



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

August 23, 2021

Laura J. Campbell  
Diane T. Wear

**REQUEST FOR MANAGEMENT DECISION – AUDIT 2021-15785 – CONTRACTOR USE OF PURCHASING CARDS**

As part of our annual audit plan, we performed an audit of contractor use of the Tennessee Valley Authority's (TVA) purchasing cards. Our audit objective was to determine if adequate controls are in place to ensure purchases made by TVA contractors using a TVA purchasing card are (1) for TVA business purposes and not the use of another entity and (2) not being billed back to TVA. The scope of our audit was approximately \$4.88 million in cardholder transactions during fiscal year (FY) 2020.

In summary, we found controls were generally adequate to ensure purchases made by TVA contractors using a TVA purchasing card were for TVA business purposes and not the use of another entity. However, we also determined:

- TVA does not have controls in place to ensure purchases made by contractor employees assigned a TVA purchasing card are not being billed back to TVA on invoices from the contractor.
- Required language to govern contractor's usage and liability for purchasing cards issued to TVA contractors is not included in contracts.
- Over 50 percent of the transactions we tested were not reconciled by the cardholder in a timely manner, resulting in untimely approval by the approving official.

We recommend the Vice President (VP), Supply Chain:

1. Implement a review process to compare contractor TVA purchasing card charges to invoices submitted by the contracting company, or stop allowing contractor personnel to use TVA purchasing cards.
2. Develop contract language to govern contractor's usage and liability for purchasing cards issued to TVA contractors and add to existing contracts as applicable.

We recommend the VP and Controller, Financial Services:

3. Reinforce the policy for reconciliation of the purchasing card statement to contractor employees assigned TVA purchasing cards.

TVA management agreed with Recommendation Nos. 2 and 3 and provided actions they plan to take to address those recommendations and stated they would evaluate Recommendation No. 1. See the Appendix for TVA management's complete response.

**BACKGROUND**

The TVA purchasing card is a small-dollar purchase mechanism or alternative procurement method co-managed by two organizations—Supply Chain and Financial Services. Each organization has issued a Standard Program and Process (SPP) that addresses their areas of responsibility and the requirements for obtaining and using a purchasing card:

- Financial Services’ TVA-SPP-13.043, *TVA Purchasing Card Usage*, addresses accounting and card administration functions and processes.
- Supply Chain’s TVA-SPP-04.003, *TVA VISA Purchasing Card Procedure*, addresses allowed and disallowed purchases.

TVA-SPP-13.043 specifies purchasing cards can be issued to an active employee or contractor. TVA-SPP-04.003 states one of the oversight roles of Supply Chain Sourcing Personnel is “including contract language to govern contractor’s usage and liability for purchasing cards issued to TVA contractors.”

We obtained data for charges made on TVA purchasing cards assigned to contractor personnel from TVA’s Integrated Credit Card Solution (ICCS) system. The charges totaled approximately \$4.88 million in FY 2020. The table below shows the company employing the cardholder and that company’s portion of the FY 2020 total:

<b>Contractor Company</b>	<b>Amount Spent</b>	<b>Percentage of Total</b>
GUBMK Constructors	\$2,204,261	45.18%
The L E Myers Co	917,620	18.81%
Retiree Resources Corp	345,671	7.08%
Johnson Service Group	213,058	4.37%
Day & Zimmermann NPS Inc.	206,786	4.24%
Henkels & McCoy Inc.	168,152	3.45%
Asplundh Construction Corp	165,626	3.39%
RSI Entech LLC	164,705	3.38%
Johnson Contractors Inc.	144,615	2.96%
SBC Instrument & Control Inc.	128,059	2.62%
Miller Electrical Contractors	78,962	1.62%
Service Electric Company	56,980	1.17%
Bakers Construction Services	52,511	1.08%
Garnet Electric Co. Inc.	18,682	0.38%
Crane Nuclear	4,745	0.10%
Allied Electrical Contractors	4,478	0.09%
David Merwin Jonas	3,918	0.08%
<b>Totals</b>	<b>\$4,878,829</b>	<b>100.00%</b>

**Table 1**

A Merchant Category Code (MCC) is a four-digit number that classifies a merchant's primary business based on the type of goods and/or services sold. As shown in Table 2 below, charges to six MCCs accounted for more than 50 percent of the \$4,878,829 contractor purchases made in FY 2020.

MCC - Description	Amount Spent	Percentage of Total
5085 – Industrial Supplies (Not Elsewhere Classified)	\$590,884	12.11%
5200 – Home Supply Warehouse Stores	517,191	10.60%
5065 – Electrical Parts and Equipment	428,018	8.77%
7394 – Equipment Rentals	381,043	7.81%
5211 – Lumber and Building Materials Stores	331,825	6.80%
5039 – Construction Materials (Not Elsewhere Classified)	<u>226,075</u>	<u>4.63%</u>
<b>Totals</b>	<b>\$2,475,036</b>	<b>50.72%</b>

**Table 2**

We audited TVA's purchasing card usage in 2020,<sup>1</sup> and made 12 recommendations to TVA management to strengthen controls and help improve compliance with the purchasing card policies by (1) implementing additional procedures and monitoring activities and (2) clarifying and updating the policies and related training. We included this audit on our annual audit plan after noting a significant<sup>2</sup> amount of charges made using TVA purchasing cards assigned to contractors during our audit of TVA's purchasing card usage.

**OBJECTIVE, SCOPE, AND METHODOLOGY**

Our objective was to determine if adequate controls are in place to ensure purchases made by TVA contractors using a TVA purchasing card are (1) for TVA business purposes and not the use of another entity and (2) not being billed back to TVA. The scope of this audit was approximately \$4.88 million in purchasing card transactions made by cardholders who were in contractor status at the time of purchase during FY 2020. Our fieldwork was performed between February 2021 and June 2021. To meet our objective, we:

- Reviewed Financial Services' TVA-SPP-13.043, *TVA Purchasing Card Usage* and Supply Chain's TVA-SPP-04.000, *Management of the TVA Supply Chain Process*, TVA-SPP-04.003, *TVA VISA Purchasing Card Procedure*, and TVA-SPP-04.004, *Invoice Review and Approval*, to identify key requirements applicable to contractor TVA purchasing card usage.
- Inquired of TVA Supply Chain and Financial Services personnel to understand the controls in place over contractor use of the TVA purchasing card.

<sup>1</sup> Audit Report 2020-15964, *Purchasing Card Usage*, November 24, 2020. The scope of the audit was all purchasing card transactions made by TVA employees and contractors in FYs 2018 and 2019. The audit objective was to determine compliance with TVA's purchasing card policies and procedures.

<sup>2</sup> Contractor purchasing card transactions totaled 10.59 percent of the overall audit population of Audit 2020-15694. Because the amount was greater than 10 percent, we determined it was significant.

- Obtained contracts for 15 companies, which included the 12 companies represented in the sample detailed below, with employees assigned a TVA purchasing card and reviewed them for language associated with contractor TVA purchasing card usage. Cards assigned to employees of these 15 contractor companies spent over 99 percent of the total dollars spent in the audit population.
- Obtained an understanding of internal controls associated with contractor use of TVA purchasing cards. We identified the review and approval of contractor TVA purchasing card transactions by the approving official (manager) as the internal control that is significant to the audit objective. Our primary method for testing the operating effectiveness of this control was reviewing TVA purchasing card transactions for compliance with applicable policies and procedures.
- Obtained ICCS data for purchases made by contractors on the TVA purchasing card during FY 2020 and performed data analysis to assess the reliability of the data (13,983 charges totaling \$4,878,829).
- Selected a judgmental sample of all 16 TVA purchasing card charges exceeding \$5,000, totaling \$110,498, to perform a review of supporting documentation in ICCS to determine compliance with TVA policies. We chose to sample all transactions over \$5,000 because TVA-SPP-13.043 states, generally, the purchasing card will have a single transaction limit of \$5,000. Since this was a judgmental sample, the results of the sample cannot be projected to the population.
- Selected a statistical sample (using one-step acceptance with a critical error rate of 5 percent, a confidence level of 90 percent, and an expected error rate of 1 percent) of 77 TVA purchasing card charges, totaling \$28,540, to perform a review of supporting documentation in ICCS to determine compliance with TVA policies. Since this was a statistical sample, the results of the sample can be projected to the population.
- Obtained monthly TVA purchasing card statements and attached receipts from ICCS for the 93 sampled charges.
- Obtained contracts, invoices, and other information as applicable from TVA's accounts payable system (Maximo) for the 93 sampled charges.

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**

We found controls were generally adequate to ensure purchases made by TVA contractors using a TVA purchasing card were for TVA business purposes and not the use of another entity. However, we also determined:

- TVA does not have controls in place to ensure purchases made by contractor employees assigned a TVA purchasing card are not being billed back to TVA on invoices from the contractor.
- Required language to govern contractor's usage and liability for purchasing cards issued to TVA contractors is not included in contracts.
- Over 50 percent of the transactions we tested were not reconciled by the cardholder in a timely manner, resulting in untimely approval by the approving official.

### **CONTROLS WERE GENERALLY ADEQUATE TO ENSURE PURCHASES ARE FOR TVA BUSINESS PURPOSES AND NOT THE USE OF ANOTHER ENTITY**

TVA-SPP-13.043 and TVA-SPP-04.003 detail the overall TVA purchasing card program controls that apply to both TVA employees and contractors with purchasing cards. We tested a sample of 93 charges totaling \$139,038 made on TVA purchasing cards assigned to contractors. The testing consisted of obtaining the corresponding receipts, reviewing for information such as delivery at a TVA location and type of item purchased, and noting the approval by the assigned approving official. Our review of these charges noted that 89 charges totaling \$137,935 (99.2 percent of the total dollars spent in the sample) appeared to be for TVA business purposes. Based on our test results, controls were generally adequate to ensure purchases made by TVA contractors using a TVA purchasing card are for TVA business purposes and not the use of another entity.

Documentation obtained in support of 4 of the 93 sampled purchasing card charges, totaling \$1,103, did not provide sufficient detail to determine if the charges were for TVA business purposes or for the use of another entity. Of those 4 charges, 2 did not have corresponding receipts attached in ICCS and 2 had receipts attached that were not legible. The lack of adequate supporting documentation was previously addressed in Audit 2020-15694 *Purchasing Card Usage*. As a result, we are not making an additional recommendation in this report.

### **NO CONTROLS TO ENSURE PURCHASES ARE NOT BILLED BACK TO TVA**

We found TVA does not have controls in place to ensure purchases made by contractor employees assigned a TVA purchasing card are not being billed back to TVA. When a contractor invoices TVA for work performed under a purchase order, the field invoice approver reviews and approves the invoice by following procedures described in TVA-SPP-04.004, *Invoice Review and Approval*. The SPP states 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, but does not address the use of the TVA purchasing card by contractors.

With no comparison of TVA purchasing card charges by contractors to the materials and supplies charged on invoices from that contractor's employer, a TVA purchasing card charge could be billed back to TVA resulting in TVA paying for the same item twice. We determined, through review of documentation maintained in TVA's accounts payable system (Maximo), there was not sufficient information to perform such a comparison.

### **REQUIRED LANGUAGE NOT FOUND IN CONTRACTS**

TVA-SPP-04.003 states one of the oversight roles of Supply Chain sourcing personnel is "including contract language to govern contractor's usage and liability for purchasing cards issued to TVA contractors." We reviewed contracts for 15 companies whose contractor employees spent over 99 percent of the total dollars in our audit population and found only 1 contract with reference to a TVA credit card. That contract included the phrase, "all purchases via a TVA credit card or Purchase Order is not considered a direct purchase by Contractor," but did not include language required by TVA-SPP-04.003. Therefore, none of the 15 contracts reviewed included the required language to govern contractor's usage and liability for TVA purchasing cards issued to TVA contractors.

### **SOME CARDHOLDERS WERE NOT RECONCILING TIMELY**

We found 49 of the 93 sampled transactions (53 percent), totaling \$104,599, were not reconciled in a timely manner, resulting in the statement being approved after its associated payment due date by the approving official. One additional transaction was neither reconciled nor approved. According to TVA-SPP-13.043, cardholders must reconcile each expense, allocate and provide a comment on each line item, ensure documentation is attached, and certify the verification is complete and accurate. After this step is completed by the cardholder, the approving official can verify and approve the statement. The SPP also states, "The card administrator will suspend cards for 30 days when cardholders do not complete the purchasing card statement reconciliation in a timely manner. If [the] cardholder violates this more than twice, Disbursement Services reserves the authority to cancel an employee's card for noncompliance."

### **RECOMMENDATIONS**

We recommend the VP, Supply Chain:

1. Implement a review process to compare contractor TVA purchasing card charges to invoices submitted by the contracting company, or stop allowing contractor personnel to use TVA purchasing cards.

**TVA Management's Comments** – TVA management stated Supply Chain would evaluate implementing a review process to compare charges to invoices submitted by the contracting company. See the Appendix for TVA management's complete response.

2. Develop contract language to govern contractor's usage and liability for purchasing cards issued to TVA contractors and add to existing contracts as applicable.

**TVA Management's Comments** – TVA management agreed with the recommendation and stated Supply Chain will draft and incorporate language governing contractor use of TVA credit cards in future contracts. See the Appendix for TVA management's complete response.

We recommend the VP and Controller, Financial Services:

3. Reinforce the policy for reconciliation of the purchasing card statement to contractor employees assigned TVA purchasing cards.

**TVA Management's Comments** – TVA management agreed with the recommendation and stated Financial Shared Services will continue to communicate with all cardholders who have incomplete statements and suspend card privileges for noncompletion. See the Appendix for TVA management's complete response.

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This report is for your review and management decision. Please advise us of your management decision within 60 days from the date of this memorandum. If you have any questions, please contact Jennifer R. Bogus, Senior Auditor, at (865) 633-7372 or Rick C. Underwood, Director, Financial and Operational Audits, at (423) 785-4824. We appreciate the courtesy and cooperation received from your staff during the audit.



David P. Wheeler  
Assistant Inspector General  
(Audits and Evaluations)

JRB:KDS

cc: TVA Board of Directors  
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Buddy Eller  
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Heather S. Young  
OIG File No. 2021-15785

August 12, 2021

David P. Wheeler, WT 2C-K

RESPONSE TO REQUEST FOR COMMENTS - DRAFT AUDIT 2021-15785 - CONTRACTOR  
USE OF PURCHASING CARDS

Our response to your July 13, 2021, request for comments regarding the subject draft report is attached.

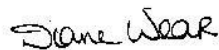
TVA takes very seriously its commitment to be good stewards of resources. As such, TVA appreciates the Office of Inspector General helping us identify areas where we can improve our processes, and procedures. We are committed to a culture of continuous improvement at TVA and this is another opportunity for us to improve.

In response to this audit, TVA's planned actions will be coordinated with Corporate Accounting and Resource Management & Operations Services/Supply Chain. We have concluded from our review of the recommendations that there are opportunities for improvement in the following areas:

- Contract language regarding TVA credit card use by contractors
- Reviewing contract expenses against credit card expenses

In response to previous audits, Corporate Accounting has taken action to enforce timely completion of all Purchasing Card statements and will continue remediation activities to ensure the continued improvement of the program.

We would like to thank Rick Underwood, Jennifer Bogus, and you for the professionalism and cooperation in conducting this audit. If you have any questions please contact Diane Wear at (865) 368-2297, or Laura Campbell at (423) 751-2129.



Diane Wear  
Vice President & Controller  
Corporate Accounting



Laura Campbell  
Vice President  
Supply Chain

DTW:STB:MCH  
Attachment  
cc: See page 2



David P. Wheeler  
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August 12, 2021

cc (Attachment):  
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OIG File No. 2021-15785

ATTACHMENT  
RESPONSE TO REQUEST FOR COMMENTS  
DRAFT AUDIT 2021-15785 CONTRACTOR USE OF PURCHASING CARDS  
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OIG RECOMMENDATION	TVA PLANNED ACTIONS	TVA COMMENTS
(1) TVA VP Supply Chain: Implement a review process to compare contractor TVA purchasing card charges to invoices submitted by the contracting company, or stop allowing contractor personnel to use TVA purchasing cards.	Supply Chain will evaluate implementing a review process to compare charges to invoices submitted by the contracting company.	TVA management will evaluate recommendation.
(2) TVA VP Supply Chain: Develop contract language to govern contractor's usage and liability for purchasing cards issued to TVA contractors and add to existing contracts as applicable.	Supply Chain will draft and incorporate language governing contractor use of TVA credit cards in future contracts.	TVA management agrees with this recommendation.
(3) TVA VP and Controller: Reinforce the policy for reconciliation of the purchasing card statement to contractor employees assigned to TVA purchasing cards.	Financial Shared Services will continue to communicate with all Purchasing cardholders who have incomplete statements and suspend card privileges for noncompletion.	TVA management agrees with this recommendation.