000. For example, in FY 2007 there were 2,240 transactions of more than $5,000, and these transactions totaled $23,885,671.

Figure 2.

History of Purchasing Card Transactions With Transaction Amounts Greater Than $5,000
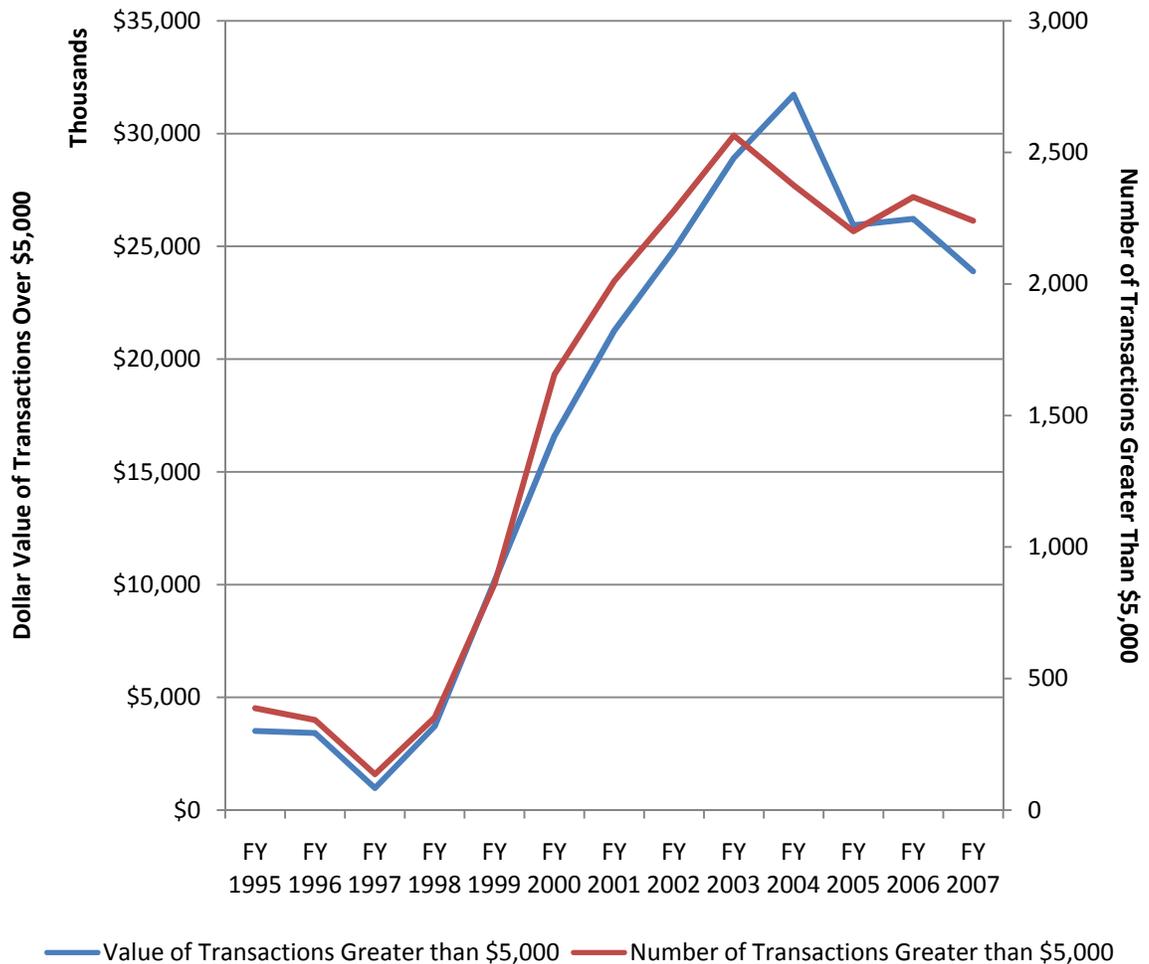
Since the establishment of the purchasing card program, the Office of the Inspector General (OIG) has performed several reviews of compliance with the VISA purchasing card procedure. The scope of our most recent report covered purchasing card transactions through June 30, 2005. Our current review period covered October 1, 2005, through December 31, 2007. During the current period reviewed, there were 1,659 different purchasing cards used in over 308,000 transactions for a total of approximately $171.6 million. Recently, the TVA President and Chief Executive Officer requested that the OIG perform a comprehensive review of the TVA purchasing card program. Our analysis of

data from ICCS for the period under review identified the following 50 vendors where the most purchasing card dollars were spent, as shown in Figure 3.

Figure 3.   **PURCHASING CARD SPENDING – TOP 50 VENDORS**

	Vendor Name	Dollars Spent With Vendor During Review Period	Transactions With Vendor During Review Period
1	PORTER WALKER	12,825,596	8,203
2	STAPLES	7,653,353	41,579
3	THOMPSON MACHINERY	3,368,320	3,904
4	VERIZON	2,219,108	514
5	VULCAN MATERIAL COMPANY	2,035,183	2,925
6	VF IMAGEWEAR	2,009,810	12,310
7	KWICK WAY TRANSPORTAION	1,993,408	432
8	LEWIS ELECTRIC SUPPLY	1,926,114	4,342
9	STOWERS MACHINERY	1,834,192	3,154
10	HERTZ EQUIPMENT	1,814,685	1,311
11	DIVERSIFIED SUPPLY INC	1,765,152	862
12	RENTAL SERVICE CORP	1,642,888	920
13	BOC GASES	1,624,299	1,049
14	THOMPSON TRACTOR CO	1,483,608	2,024
15	AIRGAS	1,478,718	1,825
16	ROGERS GROUP INC	1,322,871	2,215
17	DIRECT GAS AND OIL INC	1,241,965	161
18	FASTENAL CO	1,240,756	5,305
19	STOKES ELECTRIC CO	1,221,027	1,280
20	WAL-MART	1,109,896	7,784
21	SUNBELT RENTALS	1,095,673	513
22	MCCARTHY JONES AND WOODAR	1,057,620	278
23	CONSOLIDATED PIPE & SUPPLY	961,153	1,324
24	WHAYNE SUPPLY COMPANY	915,463	1,893
25	EWING MOVING & STORAGE	878,568	226
26	LEXMARK	870,079	1,601
27	SCIENTIFIC SALES	838,914	1,652
28	HANNAN SUPPLY CO INC	814,064	1,033
29	XPEDX	735,894	1,001
30	WILLIAMS TRANSFER & STORAGE	713,614	138
31	UNITED RENTALS	699,649	602
32	GSA	697,000	93
33	THURMAN-BRYANT ELECTRIC	673,094	1,124
34	IRVING MATERIALS	621,934	563
35	TRI CITIES TRUCK PARTS	603,634	772
36	YATES DIESEL REPAIR	601,501	108
37	G.B.I.	589,901	929
38	A O SAFETY	572,795	5,982
39	AMERICAN WELDING AND SAFETY	568,037	173
40	AMERICAN PAPER AND TWINE	554,974	1,293
41	HEARTLAND PUMP RENTAL INC	544,365	147
42	SOUTHERN LANDSCAPE MANAGEMENT	508,836	53
43	RAM TOOL & SUPPLY	475,046	546
44	MADISONVILLE TIRE	473,846	113

	Vendor Name (cont.)	Dollars Spent With Vendor During Review Period	Transactions With Vendor During Review Period
45	ANIXTER INC	466,366	742
46	EDWARDS SUPPLY CO INC	466,072	1,109
47	VARSITY HYDRAULIC & BRAKE	452,143	190
48	PORT AGGREGATES INC	445,388	693
49	COZY EXCAVATION & CONTRACTING	445,111	71
50	SCOTT SPECIALTY GASES	443,951	666

TVA is currently in the process of attempting to reduce its non-fuel operations and maintenance (O&M) expenses by $420 million over three years. As seen above, the VISA purchasing card is the procurement vehicle for over $70 million of TVA's annual non-fuel O&M spending. According to the Government Accountability Office (GAO), "The potential for fraudulent, improper, and abusive purchases in a purchase card program should be viewed by management as a risk of significant financial loss; possibly resulting in operational inefficiency and impairment of mission readiness …. Fraudulent, improper, and abusive purchases often result directly from a lack of adherence to policies, procedures, and control activities. This lack of adherence can result in misuse of the card. As program personnel predisposed to misuse the card become aware of such weaknesses, the door opens wider for fraudulent, improper, and abusive purchases."[2] Based on our analyses, opportunities exist to improve/strengthen controls to prevent fraudulent and unnecessary spending.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to (1) identify and assess the operating effectiveness of controls over the TVA purchasing card program and (2) determine if they incorporate identified best practices. The scope of our review included the TVA VISA purchasing card procedure and all purchases made with the VISA purchasing card with a transaction date of October 1, 2005, through December 31, 2007. To achieve our objectives, we:

- Obtained and reviewed background information relating to the TVA purchasing card program such as TVA business practices and procedures.

- Interviewed TVA personnel to discuss and obtain any additional information specifically relating to processes and controls currently in place over the TVA purchasing card program.

- Used information obtained through interviews and review of documentation to identify controls currently in place over the TVA VISA purchasing cards.

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[2] United States Government Accountability Office, Financial Management and Assurance, AUDIT GUIDE, Auditing and Investigating the Internal Control of Government Purchase Card Programs, November 2003, GAO-04-87G, Page 1.

- Obtained and performed analytical reviews of purchasing card data to identify potentially questionable transactions and dollar and transaction volume by vendor.

- Identified best practices in government purchasing card programs and compared and contrasted those to TVA's VISA purchasing card procedure. The sources identified for best practices related to government purchasing card programs included the:

    – President's Council on Integrity and Efficiency's (PCIE), "A Practical Guide for Reviewing Government Purchase Card programs," which noted best practices and also identified the following common control weaknesses:

        - Inadequate review of purchases by approving officials (AO);

        - Lack of documentation/inadequate documentation;

        - Inadequate agency card directive;

        - Inadequate and lack of training for cardholders and AOs;

        - Credit card sharing; and

        - Improper transactions.

    – General Services Administration (GSA) SmartPay Purchase Card online training programs for cardholders and for AOs (i.e., purchase card program AO program coordinator (AOPC) training and purchase cardholder training).

    – Office of Management and Budget's (OMB) Attachment 5 – Best Practices in Managing Government Charge Card Programs, to Circular A-123 Appendix B, Improving the Management of Government Charge Card Programs.

    – GAO's audit reports of other federal agencies' purchasing card programs.

    – Association of Government Accountants (AGA) Corporate Partner Advisory Group report, "The Federal Purchase Card: Use, Policy, and Best Practice."

- Selected a statistical sample of purchasing card transactions with transaction dates of October 1, 2005, through December 31, 2007, using discovery acceptance sampling for attributes with a critical error rate of 3 percent and a desired government risk of 5 percent. This resulted in a random sample with a size of 99 transactions. We also selected a judgmental sample of 200 purchasing card transactions that occurred during the same time frame. We requested supporting documentation for these sample transactions to determine (1) if the transactions were in compliance with TVA policies and procedures and (2) if TVA AO and cardholder actions incorporated identified best practices.

- Interviewed selected cardholders and AOs to obtain additional information on transactions reviewed, steps they followed to fulfill their responsibilities under

the VISA purchasing card procedure, and any ideas they had for improving the program and procedures.

This inspection was conducted in accordance with the PCIE "Quality Standards for Inspections."

FINDINGS

In summary, we determined that:

- Key internal controls were not functioning as intended with regard to (1) the review of purchasing card transactions and their supporting documentation and (2) transaction limits.

- Certain purchases were made that were disallowed by TVA policy or questionable in nature.

- TVA's purchasing card program incorporates some best practices, but key best practices are absent.

- TVA employees were not reporting all instances of known or suspected waste, fraud, and abuse or violation of the law to the OIG as required by Business Practice 2.

KEY INTERNAL CONTROLS NOT FUNCTIONING AS INTENDED

Our work uncovered significant lack of compliance with the controls established by TVA policy. In particular, we found that the documentation supporting many of the transactions was not reviewed. Some AOs were not obtaining and reviewing supporting documentation, and some cardholders were not reviewing their statements and the support for charges on them. In addition, we found that some cardholders split transactions to avoid purchasing card transaction limits and purchased items disallowed by policy or for which the business purpose was questionable/abusive.

Gaps Exist in Approving Officials' Review of Purchasing Card Charges

The purchasing card procedure establishes clear responsibilities for AOs and cardholders. The purchasing card program manager stated that each AO was expected to perform monthly reviews not only of each online statement assigned to them, but also of the supporting documentation (e.g., receipts, invoices, justifications, and pre-approvals) for each of the transactions on the electronic statement. The organizational expectation for this type of review is supported in the VISA purchasing card procedure's Section 3.8, Roles, which specifies specific responsibilities of the various parties involved in the purchasing card program. The procedure requires that (1) cardholders provide the purchasing card statement along with supporting documentation to the AO for review and online approval and (2) organizations appoint AOs to electronically review and

approve monthly statements and supporting documents for the purchasing cards. In addition, Procurement's online training module for the purchasing card states that "The Approving Official on-line monthly review and approval of charges is the key internal review and control used to ensure proper usage of the Purchasing Card."

For our review period October 1, 2005, through December 31, 2007, we found that all statements had been approved electronically by a designated AO as required by the TVA VISA purchasing card procedure. However, our analysis of ICCS data provided indications that the AO review was not being performed as intended by management. Specifically, some AOs were approving numerous transactions and/or transactions for multiple cards within one day. For example,

- One AO approved an average of 333 transactions or approximately $55,000 on the same day the charges were electronically verified.

- Another AO approved an average of 203 transactions or approximately $46,000 on the same day the transactions were electronically verified.

Additional examples are provided in our analysis of the purchasing card program's best practices later in this report. We noted in this review and in previous reviews of purchasing card usage that:

- Some AOs are approving purchasing card transactions for the cardholder or for multiple cardholders who are located throughout the Valley.

- Cardholders often share a purchasing card with other TVA employees or contractors. The cardholder is responsible for ensuring the charges are valid and obtaining a receipt for the transactions.

In addition, when we interviewed 16 AOs and 28 cardholders,[3] we found that:

- Out of the 16 AOs, 7 stated they were not reviewing supporting documentation for the transactions on the monthly card statements they were approving. AOs who stated they were not reviewing the supporting documentation for the transactions on statements they approved asserted that they were "following the procedure." For example, a manager within Procurement who was also an AO told us that the procedure did not require him/her to review supporting documentation for transactions on the statements he/she approved. This indicates a clear disconnect between the AOs and the expectations of management for how the internal control should function.

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[3] In our planned interviews with AOs and cardholders about the purchasing card processes and procedures they follow each month, we specifically addressed the review of supporting documentation. Our review period included statements for 1,659 different purchasing cards approved by 546 different individuals. We questioned 16 of the 546 AOs and 28 cardholders about the purchasing card program. Not only did we request explanations for specific transactions in our review sample, we also requested the selected AOs and cardholders explain (1) how the purchasing card program works for them and (2) what processes and procedures they follow each month.

- Out of the 28 cardholders, 10 stated they were not providing their AO supporting documentation for approval of the monthly statement applicable to their card. One of these AOs was in the group of AOs that told us they did not review supporting documentation.

Statements where supporting documentation was not reviewed by an AO encompassed purchases totaling approximately $47.5 million or 26.82 percent[4] of the dollar amount of the purchases approved on card statements during our review period.

Gaps Exist in Cardholders' Review of Purchasing Card Charges

The VISA purchasing card procedure establishes responsibilities for the holder of a TVA purchasing card. Among these responsibilities are the requirements to monthly, upon receipt of the statement:

- Immediately dispute any items not charged by the cardholder. If an item appears on the statement which cannot be substantiated, the cardholder should complete form TVA 24001 within 60 days and e-mail it to First Tennessee Bank.

- Request credit for any inadvertent sales taxes charged.

- Attach all receipts to the statement in the same order as they appear on the statement, transfer charges to the proper short code and cost class using ICCS, and electronically verify the statement indicating all charges are correct or have been disputed. In addition, if an organization or cardholder chooses to share a purchasing card among TVA employees, the cardholder is responsible for ensuring that any charges are valid and obtaining receipts for them.

While our interviews of the 28 cardholders found TVA's purchasing card program controls were often not functioning as intended, our analytical review of purchasing card transactions noted that some cardholders were adhering to procedural guidelines. Specifically, the cardholder and/or AOs identified fraudulent transactions through their review and followed proper procedure to have TVA credited for the transaction.

Interviews With Cardholders
Four of the twenty-eight cardholders we interviewed told us that they did not review supporting documentation for their monthly statements. We also noted that:

- One cardholder, who has six purchasing cards in his/her name, stated that not only does he/she not review supporting documentation for transactions,

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[4] While the total amount of transactions for the time frame reviewed was $171.6 million, the statements that covered the same time frame amounted to approximately $177 million. In essence, statement cutoff dates result in timing differences.

the AO does not as well. During our review period, over $5.9 million was placed on purchasing cards in this individual's name.

- One could not provide information for twenty $19.95 Hotmail charges that were paid with the TVA purchasing card over a two-year period. Neither the cardholder nor the AO knew what the charges were for or who had made the charges.

Analytical Review of Fraudulent Transactions
Our data mining identified transactions that TVA had questioned and successfully challenged. There were 50 transactions during the period under review that indicated the purchasing card was being credited for a fraudulent transaction or a balance was being transferred to a new card because of a fraudulent transaction. Cardholders had followed the VISA purchasing card procedure and filed disputes with the bank against fraudulent purchases that appeared on the card and subsequently obtained refunds. These transactions included the following vendors and amounts:

- United Air (over $20,000)

- RF Services Inc. (nearly $11,000)

- North American Airline (nearly $3,000)

- Wedding Bands.com (nearly $2,500)

- Alitalia (over $1,000)

- TA Electric (nearly $800)

- JVC Service & Engineering (over $300)

None of these fraudulent transactions were reported to the OIG as required by Business Practice 2. When questioned, the purchasing card program coordinator asserted that there was no fraud involved because TVA received its money back. While TVA suffered no financial loss on these transactions, the cards were compromised. For example, an AO explained that a TVA vendor took a purchasing card number and used it for nearly a month until the cardholder identified the fraudulent transactions during the monthly reconciliation process. The case was reported to the local sheriff and TVA Police but not to the OIG. The perpetrator of the fraud was arrested, pled guilty, and is currently serving three years in a state prison.

Transaction Limits Circumvented in Certain Cases

As stated in Section 3.4 of the VISA purchasing card procedure, as a general rule the TVA purchasing card has a $5,000 per purchase transaction limit, excluding emergencies. Purchases over $5,000 are to be approved only with appropriate justification, which is to be reviewed on a case-by-case basis and must generally conclude that the purchasing card is the most efficient and

effective way to acquire and pay for the materials or services. According to the procedure, purchases over $5,000 may be approved as follows:

- Approval for cardholders to exceed the $5,000 limit may be obtained by sending a request with appropriate justification to the VISA purchasing card manager. Procurement will give prompt verbal approval followed by written approval to the requester. The written approval sent to the requester is maintained with the cardholder statement in which the charge appears.

- Emergency purchases that exceed the $5,000 limit are documented after the fact within ten days with justification to the VISA purchasing card manager. The justification should be maintained with the cardholder statement in which the charge appears.

Our review of supporting documentation for 299 sample transactions identified two purchases that were split into five transactions to bypass the transaction limit control. GAO categorizes these types of transactions as improper.[5] The supporting documentation provided by the cardholders verified that a single transaction would have exceeded the specific purchasing card's transaction limit and had been split into multiple transactions which fell below the cardholder's transaction limit. These two purchases included:

- Two transactions with Praxair Distribution, Inc., on October 29, 2007. One of the transactions was for $5,000 (the card transaction limit), and the second was for the remaining amount of the total transaction of $3,457.05. Supporting documentation provided by the cardholder was one receipt totaling $8,457.05 for the purchase of compressed helium, hydrogen, and nitrogen.

- Three transactions with Vulcan Materials Company for $7,132.68—all dated October 11, 2006. Supporting documentation provided by the cardholder was one receipt totaling $21,398.04—the sum of the three separate transactions. The cardholder's transaction limit was $10,000.

In addition, during interviews with 16 AOs and 28 cardholders, we were told that they, or others using cards assigned to them, had split transactions in the past to bypass the transaction limit control. We also saw some indication of split transactions in our audit population including more than 1,000 occurrences of transactions made with the same card at the same vendor on the same date. Our audit experience has found that these are not always split transactions but sometimes are.

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[5] United States Government Accountability Office, Financial Management and Assurance, AUDIT GUIDE, Auditing and Investigating the Internal Control of Government Purchase Card Programs, November 2003, GAO-04-87G, Page 13.

Disallowed and Questionable and/or Potentially Abusive Charges

We identified purchases in our sample of 299 transactions that were specifically disallowed by TVA policy or were questionable or potentially abusive. We define questionable and/or abusive purchases as those purchases where the conduct of personnel making the purchase falls short of societal expectations of prudent behavior, and/or documentation/justifications do not clearly support that a business need exists or potential benefits warranted the expenditures. We used GAO[6] guidelines and criteria used in previous OIG reviews to formulate the definition. Our data mining identified numerous examples of improper and potentially abusive transactions based on Merchant Category Code (MCC),[7] descriptive text, identified vendors, and purchase dates (e.g., holidays and weekends).

Purchases Disallowed by TVA Policy
From the sample of 299 transactions we reviewed, we found 15 purchases totaling $15,078 that were disallowed by the purchasing card policy, as shown in Figure 4.

Figure 4. Transactions in Sample Disallowed by Purchasing Card Procedure

Category of Purchases	Number of Transactions in Samples	Dollar Value of Purchases
Furniture	2	$ 7,116.95
Charges With Sales Tax	4	$654.79
Heavy Equipment Rental[8]	1	$4,088.00
Tuition	1	$2,093.00
Computer Software	2	$ 434.12
Travel	1	$421.11
Individual Memberships in Professional Organizations	2	$140.00
External Training	1	$125.00
Cold Medicine included in the purchase of multiple items that could be work related from Wal-Mart[9]	1	$5.00
Totals	15	$15,077.97

We also found four purchases totaling $8,262 that were disallowed by other TVA policies but not specifically mentioned in the purchasing card policy. These are shown in Figure 5.

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[6] United States Government Accountability Office, Purchase Cards, Increased Management Oversight and Control Could Save Hundreds of Millions of Dollars, April 2004, GAO-04-717T, Page 6.

[7] The MCC relates to the types of supplies or services that a vendor provides. Agencies have the ability to prohibit cardholders from purchasing certain supplies or services by blocking specific MCCs.

[8] This transaction was disallowed by the VISA Procurement Card Procedure at the time it was made. However, the VISA Procurement Card Procedure was revised March 24, 2008, to include heavy equipment rental as an allowed purchase.

[9] While this amount is nominal, it has been included to show the ease of which personal items can be commingled with TVA-related purchases and, based on the lack of review, will not be identified.

Figure 5. Transactions in Sample Disallowed by TVA Policies Other Than the Purchasing Card Procedure

Category of Purchases	Number of Transactions in Samples	Dollar Value of Purchases
Contributions	3	$ 8,224.56
Licensing	1	$37.62
Totals	4	$8,262.18

Questionable and/or Potentially Abusive Transactions

Based on the description, our review identified some transactions that appeared questionable and/or potentially abusive. Based on the submitted supporting documentation related to the transactions, we found no or inadequate justifications or supporting documentation to show a business need or that potential benefits warranted the expenditures. Specifically, we noted instances where it appears the cardholder purchased an item for which government need was questionable. These transactions included:

- Purchases of alcohol for TVA employee meetings and training, not for hospitality purposes. While TVA's Hospitality Policy states that the purchase of alcohol is allowed in defined quantities and amounts, we questioned these transactions since two cardholders told us that TVA's Board of Directors does not allow such purchases for any meetings that include Board members. We identified three such transactions in our sample of 299, and another four were identified from supporting documentation submitted for other transactions in our sample. Examples of these transactions include:

   – $98 dollars of wine, $100 of beer, $87 of liquor and wine, and $111 of beer purchased in various transactions in conjunction with Procurement Supervisor Workshops.

   – $118 of beer, $39 of wine, $121 of candy, soda, and beer purchased in various transactions in conjunction with a Materials Management off-site meeting.

- Purchases from department stores of clothing identified as "uniforms" for Management and Specialist schedule personnel that were not of a safety-related nature and that could be worn during non-work hours. In most cases, discussions with the cardholders indicated that these uniform purchases were part of an annual allowance. Discussions with cardholders and Human Resources personnel indicated that these purchases were not made in relation to any current TVA policy, procedure, or job description.

- A purchase of $393 of Carhartt winter clothing that we were told was made annually.

- A purchase of a nearly $300 "white noise" noise reduction system for a corporate apartment to cover road noise in the evening to allow quieter sleeping conditions.

- A purchase of software used to erase evidence of Internet usage. When this transaction was discussed with the cardholder and AO, neither was able to tell us what the purchase was or for whom it was made even though the cardholder had a receipt for the purchase. This software was not an approved purchase through Information Services.

We also found in our review a large volume of purchases which appeared potentially questionable. Specifically, over $180,000 a year for the last two years was spent on personal items such as X-Boxes, TVs, TiVos, DVD players, and yard equipment. Upon review, we found that these purchases were made by Power System Operations (PSO) for safety awards. The award recipients were documented and the appropriate documentation was provided to Payroll Operations for proper tax treatment. The appearance of these purchases to the consumers of TVA's power should be carefully considered, given their nature and amount.

TVA'S PURCHASING CARD PROGRAM INCORPORATES SOME BEST PRACTICES, BUT KEY ONES ARE ABSENT

We reviewed documentation from GAO, GSA, OMB, PCIE, and AGA to identify best practices associated with purchasing card programs. We found many have been incorporated in some form by TVA. However, other best practices were identified that are not incorporated in TVA's purchase card program, which TVA management should consider.

Best Practices Incorporated by TVA's Program

Based on discussions with the TVA purchasing card program manager and review of TVA policies and procedures, the following best practices were found to be incorporated in the TVA purchasing card program in some form. Specifically, the TVA purchasing card program:

- Requires AO review of the cardholder's reconciliation.

- Requires the AOPC to set appropriate authorization controls when establishing every cardholder account such as (1) dollars per transaction or dollars per month limits and (2) transaction limits.

- Makes training mandatory.

- Uses electronic access reports to monitor activity.

- Requires periodic review of the number of charge card accounts for appropriateness.

- Employs purchase card restrictions such as MCC blocks.

- Requires cardholders be (1) aware of any agency-wide contracts that will yield better pricing and (2) aware of policies for using these contracts.

- Prescribes that internal charge card program reviews be done on a regular basis to ensure internal control mechanisms are adequate.

- Dictates that accounts under review for questionable activity will be deactivated, suspended, or canceled.

- Uses data warehousing to identify purchasing trends.

While the above best practices have been incorporated into the TVA purchasing card program to some extent, there is still room to improve the control provided by some of these items. Documentation in the Risk Control Tracking System (RCTS) states that training is mandatory for all cardholders and AOs, but this is not addressed in the VISA purchasing card procedure. In addition, TVA currently allows the sharing of purchasing cards which can result in individuals using the card who are not required to undergo any training or acknowledge understanding of the VISA purchasing card procedure.

We also determined that few MCC blocks are employed on TVA purchasing cards. The purchasing card program coordinator informed us that the only MCC codes blocked are those for QVC,[10] the home shopping network and cash advances. Some potentially abusive transactions may have been avoided if TVA blocked more MCC codes (e.g., liquor stores, department stores, airlines, etc.).

Best Practices Not Incorporated by TVA's Program

Other best practices were identified that are not incorporated in TVA's purchase card program and that TVA management should consider. They would enhance the level of internal control over the TVA purchasing card program. These best practices, along with specific examples of activities to achieve them, are highlighted below.

- Span of Control

  – GSA recommends that the ratio of AOs to cardholders is not more than 1:7 (assuming an average of six or seven transactions per cardholder each month). An alternate ratio is the ratio of AOs to the number of monthly transactions, which would be no more than 1:50.

- Accountability

  – Allow only the person assigned the card to use it.

  – Issue purchase cards in controlled, limited quantities (e.g., special justification and authorization for more than one card per cardholder) and only to government employees with legitimate needs to have the cards.[11]

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[10] QVC is a West Chester, Pennsylvania, USA, multinational corporation specializing in televised home shopping.

[11] United States Government Accountability Office, Financial Management and Assurance, AUDIT GUIDE, Auditing and Investigating the Internal Control of Government Purchase Card Programs, November 2003, GAO-04-87G, Page 22.

– Credit worthiness evaluations for new purchase card applicants.

- System Reviews/Data Mining

  – Perform periodic review evaluating the span of control for AOs.

  – Deactivate cards that are used infrequently and may not be needed.

  – Review for split transactions.

- Policy Enforcement/Discipline

  – Provide candid and constructive counseling, performance appraisals, and discipline to reinforce the system of internal control.

  – Document corrective actions taken to identify and limit repeat offenders.

- Physical Control Over Items Purchased

  – Maintain physical control and accountability over pilferable property.

  – Segregate the functions of purchasing and receiving items.

- Refer Suspected Fraud to the Agency's OIG

- Selection of Banking Partner

  – Provide for open competition and vendor rotation.

  – Factor the costs involved in transitioning to a new vendor bank.

Impact of Best Practices Not Incorporated in TVA's Purchasing Card Program
Several of the compliance problems we identified during our review may have been avoided if the above best practices were in place. Specifically:

- Span of Control and the Review and Approval of Transactions — If the span of control of AOs was reviewed on a regular basis and held to the levels recommended by GSA, AOs would be able to perform more detailed reviews of transaction documentation with less impact on their other job duties. Our review of ICCS data found that the statements from the period under review included 1,659 different credit cards that were approved by 546 different individuals. Of the 546 AOs, we identified 57 whose span of control exceeded the number of statement and/or number of transaction limits recommended.

  Each of these AOs also showed up on our analysis to identify statements that had been approved within two days of the electronic verification by the cardholder, indicating that the approval may have been a "rubber stamp."

  These 57 AOs approved over $74 million in charges within two days of the statements being verified by the cardholder. This leads further credence to the GSA and GAO guidance that these numbers of transactions are more than can be properly reviewed by a single individual.

  We also noted that for our review period, the largest span of control, based on the number of transactions reviewed and approved, was an average of 1,215 transactions a month with an average value of $840,000. This AO

approved 315 statements with purchases of over $18 million in two days or less from the time they were verified by the cardholder. Discussions with the AO revealed that he was not reviewing any documentation and only saw the online statement. Of the AOs who exceeded recommended span-of-control guidelines, the top 20, based on average monthly dollar value of transactions approved, are shown in Figure 6.

Figure 6. Top 20 AOs Who Exceeded Span-of-Control Guidelines (Based on Dollar Value of Transactions Approved)

Average Number of Statements Approved Monthly	Average Number of Transactions Approved Monthly	Average Dollar Value of Purchases Approved Monthly
16	1,215	840,545.86
10	167	382,163.89
7	264	305,259.37
7	417	296,540.35
1	194	238,835.31
6	383	205,676.22
4	86	171,365.82
1	216	157,508.41
6	86	116,108.10
2	131	107,631.36
4	89	106,691.27
3	151	94,202.89
4	56	93,389.39
4	172	88,322.54
2	90	87,147.78
4	105	79,997.01
4	86	78,009.15
9	163	76,643.20
3	105	73,862.31
3	179	73,816.97
GSA Recommended Maximum	50	

For the AOs whose span of control exceeded identified guidelines, the total average monthly dollar value of purchases approved accounted for approximately $4.8 million or 74 percent of the total average purchases made with purchasing cards per month (i.e., $6.6 million). We believe that with spans of control this large, appropriate review of cardholder statements and the supporting documentation for transactions may be difficult. A proper AO and cardholder review might have identified some of the problematic or questionable transactions identified above.

- Accountability and Physical Control Over Items Purchased — We were notified of an incident that occurred during our review period where a manager for a contractor had worked at a TVA site for 14 years and used a purchasing card assigned to a TVA employee to purchase more material than was needed for the TVA jobs he was supporting. The materials and tools were used in a personal business venture, as well as personal use. When asked in interviews with TVA Police personnel why he had so many TVA tools at his property, he replied, "It was too easy." When asked for clarification of this comment, he said, "I have purchased TVA tools for so long and gotten away with taking them home to use without being questioned, it just was too easy." At the time TVA Police searched the individual's property, they recovered over $20,000 in TVA property.

  In this particular case, we believe the fraudulent transactions could have been prevented if (1) only the person assigned the card had used it, (2) physical control and accountability had been obtained over the pilferable property, (3) there had been a segregation of purchasing from receiving of the property, and (4) the AO or cardholder had knowledge of the work for which the purchases were intended and had compared quantities and items purchased to the defined scope of work for the jobs.

  TVA's policy of allowing sharing of cards and issuing cards to non-government employees (contractors) can contribute to the lack of accountability. Supporting documentation enabled us to verify that out of our sample of 299 transactions, 51 were not made by the cardholder.

- Documentation of Policy Enforcement or Discipline — When we asked the purchasing card program coordinator about documentation of any administrative action taken against those employees not complying with the VISA purchasing card procedure, we were told that no records were kept of any action taken because she did not take any action. For the purchasing card program, any violations are communicated with the cardholder and AO via e-mail and it is left to the AO or the cardholder's supervisor to enact any discipline, and the purchasing card program coordinator did not feel she should be privy to any of those actions.

  According to GAO, "Repeated non-adherence to established internal control policies and procedures, such as inadequate documentation of purchase card transactions or supervisory reviews, may not constitute a violation of law or regulation. However, if allowed to continue, they will contribute to erosion and weakening of the control system. Prompt administrative and disciplinary actions (e.g., informal admonishment, formal reprimand, additional required training, suspension of card privileges, cancellation of the cardholder's account, and termination of employment) can be effective in reducing persistent lack of adherence to policies and procedures by cardholders and other program personnel. When administrative corrective actions are taken and documented, program management, oversight personnel, and auditors will be able to identify repeat offenders and determine that appropriate steps

are being taken to address potentially significant problems before they escalate." [12]

- System Reviews/Data Mining — Data mining and analysis enabled us to identify the previously discussed span-of-control and split transaction issues. These same methods could be used by TVA management on a regular basis to identify potential problems. In addition, data mining can help identify cards that are used infrequently and may not be needed. Our analysis showed that 210 of 982 cards averaged less than one transaction per month for the period of October 2006 through December 2007. Another 256 cards averaged three or fewer transactions per month during the same period. There were 25 cards closed during our review period, 19 of those due to the employee leaving TVA through termination or retirement, according to our review of People Warehouse data. [13]

- Refer suspected fraud to the agency's OIG — During our review, we identified instances of known and suspected fraud that had not been reported to the OIG by TVA employees. In addition to not adhering to best practices, this violates TVA Business Practice 2. There were 50 transactions during the period under review that indicated the purchasing card was being credited for a fraudulent transaction, a balance was being transferred to a new card because of a fraudulent transaction, or a transaction was in dispute because of a fraudulent transaction. When questioned about these charges, the purchasing card program coordinator asserted that there was no fraud involved because TVA received its money back.

  While TVA apparently suffered no financial loss on these transactions, fraud was involved. In one instance we were told of when interviewing the AO, an employee of a TVA vendor took a purchasing card number and used it for nearly a month until the cardholder identified the fraudulent transactions during the monthly reconciliation process. The case was reported to the local sheriff and TVA Police, but not to the OIG. The perpetrator of the fraud was arrested, pled guilty, and is currently serving three years in a state prison.

- Competitively Bid Purchasing Card Banking Agreement — TVA recently renewed its purchasing card agreement with the applicable financial institution, effective April 1, 2008. Based on discussions with the purchasing card program coordinator and review of documentation provided, TVA did not have an open competition for a banking partner for the purchasing card program. However, they did compare publically available information on rebate amounts from banks participating in the GSA SmartPay program to the rebates provided by the current banking partner. According to Procurement, the rebate percentage was higher than all other percentages reviewed, and therefore Procurement believed no other solicitation was necessary.

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[12] United States Government Accountability Office, Financial Management and Assurance, AUDIT GUIDE, Auditing and Investigating the Internal Control of Government Purchase Card Programs, November 2003, GAO-04-87G, Page 11.

[13] When performing our analysis of infrequently used cards, we wanted to ensure that we were not looking at newly issued cards. To accomplish this, we only included cards in our analysis that showed a status of "Active" and whose status date was October 1, 2006, or earlier.

RECOMMENDATIONS

We recommend that the Vice President (VP), Procurement, consider:

- Revising the VISA purchasing card procedure to explicitly state that the AO's responsibilities include:
  - A review of supporting documentation for transactions on the monthly cardholder statements prior to approval, and
  - Notifying the purchasing card program coordinator when cardholders do not provide adequate supporting documentation for the transactions on their monthly statement.

- Revising the VISA purchasing card procedure to address the requirement for cardholder and AO training included in the RCTS.

- Revising the VISA purchasing card procedure section regarding disallowed purchases to include contributions and licensing.

- In consultation with the Executive Vice President (EVP), PSO, whether continued purchase of personal items for safety awards in the PSO group is appropriate, given the appearance to the consumers of TVA's power.

- Implementing identified best practices listed above that are not currently incorporated into the TVA purchasing card program including:
  - Allowing only the person assigned the card to use it,
  - Only issuing cards to government employees with legitimate needs to have the cards,
  - Implementing additional MCC code blocks,
  - Implementing segregation of receiving and purchasing of items,
  - Implementing property control systems for pilferable items,
  - Implementing data mining specifically geared toward identifying span-of-control issues, infrequently used cards, and split transactions, and
  - Documenting corrective actions and counseling in order to identify repeat problems.

- Revising the VISA purchasing card procedure to include the requirement to report instances of known or suspected waste, fraud, abuse, or violation of law to the OIG consistent with the requirement currently in Business Practice 2.

Management's Response – The VP, Procurement, provided comments on a draft of this report. The VP, Procurement, agreed to implement our recommendations regarding:

- Revising the VISA purchasing card procedure to explicitly state that the AO's responsibilities include a review of supporting documentation for transactions prior to approval.

- Revising the VISA purchasing card procedure to address the requirement for cardholder and AO training.

- Revising the VISA purchasing card procedure section regarding disallowed purchases to include contributions and licensing.

- Determining, in consultation with the EVP, PSO, whether continued purchase of personal items for safety awards in PSO is appropriate.

- Implementing additional MCC code blocks.

- Implementing property control systems for pilferable items.

- Implementing data mining specifically geared toward identifying span-of-control issues, infrequently used cards, and split transactions.

- Documenting corrective actions and counseling in order to identify repeat problems.

- Revising the VISA purchasing card procedure to include the requirement to report instances of known or suspected waste, fraud, abuse, or violation of law to the OIG.

In response to our recommendations, management has revised the VISA purchasing card procedure to (1) state that the AO's responsibilities include review of supporting documentation for transactions prior to approval, (2) address the requirement for cardholder and AO training, (3) include contributions and licensing in the section regarding disallowed purchases, and (4) include the requirement to report instances of known or suspected waste, fraud, abuse, or violations of law to the OIG. Additionally, management has (1) eliminated, in consultation with the EVP, PSO, the purchase of personal items for safety awards in the PSO group; (2) implemented additional MCC code blocks; (3) made AOs responsible for detecting pilferable items and verifying receipt; and (4) implemented data mining geared toward identifying span-of-control issues, infrequently used cards, and split transactions. Management also plans to update online training to include implementation of controls over pilferable items, begin maintenance of records of split transactions to identify problem cardholders and suspend cards, and reduce the span of control between AOs and cardholders to no more than seven.

The VP, Procurement, disagreed with our recommendations regarding:

- Notifying the purchasing card program coordinator when cardholders do not provide adequate supporting documentation. The VP, Procurement, stated:

    "We do not see the benefit of [notifying the purchasing card program coordinator] for the following reasons:

- ― Procedurally, approving officials have the responsibility of assuring each cardholder has a receipt for all transactions prior to approval.

- ― The purchasing card program coordinator will continue to perform reviews of cardholders' statements and receipts."

- Allowing only the person assigned the card to use it. The VP, Procurement, stated:

   "We disagree with the recommendation but have strengthened the P card procedure and annual training to include language requiring anyone sharing their card to complete the annual training."

- Implementing segregation of receiving and purchasing. The VP, Procurement, stated:

   "The P card was established as a convenience mechanism to acquire small dollar items and promote efficiency and productivity. To meet the recommendation would require sending two people to the store – one to purchase the item and the other to receive."

Additionally, management has not finalized a decision regarding only issuing cards to government employees. Management plans to discuss this with each business unit to determine if alternatives are feasible and then follow up with the OIG following those discussions.

(The complete text of the VP's, Procurement, comments is provided in the Appendix.)

Auditor's Comments – We concur with TVA management's actions or planned actions with regard to the following recommendations:

- Revising the VISA purchasing card procedure to explicitly state that the AO's responsibilities include a review of supporting documentation for transactions prior to approval.

- Revising the VISA purchasing card procedure to address the requirement for cardholder and AO training.

- Revising the VISA purchasing card procedure section regarding disallowed purchases to include contributions and licensing.

- Determining, in consultation with the EVP, PSO, whether continued purchase of personal items for safety awards in PSO is appropriate.

- Implementing additional MCC code blocks.

- Implementing property control systems for pilferable items.

- Implementing data mining specifically geared toward identifying span-of-control issues, infrequently used cards, and split transactions.

- Documenting corrective actions and counseling in order to identify repeat problems.

- Revising the VISA purchasing card procedure to include the requirement to report instances of known or suspected waste, fraud, abuse, or violation of law to the OIG.

While Procurement did not agree with our recommendations regarding (1) notifying the purchasing card program coordinator when cardholders do not provide adequate supporting documentation, (2) allowing only the person assigned the card to use it, and (3) implementing segregation of receiving and purchasing, we note that continuing these practices increases the risks of abuse, misuse, and fraud pertaining to VISA purchasing card use, and Procurement should implement additional monitoring controls, where appropriate.

January 12, 2009

Robert E. Martin, ET 3C-K

DRAFT INSPECTION 2007-11481- REVIEW OF TVA'S PURCHASING CARD PROGRAM

Reference: Your memorandum to Terrell Burkhart dated December 5, 2008

Thank you for your review of TVA's Purchasing card program. We were pleased to learn of additional best practices in addition to those already incorporated in our program. We are continually managing and making improvements to the program and as a result we had already made some changes in the program before your audit was complete that addresses some of the recommendations. We will identify them as we respond to each recommendation.

RECOMMENDATIONS

We recommend that the Vice President, Procurement, consider:

Revising the VISA purchasing card procedure to explicitly state that the AO's responsibilities include:

    A. A review of supporting documentation for transactions on the monthly cardholder statements prior to approval; and,
    B. Notifying the purchasing card program coordinator when cardholders do not provide adequate supporting documentation for the transactions on their monthly statement.

    We concur with recommendation A. The Purchasing card (P card) procedure specifically states the approving official has the responsibility to review all statements and supporting documentation for their cardholders. The annual on-line P card training material has been modified to give additional emphasis to maintaining proper supporting documentation.

    We do not see the benefit of recommendation B for the following reasons:

        1. Procedurally, approving official's have the responsibility of assuring each cardholder has a receipt for all transactions prior to approval.

        2. The Purchasing card coordinator will continue to perform reviews of cardholders' statements and receipts. All findings will be communicated to the cardholders and appropriate approving officials. Repeat offenders will be counseled and P cards will be terminated when appropriate.

Revising the VISA purchasing card procedure to address the requirement for cardholder and AO training included in the RCTS.

    We agree with this recommendation. The Purchasing card procedure was revised on October 15, 2008 to address the requirement for cardholders and AO training to be included in the RCTS.

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Revising the VISA purchasing card procedure section regarding disallowed purchases to include contributions and licensing.

> We concur and the Purchasing card procedure was revised on October 15, 2008 to disallow contributions and licensing.

In consultation with the Executive Vice President, PSO, whether continued purchase of personal items for safety awards in the PSO group is appropriate given the appearance to the consumers of TVA's power.

> Following discussion with the Executive Vice President, PSO, the purchase of personal items for safety recognition has been eliminated. He also agrees to notify his managers that all future items for safety awards will need to be approved by him.

Implementing identified best practices listed above that are not currently incorporated into the TVA purchasing card program including:

- Allowing only the person assigned the card to use it

> We disagree with the recommendation but have strengthened the P card procedure and annual training to include language requiring anyone sharing their card to complete the annual training. Each cardholder is accountable and responsible for all charges to their card.

- Only issuing cards to government employees with legitimate needs to have the cards

> We understand your concern and Procurement will discuss with each business unit to determine if alternatives are feasible. Any future issue of P cards to contractors will require approval of the Vice President, Procurement. We will provide a follow-up to the OIG following our discussion.

- Implementing additional MCC code blocks

> We agree with your recommendation and more than 260 MCC codes were blocked on June 20, 2008. The additional blocked MCC codes included all airlines and liquor stores.

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- Implementing segregation of receiving and purchasing of items

> While we understand the merits of your recommendation we have concern
> relative to the practicality of segregating the receiving and purchasing of items.
> The P card was established as a convenience mechanism to acquire small dollar
> items and promote efficiency and productivity. As an example, Facilities
> Management employees are in the field every day buying products with a P card
> that is needed for immediate installation at a campground restroom or other
> facility. The cardholder pays using a P card, receives the item, and performs
> their work. To meet the recommendation would require sending two people to
> the store – one to purchase the item and the other to receive. The approving
> officials are responsible for assuring validity of all items purchased.

Implementing property control systems for pilferable items

> We concur with your recommendation. The approving officials are responsible
> for detecting such pilferable items and verify receipts as part of the review of
> statements and documentation. Additionally the on-line training will be revised to
> include implementation of proper controls.

**Implementing data mining specifically geared toward identifying span-of-control
issues, infrequently used cards, and split transactions; and,**

**Documenting corrective actions and counseling in order to identify repeat
problems.**

> We concur with your recommendation as follows: The Purchasing card
> coordinator has worked with the Purchasing card provider, First Tennessee
> Bank, and has been granted access to reports that will allow identification of
> different transactions on the same day with the same supplier by cardholder. This
> will allow identification of possible split transactions. The coordinator will
> maintain records of such problems and suspend the card for any cardholder that
> continues to split transactions.

> The Purchasing card coordinator regularly checks usage of cards and calls
> cardholders when there is no activity. Some cardholders have a card for
> emergency use and therefore has infrequent usage. This practice is allowed by
> the Purchasing card procedure. The Purchasing card coordinator routinely
> cancels cards when determined that an individual no longer needs a card.

> The span-of-control between approving officials and the number of
> cardholders has been reviewed and the number will be reduced to the identified
> best practice of 7 cardholders per each approving official. Exceptions will be
> approved by the Vice President, Procurement.

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Revising the VISA purchasing card procedure to include the requirement to report instances of known or suspected waste, fraud, abuse, or violation of law to the OIG consistent with the requirement currently in Business Practice 2.

We concur with your recommendation. The Purchasing card procedure was revised on October 15, 2008 to include the reporting requirement. In addition, this change has been incorporated in the annual on-line training that is required for all cardholders and approving officials.

If you have any questions, please contact Bill Bonham at (865) 632-2078.

Terrell M. Burkhart
Vice President, Procurement

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