



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

June 23, 2015

Bruce S. Schofield, BR 4A-C

**REQUEST FOR FINAL ACTION – AUDIT 2014-15031 – ADEQUACY OF THE INVOICE APPROVAL PROCESS**

Attached is the subject final report for your review and final action. Your written comments, which addressed your management decision and actions planned or taken, have been included in the report. Please notify us when final action is complete. In accordance with the Inspector General Act of 1978, as amended, the Office of the Inspector General is required to report to Congress semiannually regarding audits that remain unresolved after 6 months from the date of report issuance.

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 or wish to discuss our findings, please contact Kristi U. Reynolds, Senior Auditor, at (865) 633-7360 or Curtis C. Hudson, Director, Contract Audits, at (865) 633-7344. We appreciate the courtesy and cooperation received from your staff during the audit.

David P. Wheeler  
Deputy Assistant Inspector General  
(Audits)  
ET 3C-K

KUR:BSC  
Attachment  
cc (Attachment):

Brenda E. Brickhouse, BR 4A-C  
James R. Dalrymple, LP 3K-C  
Robert M. Deacy, Sr., LP 5D-C  
M. Scott Fugate, WT 3A-K  
Joe P. Grimes, LP 3R-C  
Jon E. Holztrager, WT 3C-K  
William D. Johnson, WT 7B-K  
Dwain K. Lanier, MR 3K-C  
Justin C. Maierhofer, WT 7B-K  
John J. McCormick, Jr., LP 3D-C

Richard W. Moore, ET 4C-K  
R. Windle Morgan, WT 4D-K  
S. Wayne Palmer, LP 4W-C  
Charles G. Pardee, WT 7B-K  
Ricardo G. Perez, MR 3A-C  
Gabriel A. Trotter, LP 4W-C  
Jacinda B. Woodward, MR 3H-C  
TVA Board of Directors  
OIG File No. 2014-15031



Office of the Inspector General

---

## *Audit Report*

To the Vice President,  
Supply Chain and  
Facilities

# ADEQUACY OF THE INVOICE APPROVAL PROCESS

---

Audit Team  
Kristi U. Reynolds  
Zachary T. Thomas

Audit 2014-15031  
June 23, 2015

**ABBREVIATIONS**

CO	Contracting Officer
CTS	Contract Technical Steward
EAM	Enterprise Asset Management
FIA	Field Invoice Approver
FY	Fiscal Year
OIG	Office of the Inspector General
PO	Purchase Order
SC&F	Supply Chain and Facilities
SPP	Standard Programs and Processes
TVA	Tennessee Valley Authority

## **TABLE OF CONTENTS**

EXECUTIVE SUMMARY .....	i
BACKGROUND.....	1
OBJECTIVES, SCOPE, AND METHODOLOGY .....	2
FINDINGS .....	4
INADEQUATE INVOICE REVIEWS.....	4
Potential Causes of Inadequate Invoice Reviews.....	6
RECOMMENDATIONS .....	10

## **APPENDIX**

MEMORANDUM DATED JUNE 18, 2015, FROM BRUCE S. SCHOFIELD TO DAVID P. WHEELER



## Audit 2014-15031 – Adequacy of the Invoice Approval Process

### EXECUTIVE SUMMARY

The Tennessee Valley Authority's (TVA) Standard Programs and Processes (SPP)-04.004, Invoice Review and Approval, was issued effective September 16, 2011, to provide guidelines for the ongoing effective review and approval of supplier invoices. The procedure describes the activities involved in ensuring complete, accurate, and timely approval of invoices for signature, or nonreceiving, contracts and purchase orders (PO) regulated by TVA-SPP-04.0, Management of the TVA Supply Chain Process.

As part of our annual audit plan, we initiated an audit of the adequacy of the invoice approval process. Our objectives were to (1) assess TVA's policies and procedures related to the review and approval of invoices, (2) determine compliance with applicable policies and procedures, and (3) determine if TVA's invoice approvers have adequate information (including clear contractual compensation provisions and sufficient invoice detail) to effectively perform their role. The scope of our audit included Supply Chain nonreceiving contracts/POs with fiscal year 2013 payments totaling \$3,363,603,152.

In summary, we found policies and procedures were not being followed to ensure effective review and approval of supplier invoices. Specifically, our review of 143 invoices, totaling \$184,339,674, found inadequate reviews were performed on 104 invoices (i.e., 73 percent). Based on our review, we determined several potential underlying causes for why effective invoice reviews were not performed, including:

- Contracts contained unclear and/or conflicting compensation provisions.
- Some contracts do not provide specific requirements regarding invoice detail and for those contracts that do, the requirements are not being followed or enforced.
- Not all relevant contract/PO documents are attached or available in TVA's Enterprise Asset Management (EAM) system.
- The required FIA training does not include details on how to access and approve invoices in TVA's EAM system.
- Clear and frequent communication does not always exist between the field invoice approver (FIA) and contracting officer (CO).
- An approval stamp being used at a nuclear plant implied the Office of the Inspector General reviews the invoices.
- The current invoice review process is a manual process within an automated system.



## Audit 2014-15031 – Adequacy of the Invoice Approval Process

### EXECUTIVE SUMMARY

We recommend TVA management:

- Develop a contract quality assurance program to ensure clear, concise, and easy to follow compensation terms.
- Ensure the FIAs and contract technical stewards (with a legitimate business need) have the most up-to-date terms and conditions of a contract by developing an approach to provide access to contract documents.
- Require training for accessing and approving invoices in TVA's EAM system.
- Revise policies to require the CO to confirm FIAs understand their responsibilities in approving invoices for payment.
- Revise policies to clarify CO responsibility for monitoring the invoice approval process and verifying the contractor's invoices contain adequate detail in a format that facilitates the review.

In addition, we recommend TVA management utilize the technology available to expedite and improve the invoice review process by implementing automated steps in the invoice review process where possible, including:

- Requiring electronic data from vendors that allows for 100 percent review.
- Setting parameters to identify exceptions.
- Following up on items identified as exceptions before making payment on those items.
- Establishing automatic notifications be sent to FIAs, contract managers, and others regarding exceptions to ensure the exceptions are reviewed.
- Establishing automated analytical reviews as necessary.

In response to our draft audit report, TVA management generally concurred with our findings and stated they would take action to address our recommendations. However, TVA's Vice President, Supply Chain and Facilities (SC&F), stated the accountability and responsibility for understanding the FIA role and associated contract details resides with the business unit individual named as the FIA. See the Appendix for SC&F's complete response.

We agree with TVA management's planned actions. In addition, while we agree with SC&F's statements regarding the responsibilities and accountabilities of the FIAs and business units, the FIAs and business units are not intended to be pricing and contract management experts. Therefore, it should be the CO's responsibility to confirm the FIAs understand the contract's pricing terms to ensure adequate invoice reviews.

## **BACKGROUND**

The Tennessee Valley Authority's (TVA) Standard Programs and Processes (SPP)-04.004, Invoice Review and Approval, was issued effective September 16, 2011, to provide guidelines for the ongoing effective review and approval of supplier invoices. The procedure describes the activities involved in ensuring complete, accurate, and timely approval of invoices for signature, or nonreceiving,<sup>1</sup> contracts regulated by TVA-SPP-04.0, Management of the TVA Supply Chain Process. The review of invoices includes verification that all products and services were received, are allowable under the contract, and were billed according to contract terms.

TVA-SPP-04.004 defines the roles and responsibilities of the contracting officer (CO), contract technical steward (CTS), and field invoice approver (FIA) as shown in Table 1.

<b>Roles and Responsibilities in the Invoice Approval Process</b>	
<b>Role</b>	<b>Responsibilities</b>
<b>CO<sup>1</sup></b>	Responsible for (1) defining commercial terms including developing clear pricing structures and ensuring invoice requirements are incorporated into their contracts/purchase orders (PO), (2) conducting contract pricing and invoice reviews, and (3) managing all commercial contractual matters.
<b>CTS</b>	Ultimate responsibility for establishing TVA's requirements and the oversight of the technical performance of the contractor. Coordinates, as needed, with the FIA on the review and approval of invoices. Works closely with the CO throughout the life of the contract.
<b>FIA</b>	Responsible for (1) successfully completing TVA's FIA training and participating in refresher training; (2) receiving invoices for approval through TVA's Enterprise Asset Management (EAM) system; (3) coordinating with the CO to understand the pricing structure of the contract; (4) verifying the amounts are within the PO limits by reviewing contract documentation and reviewing the record in the EAM; (5) reviewing all commercial details of the invoice for compliance with the contract terms; (6) verifying accuracy of any calculations in the invoice; (7) verifying with the CTS and other personnel, as appropriate, to confirm validation of deliverables; and (8) approving or disapproving the invoice after review and validation has been completed.
<sup>1</sup> CO refers to TVA's Supply Chain personnel responsible for establishing and maintaining contracts with suppliers including contract managers and procurement agents.	

**Table 1**

The invoice review and approval process includes the receipt and entry of invoices into TVA's EAM system. Vendors send invoices to TVA's Accounts Payable, which enters the invoices into EAM and attaches a copy of the invoice to the TVA Invoice Review application. An electronic notification is routed to the FIA identified on the PO for review and approval. The FIA may return the invoice

<sup>1</sup> A nonreceiving contract is a contract or PO where the invoices are electronically scanned into Maximo and routed to the FIA for review and approval.

to Accounts Payable; however, if correction is needed, a detailed explanation must be included.

During fiscal year (FY) 2013, TVA made payments totaling \$3,363,603,152 for nonreceiving contracts and stand-alone POs managed by TVA's Supply Chain. The \$3.36 billion included payments of \$3.18 billion on 1,717 contracts and \$183 million on 5,535 stand-alone POs.

This audit was initiated as part of our annual audit plan. During FYs 2012 and 2013, the Office of the Inspector General (OIG) Contract Audits department identified approximately \$13.3 million in questioned costs in our contract compliance audits. Most of the costs could have been identified if a proper invoice review had been performed.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

Our objectives were to (1) assess TVA's policies and procedures related to the review and approval of invoices, (2) determine compliance with applicable policies and procedures, and (3) determine if TVA's invoice approvers have adequate information (including clear contractual compensation provisions and sufficient invoice detail) to effectively perform their role. To achieve our objectives, we:

- Obtained and reviewed TVA policies and procedures related to the review and approval of invoices. Specifically, we reviewed (1) TVA-SPP-04.0, Management of the TVA Supply Chain Process; (2) TVA-SPP-04.004, Invoice Review and Approval; (3) TVA-SPP-04.002, Procurement of Products and Services; and (3) TVA-SPP-13.9, Accounts Payable Process.
- Obtained and reviewed the training materials for the online FIA training.
- Obtained a list of 7,252 Supply Chain nonreceiving contracts/POs with payments in FY2013 totaling \$3,363,603,152. The contracts were managed by 249 COs and included invoices approved by 1,396 FIAs.
- Selected a judgmental sample of contracts and stand-alone POs shown in Table 2 on the following page. Since we did not use statistical sampling, the results of the samples cannot be projected to the population.



Sampled Supply Chain Nonreceiving Contracts/POs					
Description	Population		Type	Sample	
	No. of Items	FY2013 Payments		No. of Items	FY2013 Payments
Contracts > \$1 million	272	\$2,963,825,479	Random	15	\$ 214,464,420
			Judgmental	8	301,371,990
Contracts < \$1 million	<u>1,445</u>	<u>216,749,909</u>	Random	5	1,266,526
			Judgmental	<u>3</u>	<u>1,442,752</u>
Total Contracts	1,717	3,180,575,388		31	518,545,688
POs > \$2 million	2	4,936,168	Judgmental	2	4,936,168
POs \$1m - \$2m	19	25,543,753	Judgmental	5	7,422,253
POs \$100K - \$1m	334	87,391,119	Random	5	870,434
POs \$25K - \$100K	693	35,122,694	Random	3	121,973
POs < \$25K	<u>4,487</u>	<u>30,034,030</u>	N/A	<u>0</u>	<u>0</u>
Total Stand-Alone POs	<u>5,535</u>	<u>183,027,764</u>		<u>15</u>	<u>13,350,828</u>
<b>Total</b>	<b>7,252</b>	<b>\$3,363,603,152</b>		<b>46</b>	<b>\$ 531,896,516</b>

Table 2

For the random selections, we used a random number generator to select the contracts and stand-alone POs. We made our judgmental selections based on our knowledge of specific contracts and suggestions from TVA's Supply Chain.

- Selected a judgmental sample of one to four invoices for each of the sampled contracts and stand-alone POs as shown in Table 3. Our sample included 143 invoices totaling \$184,339,674. For each contract/PO in our sample, we judgmentally selected the FIA(s) and the highest dollar invoices that each of the FIAs approved. Since we did not use statistical sampling, the results of the samples cannot be projected to the population.

Summary of Sampled Invoices				
Description	Sample of Contracts/POs		Sample of Invoices	
	FY2013 Payments	No. of Contracts/POs	No. of Items	Amount
Contracts > \$1 million	\$214,464,420	15	49	\$ 94,022,281
	301,371,990	8	32	79,063,479
Contracts < \$1 million	1,266,526	5	15	1,128,203
	<u>1,442,752</u>	<u>3</u>	<u>11</u>	<u>339,702</u>
Total Contracts	518,545,688	31	107	174,553,665
POs > \$2 million	4,936,168	2	5	2,713,289
POs \$1m - \$2m	7,422,253	5	16	6,118,080
POs \$100K - \$1m	870,434	5	12	832,667
POs \$25K - \$100K	121,973	<u>3</u>	<u>3</u>	<u>121,973</u>
Total Stand-Alone POs	<u>13,350,828</u>	<u>15</u>	<u>36</u>	<u>9,786,009</u>
<b>Total</b>	<b>\$ 531,896,516</b>	<b>46</b>	<b>143</b>	<b>\$184,339,674</b>

Table 3

- Identified 47 FIAs and 48 COs associated with the 46 contracts and stand-alone POs.
  - We interviewed 37 of the 47 FIAs identified to determine if they had adequate information to effectively perform their role. Of the 10 FIAs not

interviewed, 6 are no longer employed at TVA, 2 were deemed unnecessary,<sup>2</sup> and we were unable to schedule interviews with the remaining 2.

- We interviewed 25 of the 48 COs identified to obtain understanding of contract terms and conditions. Of the 23 COs not interviewed, 16 are no longer the current CO, 6 are no longer employed at TVA, and 1 is no longer in Supply Chain.
- Reviewed the selected invoices to determine (1) if the invoices complied with contract terms, (2) the availability of the contract/PO terms, (3) if the compensation provisions were clear and concise, and (4) if the invoices included sufficient detail.
- Reviewed audits issued by OIG Contract Audits in FYs 2012 and 2013 where issues identified were a result of an inadequate invoice review.
- Obtained and reviewed a listing of internal controls included in the “Manage Contracting” process. We identified control number CT-100665 titled TCM Invoice Approval. The control activity states before payment is made, each payable will have related invoice information. This control activity is listed as a nonkey control and, therefore, no testing was performed.

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

## **FINDINGS**

In summary, we found policies and procedures were not being followed to ensure effective review and approval of supplier invoices. Specifically, our review of 143 invoices, totaling \$184,339,674, found inadequate reviews were performed on 104 invoices (i.e., 73 percent). We identified several potential underlying causes for why effective invoice reviews were not being performed. The following provides a detailed discussion of our findings.

### **INADEQUATE INVOICE REVIEWS**

TVA-SPP-04.004 requires the FIA to review **all** commercial details and verify accuracy of **any** calculations used in the invoice. Specifically, the policy provides FIAs are responsible for reviewing the PO amount, pricing structure, rates, shipping charges, per diem rates, and appropriate vehicle use. We selected 143 invoices from 31 contracts and 15 stand-alone POs to determine compliance

---

<sup>2</sup> One contract reviewed had three different FIAs—we interviewed two and deemed an interview of the other FIA unnecessary. We noted two invoices selected for one contract were associated with a different contract and deemed interviewing the FIA unnecessary.

with applicable policies and procedures. As shown in Table 4, we found only 22 percent of the invoices were adequately reviewed.

Summary of Invoice Reviews			
Invoice Review	Count	Percentage	Amount
Adequate	32	22%	\$ 86,452,974
Inadequate	104	73%	96,219,963
Not determined <sup>1</sup>	7	5%	1,666,737
<b>Total</b>	<b>143</b>	<b>100%</b>	<b>\$184,339,674</b>

<sup>1</sup> Due to our lack of access to specific supporting documentation, we could not determine the adequacy of the invoice reviews for seven invoices.

**Table 4**

We determined the inadequate invoice reviews performed on 104 of the 143 invoices included one or more of the following deficiencies:

- Insufficient contract and/or invoice detail to allow for an adequate review – TVA’s FIAs did not have sufficient information to effectively review invoices. We found 76 of the 143 invoices did not include sufficient contract and/or invoice detail to allow for an adequate invoice review. For example, invoices we reviewed included a total billed amount for “Labor” and a total billed amount for “Material” but did not include details or a breakdown of these costs.
- Costs not provided for in the contract – We found 36 instances where invoices included items not provided for in the contract/PO but were approved for payment by TVA. For example, we found invoices from one vendor included a 15-percent markup on materials, travel costs, and shipping. However, the contract did not provide for a markup on these costs.<sup>3</sup>
- Incorrect rates – We found 29 invoices that included costs for which the billed rates exceeded the contract rates. For example, on 3 invoices we found labor rates for an individual were paid at \$135 per hour instead of the contract rate of \$105 per hour.
- Subcontract invoices billed directly to and paid by TVA – We found four invoices for one stand-alone PO were paid by TVA for costs associated with a subcontract between a TVA prime contractor and one of its subcontractors. Under some contracts, TVA allows contract employees to create material POs in TVA’s EAM system. However, an employee of one of the companies with this provision was able to create a stand-alone service PO for subcontract work. The stand-alone service PO referenced an agreement between the TVA vendor and its subcontractor. Although the invoices were addressed to the TVA prime contractor, the invoices were submitted to TVA Accounts Payable with the PO information, entered into TVA’s EAM system

<sup>3</sup> We also noted in a separate audit of a TVA contractor (issued in April 2015), TVA was billed and paid \$5,582,938 million for rates not included in the contract’s rate schedule in 2012 and 2013.

under the PO, approved by the assigned FIA who was a TVA employee, and subsequently paid by TVA.<sup>4</sup>

- Incorrect calculation – Three invoices included incorrectly calculated escalation. The escalation rate was to only be applied to 50 percent of the monthly base rate; however, the escalation rate was applied to the entire monthly base rate, billed to TVA, approved for payment by the FIA, and paid by TVA.

### **Potential Causes of Inadequate Invoice Reviews**

We identified several potential underlying causes for inadequate invoice reviews, including:

- Contracts contained unclear and/or conflicting compensation provisions.
- Some contracts do not provide specific requirements regarding invoice detail and for those contracts that do, the requirements are not being followed or enforced.
- Not all relevant contract/PO documents are attached or available in TVA's EAM system.
- The required FIA training does not include details on how to access and approve invoices in TVA's EAM system.
- Clear and frequent communication does not always exist between the FIA and CO.
- An approval stamp being used at a nuclear plant implied the OIG reviews the invoices.
- The current invoice review process is a manual process within an automated system.

Each of the potential underlying causes is discussed in detail below.

#### Unclear/Conflicting Compensation Provisions

Without clear, concise, and easy to follow compensation terms, an FIA cannot effectively perform their role. TVA-SPP-04.004 requires COs to define commercial terms by providing clear and specific pricing structure and details. However, we found 14 of the 46 sampled contracts/POs had unclear and/or conflicting compensation provisions. For example, we found:

- Two contracts we reviewed contained clauses specifying mileage reimbursement would be at TVA's personal vehicle reimbursement rate. However, both contracts also included a schedule of prices that contained higher mileage reimbursement rates.

---

<sup>4</sup> We have not determined if the prime contractor also billed the subcontractor's costs to TVA. The prime contractor's billings to TVA will be reviewed separately.

- Four of the 15 stand-alone POs we reviewed should have been referenced to a contract.<sup>5</sup> Accordingly, these should not have been stand-alone POs. By not relating the POs to the contract, these POs may not incorporate all of the terms and conditions of the contract.
- Three of the 15 stand-alone POs incorrectly referenced the terms and conditions of contracts with unrelated scopes of work and pricing terms.

### Contract Invoice Requirements

We found some contracts did not provide specific invoice detail requirements, and for contracts that did provide specific invoice requirements, the requirements were not being followed or enforced. Without specific invoice requirements defined in the contract, the risk that the associated invoices will not include sufficient detail to allow for an adequate invoice review increases.

For example, invoices associated with one contract that did not define specific invoice requirements included only a description of the work completed. The invoices did not include any details such as name, title, rate, or hours worked to allow the FIA to compare the invoice to the contract terms and conditions.

Some invoices were associated with contracts that did include specific invoice requirements that were not being met. For example, one contract required the vendor to submit detailed supporting cost data on a monthly basis to include a (1) breakdown of all billable hours by labor category, task, and date; (2) detailed listing of all billed expenses for materials, equipment, supplies, and subcontract costs; (3) breakdown of invoiced travel, living, and relocation costs; and (4) breakdown of invoiced “other direct costs” including computer costs, fees, and permits. However, the invoices did not include all of the required cost data to enable the invoice reviewer to determine compliance with the contract rates.

### Contract Availability

FIA's need access to the most up-to-date contract terms in order to perform an effective invoice review. TVA-SPP-04.002 requires the CO to ensure all relevant contract/PO documents are attached to the contract/PO using the EAM attachment function. However, of the 46 sampled contracts/POs, we were only able to access all relevant contract/PO documents for 9 and partial contract information for 36. One of the sampled contracts was not accessible from EAM. Even though we could not obtain all contract documents from EAM, we were able to obtain the majority of the contract documentation from the respective CO.

During our interviews with the FIAs, the majority of the FIAs stated they had the contract documentation. However, it is unclear if the FIAs were using the most up-to-date contract documentation for invoice review. Of the 37 FIAs and 25 COs

---

<sup>5</sup> EAM's design has three unique contract levels—master contract, contract, and PO. The master contract is the highest level and can have one or more child contracts. The middle level is contract, which may be associated with a master contract. The lowest level is PO, which can be a stand-alone PO or associated with a contract. Multiple POs can be issued against a contract.

interviewed, 6 FIAs and 1 CO expressed concerns about the availability of documentation.

### Training

TVA's Invoice Review and Approval policy requires that any individual performing the FIA function complete the designated TVA training to ensure effective and efficient performance. We reviewed the FIA training presentation which included (1) FIA roles and responsibilities, (2) contract pricing structures, (3) an overview of the contracting process, and (4) an overview of the invoice review process. However, we noted the FIA training did not include specific details on how to access the invoice, PO, or contract information in TVA's EAM system. The FIA training references the EAM Invoice Approval training but does not require the FIAs to complete the training.

### FIA/CO Communication

Clear and frequent communication does not always exist between the FIA and CO to ensure FIAs clearly understand their responsibilities and the pricing structure of the contract. TVA's Invoice Review and Approval policy requires the CO to confirm FIAs understand their responsibility in approving invoices for payment for long-term contracts during the first 6 months. During our interviews:

- One CO expressed concern about the FIAs not understanding their job responsibilities.
- One FIA informed us knowing the terms and conditions of the contract is the CO's area of expertise, not the FIA.
- One FIA expressed concern regarding if FIAs three or four PO levels removed from the original blanket contract had enough knowledge of the pricing terms and conditions to effectively perform their role. For example, with a blanket alliance agreement there would be a master blanket contract and then each nuclear/fossil site and corporate would have a separate contract. There would be POs issued under the respective nuclear/fossil site contracts. The concern was the FIA for the PO may not be aware or understand the terms and conditions of the master blanket contract.

We also found TVA's Invoice Review and Approval policy does not provide guidance regarding how to coordinate transitions to a new CO and/or FIA. The transition to a new FIA can directly impact the timeliness of vendor payments. One CO informed us personnel changes are not being communicated. This results in Accounts Payable contacting the CO to determine who to send the invoice to since the listed FIA is no longer valid.

### Approval Stamp

We found four invoices under the same contract that included an approval stamp with the following statement, “Contractual conditions and mathematical accuracy of invoice not verified pending IG’s review of contractor certified invoices.” This stamp, shown in Figure 1, implied the OIG reviews all invoices and the invoices are not verified by TVA personnel.

Pay to PO Line No	<u>1</u>
Pay to POET	
Charges for services are considered reasonable based on actual work performed and progress achieved during this period. Contractual conditions and mathematical accuracy of invoice not verified pending IG's review of contractor certified invoices.	
APPROVED	<u>[Signature]</u> DATE <u>1-23-13</u>

Figure 1

However, the FIA stated the stamp was not intended to mean they did not review the invoice and the intention was to state the OIG may look at the invoice.

### Manual Review Process

The current invoice review process is a manual process within an automated system. We found spreadsheets and other supporting documentation were being converted to a PDF format to maintain the integrity of the submitted invoice and supporting documentation. As a result, FIAs have to manually compare the supporting documentation provided in PDF format to the invoiced costs. This results in increased risk for human error and time consuming invoice reviews.

For example, one invoice reviewed included 173 pages of supporting documentation. This invoice was reviewed by a TVA construction manager, who said he typically spent about one week per month reviewing invoices. Even though the FIA reviewed the invoice and supporting documentation, we found (1) items were incorrectly billed, and (2) adequate supporting documentation was not provided with the invoice.

Other FIAs informed us they do not have the time to manually review all commercial details. These time constraints result in spot checks and TVA has no policy or training that defines when spot checks are acceptable or the methodology of how to perform spot checks. One FIA informed us he does a “sanity check” of the invoices and as long as the cost distribution is hitting his project, he will approve the invoice.

## **RECOMMENDATIONS**

We recommend TVA management:

- Develop a contract quality assurance program to ensure clear, concise, and easy to follow compensation terms.
- Ensure the FIAs and CTSs (with a legitimate business need) have the most up-to-date terms and conditions of a contract by developing an approach to provide access to contract documents.
- Require training for accessing and approving invoices in TVA's EAM system.
- Revise policies to require the CO to confirm FIAs understand their responsibilities in approving invoices for payment.
- Revise policies to clarify CO responsibility for monitoring the invoice approval process and verifying the contractor's invoices contain adequate detail in a format that facilitates the review.

In addition, we recommend TVA management utilize the technology available to expedite and improve the invoice review process by implementing automated steps in the invoice review process where possible, including:

- Requiring electronic data from vendors that allows for 100 percent review.
- Setting parameters to identify exceptions.
- Following up on items identified as exceptions before making payment on those items.
- Establishing automatic notifications be sent to FIAs, COs, and others regarding exceptions to ensure the exceptions are reviewed.
- Establishing automated analytical reviews as necessary.

**TVA Management's Comments** – In response to our draft audit report, TVA management generally concurred with our findings and stated they would take action to address our recommendations. However, TVA's Vice President, Supply Chain and Facilities (SC&F), stated the accountability and responsibility for understanding the FIA role and associated contract details resides with the business unit individual named as the FIA. Furthermore, SC&F requested the OIG consider including additional language and focus in the report around the accountability and ownership with the business units whose FIAs are approving the payments based on improper invoice reviews.

TVA management stated in an effort to fully address the various underlying causes for why effective invoice reviews were not consistently performed, SC&F plans to (1) partner with TVA Financial Services to provide more clarity around the accountabilities and responsibilities of the role and (2) evaluate the process



to identify key gaps for improvement (through processes, tools, and technology). See the Appendix for SC&F's complete response.

**Auditor's Response** – We agree with TVA management's planned actions. In addition, while we agree with SC&F's statements regarding the responsibilities and accountabilities of the FIAs and business units, the FIAs and business units are not intended to be pricing and contract management experts. Therefore, it should be the CO's responsibility to confirm the FIAs understand the contract's pricing terms to ensure adequate invoice reviews. This confirmation should occur throughout the life of the contract and not be limited to the first 6 months as currently required in the SPP.

June 18, 2015

David P. Wheeler, ET 3C-K

RESPONSE TO REQUEST FOR COMMENTS – DRAFT AUDIT 2014-15031 –  
ADEQUACY OF THE INVOICE APPROVAL PROCESS

Reference: Memorandum from you to me dated May 19, 2015

This memorandum is in response to the subject request for comments regarding the Office of the Inspector General's (OIG's) draft Audit Report 2014-15031. OIG makes several recommendations to which we provide the following comments:

**DEVELOP A CONTRACT QUALITY ASSURANCE (QA) PROGRAM TO ENSURE CLEAR, CONCISE AND EASY TO FOLLOW COMPENSATION TERMS**

Supply Chain & Facilities (SC&F) concurs with the recommendation and will begin developing a contract quality assurance program in the coming months.

**ENSURE THE FIELD INVOICE APPROVERS (FIA) AND CONTRACT TECHNICAL STEWARDS (CTS) HAVE THE MOST UP-TO-DATE TERMS AND CONDITIONS OF A CONTRACT BY DEVELOPING AN APPROACH TO PROVIDE ACCESS TO CONTRACT DOCUMENTS**

SC&F concurs with the recommendation. Over the past several years, contracting officers have been provided guidance and training on the proper method for storing documents in electronic format through Maximo (and associated interface to the records system). In response to this audit finding, SC&F will coordinate the necessary training/communication to applicable personnel and ensure that storage expectations are documented.

**REQUIRE TRAINING FOR ACCESSING AND APPROVING INVOICES IN TVA'S EAM SYSTEM**

SC&F concurs with the recommendation and will review and revise the Field Invoice Approver (FIA) training accordingly.

**REVISE POLICIES TO REQUIRE THE CONTRACTING OFFICER TO CONFIRM FIAs UNDERSTAND THEIR RESPONSIBILITIES IN APPROVING INVOICES FOR PAYMENT**

While SC&F does agree to review and enhance the governing SPP and FIA training module where necessary, the accountability and responsibility for understanding the FIA role and associated contract details resides with the business unit individual named as the FIA. TVA-SPP-04.004 Section 3.1.4 B3 (Roles and Responsibilities of the FIA) clearly identifies these responsibilities and highlights that "this understanding is necessary for proper validation of an invoice." Field Invoice Approvers and Contract Technical Stewards are a critical part of the process and should be held responsible for communicating identified gaps and process opportunities to contracting officers for resolution.

SC&F requests OIG to consider including some additional language and focus in the final audit report around the accountability and ownership with the Business Units whose FIAs are approving the payments based on improper invoice reviews.

David P. Wheeler  
Page 2  
June 18, 2015

SC&F will also partner with the TVA Financial Services organization to ensure invoice approval oversight and guidance is housed in the proper organization and that expert guidance is utilized when providing direction regarding the invoice review process.

**REVISE POLICIES TO CLARIFY CONTRACTING OFFICER RESPONSIBILITY FOR MONITORING THE INVOICE APPROVAL PROCESS AND VERIFYING THE CONTRACTOR'S INVOICES CONTAIN ADEQUATE DETAIL IN A FORMAT THAT FACILITATES THE REVIEW**  
SC&F concurs with the recommendation. SC&F plans to review the governing SPP and FIA training modules and update accordingly to include more specific language and instruction as needed. Additionally, Supply Chain will consider modifying the FIA SPP to more fully involve other TVA organizations such as the Business Units and Accounts Payable. SC&F will also begin to identify opportunities to standardize invoice formats where feasible.

**UTILIZE THE TECHNOLOGY AVAILABLE TO EXPEDITE AND IMPROVE THE INVOICE REVIEW PROCESS BY IMPLEMENTING AUTOMATED STEPS IN THE INVOICE REVIEW PROCESS WHERE POSSIBLE**

SC&F concurs with the recommendation and will begin looking at various technology options that could improve the facilitation of the invoice approval process.

In an effort to fully address the various underlying causes for why effective invoice reviews were not consistently performed, Supply Chain & Facilities plans to 1) partner with Financial Services to provide more clarity around the accountabilities and responsibilities of the role and 2) evaluate the process to identify key gaps for improvement (through processes, tools and technology). Due to the scope and magnitude of effort required for several of these recommendations, SC&F anticipates this project could span over multiple years (depending on results from technology investigation, funding required for implementation, etc.). SC&F requests one year (365 days) from receipt of final report to provide OIG with a business plan for addressing these identified deficiencies.

You may direct questions and future correspondence on this matter to G. Allan Trotter.

  
Bruce S. Schofield  
Vice President Supply Chain and Facilities  
BR 4A-C

GAT:YEC:MSF:CLW  
cc: M. S. Fugate, WT 3A-K  
J. E. Holztrager, WT 3C-K  
D. K. Lanier, MR 3K-C  
R. W. Morgan, WT 9B-K  
R. G. Perez, MR 3A-C  
S. W. Palmer, LP 4W-C  
C. G. Pardee, WT 7B-K  
G. A. Trotter, LP 4W-C  
EDMS, WT CA-K