



Memorandum from the Office of the Inspector General

November 2, 2021

Melanie E. Farrell

REQUEST FOR FINAL ACTION – AUDIT 2021-15794 – CORPORATE CONTRIBUTIONS

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.

If you have any questions or wish to discuss our findings, please contact Stephanie L. Simmons, Senior Auditor, at (423) 785-4820 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)

SLS:FAJ

Attachment

cc (Attachment):

TVA Board of Directors
Rachel B. Crickmar
Buddy Eller
David B. Fountain
Althea R. Jones
Jeffrey J. Lyash
Jill M. Matthews
Jeannette Mills
Steven E. Moore
Spencer L. Sessions
OIG File No. 2021-15794



Office of the Inspector General

Audit Report

To the Vice
President, External
Strategy and
Regulatory Oversight

CORPORATE CONTRIBUTIONS

Audit Team
Stephanie L. Simmons
Ala H. Young

Audit 2021-15794
November 2, 2021

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 FARRELL TO DAVID P. WHEELER



Audit 2021-15794 – Corporate Contributions

EXECUTIVE SUMMARY

Why the OIG Did This Audit

We included an audit of Tennessee Valley Authority's (TVA) corporate contributions in our annual audit plan due to the potential reputational risk associated with contributions that do not comply with TVA policies and procedures. Our audit objective was to determine if corporate contributions were made in compliance with TVA's Standard Programs and Processes (SPP) 36.001, *Corporate Contributions* (Contributions Policy). Our audit scope included approximately \$3.1 million in contributionsⁱ and seven in-kind donationsⁱⁱ of surplus equipment and supplies made from October 1, 2019, through September 30, 2020.

What the OIG Found

Our audit found 41 contributions totaling \$296,582 made using miscellaneous vouchers rather than submitted through TVA's online request and approval system in violation of TVA's Contributions Policy. We also noted the Contributions Policy and TVA-SPP-13.092, *Miscellaneous Vouchers*, contradict one another. TVA-SPP-13.092, *Miscellaneous Vouchers* states miscellaneous vouchers may be used for payment of contributions while the Contributions Policy states all contributions made by TVA must be processed through the Community Relations office to confirm consistent adherence to the approval requirements and minimize overlapping of contributions, including sponsorships.

We also found control weaknesses including inadequate segregation of duties, inadequate controls for contribution approvals, and a lack of ongoing technical support for the contributions request and approval system. Additionally, in-kind donations are not managed and tracked as outlined in the Contributions Policy.

What the OIG Recommends

We made eight recommendations to TVA management to strengthen internal controls and help improve compliance with the Contributions Policy by (1) correcting the discrepancy between the Contributions Policy and TVA-SPP-13.092, *Miscellaneous Vouchers*; (2) reinforcing requirements and updating the Contributions Policy; and (3) updating the contributions request process and/or system.

ⁱ The total includes contributions and sponsorships processed through Community Relations. This does not include contributions and sponsorships processed through other means.

ⁱⁱ A total value for all in-kind donations was not available as not all documentation included estimated values.



Audit 2021-15794 – Corporate Contributions

EXECUTIVE SUMMARY

TVA Management's Comments

TVA management provided actions they plan to take to address each of our recommendations. See Appendix B for TVA management's complete response.

BACKGROUND

The stated purpose of the Tennessee Valley Authority (TVA) Standard Programs and Processes (SPP) 36.001, *Corporate Contributions* (Contributions Policy), is to describe the criteria, process, and approval roles for contributions and sponsorships requested by TVA organizations and provide a mechanism to ensure TVA has an accurate accounting of those expenditures. Between October 1, 2019, and September 30, 2020, TVA made approximately \$3.1 million in contributions¹ and seven in-kind donations² of surplus equipment and supplies.

The Contributions Policy requires all contributions made by TVA to be submitted by a TVA employee through TVA's online request and approval system and processed through the Community Relations office.³ Contribution requests are to be considered in the context of the larger picture of TVA's Community Relations strategy and in conjunction with local TVA offices and facilities, community support, customer partnerships, economic development efforts, and other external stakeholder outreach activities. Contributions are approved when activities are identified that meet the guidelines outlined in the Contributions Policy and funds are available. Among the guidelines described, contributions shall be targeted to 501(c)(3) or other organizations recognized by the Internal Revenue Service as nonprofit or public institutions (e.g., public schools).

Monetary contributions made by TVA are categorized as either a corporate or a field contribution. A corporate contribution is made from the Community Relations' budget whereas a field contribution is made from a TVA business unit's budget. The role of the Community Relations office is to ensure consistent adherence to the approval requirements and minimize overlapping of contributions, including sponsorships, for all contributions made by TVA. Table 1 on the following page shows the approval requirements for field and corporate contributions:

¹ The total includes contributions and sponsorships processed through Community Relations. This does not include contributions and sponsorships processed through other means.

² A total value for all in-kind donations was not available as not all documentation included estimated values.

³ Due to a reorganization in External Relations, Community Relations is in the process of transferring the responsibility for reviewing and approving contributions to Public and Community Engagement.

Approval Requirements		
Contribution Amount	Field Contributions	Corporate Contributions
Up to \$10,000	<ol style="list-style-type: none"> 1. Plant Manager or management level reporting to VP and 2. Community Relations Office 	Community Relations Office
Greater than \$10,000 and up to \$50,000	<ol style="list-style-type: none"> 1. Member of the Leadership Team (VP or above) and 2. Manager, Community Relations 	Manager, Community Relations
Over \$50,000	<ol style="list-style-type: none"> 1. Executive Management Council Representative and 2. Senior Vice President, Chief Communications & Marketing Officer 	Senior Vice President, Chief Communications & Marketing Officer

Table 1

Contribution requests are required by the Contributions Policy to be processed through Community Relations. Payments for approved contributions are processed through Accounts Payable and made by check or electronic funds transfer. The Contributions Policy states contributions will not be made by TVA purchasing card, corporate card, convenience check, direct payment through contract, or miscellaneous voucher.

In addition to monetary contributions, TVA may also make in-kind donations such as surplus equipment, supplies and computers that are processed through TVA's Investment Recovery or Technology and Innovation (previously Information Technology) groups. Investment Recovery is to provide the Community Relations office with a report at the end of the fiscal year (FY) regarding surplus items donated to communities.

Internal Control

The main internal control associated with corporation contributions is management review and approval of contribution requests through TVA's online request and approval system. Community relations approves and submits contributions for processing according to TVA policies and procedures. Failure of this control could affect compliance with the policy or the achievement of the program objective.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine if corporate contributions were made in compliance with TVA's Contribution Policy. The scope of this audit included contributions made from October 1, 2019, through September 30, 2020. A complete discussion of our audit objective, scope, and methodology is included in Appendix A.

FINDINGS

Our audit found 41 contributions totaling \$296,582 made using miscellaneous vouchers in violation of TVA's Contributions Policy. We also noted the Contributions Policy and TVA-SPP-13.092, *Miscellaneous Vouchers*, contradict one another. We also found internal control weaknesses including inadequate segregation of duties, inadequate controls for contribution approvals, and a lack of ongoing technical support for the contributions request and approval system. Additionally, in-kind donations are not managed and tracked as outlined in the policy. Details of our findings are discussed below.

CONTRIBUTIONS MADE IN VIOLATION OF THE CONTRIBUTIONS POLICY

We identified 41 contributions totaling \$296,582 made using miscellaneous vouchers, which is disallowed by the Contributions Policy. The Contributions Policy states all contribution requests must be submitted by a TVA employee through TVA's online request and approval system and specifically prohibits processing contributions using miscellaneous vouchers. However, we found the Contributions Policy is inconsistent with TVA-SPP-13.092, *Miscellaneous Vouchers*, which states miscellaneous vouchers may be used for payment of contributions.

We tested the 41 contributions made using miscellaneous vouchers for compliance with the remaining requirements of the Contributions Policy. We found (1) 3 contributions, totaling \$17,345, did not comply with the requirement for recipients to be a nonprofit organization or public institution; and (2) 5 contributions, totaling \$81,500, did not receive the appropriate level of approval. The majority of contributions made using miscellaneous vouchers originated from one TVA organization. During interviews, this organization indicated a lack of awareness of the Contribution Policy's application to all contributions, even those funded from the organization's budget.

Making contributions outside the required process impacts accurate reporting of all TVA contributions and may allow contributions to be paid to improper organizations and/or without the appropriate level of approvals.

CONTROLS OVER PROCESSING OF CONTRIBUTIONS COULD BE STRENGTHENED

We identified control weaknesses that impact the potential for errors or improper payments of contributions. These internal control weaknesses included (1) inadequate segregation of duties, (2) inadequate controls over field contribution approvals, and (3) a lack of ongoing technical support for the contributions request and approval system.

Inadequate Segregation of Duties

Adequate internal controls over payment processing generally require segregating the duties of requesting, approving, and distributing payments. We noted during testing of the contributions request and approval system controls that they do not prevent the same employee from requesting and approving a contribution.

We tested 30 contributions totaling \$130,445 from the population of 266 contributions, totaling \$3,095,546, submitted through the online request and approval system. In general, we found these contributions were in compliance with the Contributions Policy. However, we noted 4 contributions totaling \$8,500 that were requested and approved by the same employee in Community Relations. We discussed these contributions with Community Relations staff, who verified the system does not prevent the same employee from both submitting and approving a request. However, they explained that while the approver noted in the data may be the same as the requestor, they do review all contributions requests as a team.

Additionally, during discussions with Community Relations staff, we were informed that while contributions checks are processed through Accounts Payable, the checks are routinely routed back to Community Relations for distribution. As a result, Community Relations personnel not only have the ability to request and approve contributions, they also regain physical control over the payments.

Inadequate Controls Over Field Contribution Approvals

The Contributions Policy specifies the level of approval required for a contribution based on the amount and contribution type (i.e., corporate or field contribution). We noted 2 field contributions totaling \$2,700 did not have the required level of approval. While the contributions were approved by a manager of the requesting employee, the Contributions Policy required a higher level of approval based on the contribution amount. According to Community Relations staff, the online contribution request system does not automatically assign an approver for a field contribution request based on the amount. Instead, the approver is selected by the requesting employee. Without automatic assignment of an approver to a request, contributions may not receive appropriate review and/or approval.

Lack of Ongoing Contributions Request System Support

During discussions with Community Relations staff, we were informed the online contributions request and approval system is antiquated and is no longer receiving support from Technology and Innovation. Without proper technical support, including updates to the system and security, contributions data may be susceptible to fraud, data loss, and processing errors.

IN-KIND DONATIONS WERE NOT REPORTED ACCORDING TO POLICY

The Contributions Policy requires in-kind donations to be processed through Investment Recovery or Technology and Innovation.⁴ We found in-kind donations were not managed and tracked as outlined in the policy. Investment Recovery is to provide the Community Relations office with a report at the end of the FY regarding surplus items donated to communities. Community Relations staff is responsible for tracking in-kind contribution requests by TVA field organizations. Investment Recovery did not provide Community Relations with a report of in-kind donations at the end of FY 2020.

Community Relations and Investment Recovery provided listings of the in-kind donations they were aware of during the audit period. However, the two listings of in-kind donations did not agree and we were not able to verify the completeness of the population. Based on the information provided, TVA made seven in-kind donations. Items donated included trucks, a forklift, and other equipment and supplies. The value for donated items is estimated by the TVA organization making the donation but was not included for two of the seven in-kind donations. The total estimated value for the remaining five in-kind donations was \$75,430.

We tested the seven in-kind donations to determine if required approvals were obtained and the appropriate documentation maintained. There are three TVA forms necessary to complete the in-kind donation process:

- Form 3610 – Investment Recovery Property Report (identifies the equipment or materials as surplus).
- Form 20525 – Approval of In-Kind Donations (for donations).
- Form 21299 – Safety Waiver for Donations (releases TVA’s liability for the use of donated items).

We found documentation was incomplete for five of the seven donations. The Contributions Policy does not clearly define which organization is responsible for maintaining in-kind donation documentation.

Incomplete and/or inaccurate documentation impacts accurate reporting of TVA’s in-kind donations. Improper maintenance of documentation also poses a potential risk to TVA’s liability for use of donated items.

⁴ Technology and Innovation confirmed there were no in-kind donations made by their organization during the audit period.

RECOMMENDATIONS

We recommend the Vice President, External Strategy and Regulatory Oversight:

1. Work with TVA's Vice President and Controller, Corporate Accounting, to correct the discrepancy for allowed methods of payment for contributions in TVA-SPP-13.092, *Miscellaneous Vouchers*, and TVA-SPP-36.001, *Corporate Contributions*.

TVA Management's Comments – TVA management stated they will update TVA-SPP-13.092, *Miscellaneous Vouchers*, and TVA-SPP-36.001, *Corporate Contributions*, to correct the discrepancy for allowed methods of payment for contributions. External Strategy and Regulatory Oversight will collaborate with Corporate Accounting to identify a solution and update the documents accordingly. See Appendix B for TVA management's complete response.

2. Reinforce the requirement for all contribution requests to be submitted through TVA's online request and approval system.

TVA Management's Comments – TVA management stated they will issue an enterprise-wide communication to reinforce the requirement for all contribution requests to be submitted through TVA's Community Contribution request and approval system. See Appendix B for TVA management's complete response.

3. Update the contributions process and/or system to segregate the duties of requesting, approving, and distributing contributions payments.

TVA Management's Comments – TVA management stated as a component of the new Community Contributions framework, (1) a process is being developed and implemented to improve the segregation of duties of requesting, approving, and distributing contributions payments, and (2) TVA is updating system requirements to support the corporate contributions process. See Appendix B for TVA management's complete response.

4. Update the contributions system to automatically assign the approver to a contributions request according to the levels required by TVA-SPP-36.001, *Corporate Contributions*.

TVA Management's Comments – TVA management stated as a component of the new Community Contributions framework, (1) a process is being developed and implemented to automatically assign the approver to a contributions request according to the levels required by TVA-SPP-36.001, *Corporate Contributions*, and (2) system requirements are being updated to support the corporate contributions process. See Appendix B for TVA management's complete response.

5. Consider an upgrade and/or replacement of the online contributions request and approval system, to receive ongoing support from Technology and

Innovation, and allow for better segregation of duties and processing of contribution requests.

TVA Management's Comments – TVA management agreed the online contributions request and approval system should be upgraded and/or replaced as funding allows, to receive ongoing support from Technology and Innovation, and allow for better segregation of duties and processing of contribution requests. TVA management stated the External Relations Analytics and Technology Group will partner with TVA Technology and Innovation to evaluate upgrade and/or replacement options. See Appendix B for TVA management's complete response.

6. Reinforce the requirement for Investment Recovery to track and report in-kind donations annually.

TVA Management's Comments – TVA's External Strategy and Regulatory Oversight will collaborate with Supply Chain Investment Recovery and develop a tracking and reporting process for in-kind donations. See Appendix B for TVA management's complete response.

7. Update TVA-SPP-36.001, *Corporate Contributions*, to clarify the responsibility for maintaining in-kind donation documentation.

TVA Management's Comments – TVA management will update TVA-SPP-36.001, *Corporate Contributions*, to include clarification of the responsibility for maintaining in-kind donation documentation. See Appendix B for TVA management's complete response.

8. Consider processing in-kind donations through the same system as contributions to allow for easier tracking and management of in-kind donations and associated documentation.

TVA Management's Comments – TVA's External Strategy and Regulatory Oversight will collaborate with Supply Chain Investment Recovery and evaluate options for tracking and managing in-kind donations and the associated documentation in the same system. See Appendix B for TVA management's complete response.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine if corporate contributions were made in compliance with Tennessee Valley Authority (TVA) Standard Programs and Processes (SPP) 36.001, *Corporate Contributions*. Our audit scope included approximately \$3.1 million in contributions¹ and seven in-kind donations² of surplus equipment and supplies made from October 1, 2019, through September 30, 2020.

To achieve our objective we:

- Reviewed TVA-SPP-36.001, *Corporate Contributions* (Contributions Policy) and TVA-SPP-13.092, *Miscellaneous Vouchers*, to identify key requirements applicable to contributions.
- Obtained an understanding of internal controls associated with contributions. We identified the review and approval of contributions through TVA's online request and approval system as the internal control significant to the audit objective. Our primary method for testing the operating effectiveness of this control was reviewing contributions for compliance with applicable policies and procedures.
- Obtained contribution request data from the Community Relations online request and approval system for the audit period and performed data analysis to assess the reliability of the data.
- Selected a random sample of 30 contributions, totaling \$130,445, from the population of 266 completed contribution requests, totaling \$3,095,546. We reviewed supporting documentation to test compliance with key requirements of the Contributions Policy. Since this was not a statistical sample, the results cannot be projected to the population.
- Obtained a listing of payments recorded in general ledger accounts related to contributions. We reviewed 334 payments, totaling \$6,571,948, and identified 41 payments for contributions made by miscellaneous vouchers, totaling \$296,582. We reviewed supporting documentation for the 41 contribution payments to test compliance with key requirements of the Contributions Policy.
- Obtained an understanding of the in-kind donation process. We requested listings of in-kind donations made during the audit period from Community Relations, Investment Recovery and Technology and Innovation personnel. We reviewed supporting documentation and tested compliance with key requirements of the Contributions Policy for the seven in-kind donations identified.

¹ The total includes contributions and sponsorships processed through Community Relations. This does not include contributions and sponsorships processed through other means.

² A total value for all in-kind donations was not available as not all documentation included estimated values.

- Used the Tax Exempt Organization Search link on the Web site IRS.gov to determine if organizations receiving contributions have met legal requirements to operate as a 501(c)(3) or other legally nonprofit entity.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that 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.

October 29, 2021

David P. Wheeler

MANAGEMENT RESPONSE – DRAFT AUDIT 2021-15794 – CORPORATE CONTRIBUTIONS

This is in response to your memorandum dated October 1, 2021. First, let me thank your team for the professional manner in which this audit was conducted. After review of the draft evaluation, we have prepared the following response to the recommendations regarding Corporate Contributions.

DRAFT AUDIT 2021-15794 Recommendations

1. Work with TVA's Vice President and Controller, Corporate Accounting, to correct the discrepancy for allowed methods of payment for contributions in TVA-SPP-13.092, *Miscellaneous Vouchers*, and TVA-SPP-36.001, *Corporate Contributions*.

Response

The documents TVA-SPP-13.092, *Miscellaneous Vouchers*, and TVA-SPP-36.001, *Corporate Contributions*, will be updated to correct the discrepancy for allowed methods of payment for contributions. External Strategy and Regulatory Oversight will collaborate with Corporate Accounting to identify a solution and update the documents accordingly.

Owner – Steven Moore
Due Date – 1/31/2022

2. Reinforce the requirement for all contribution requests to be submitted through TVA's online request and approval system.

Response

An enterprise-wide communication will be issued to reinforce the requirement for all contribution requests to be submitted through TVA's Community Contribution request and approval system.

Owner – Althea Jones
Due Date – 1/31/2022

3. Update the contributions process and/or system to segregate the duties of requesting, approving, and distributing contributions payments.

Response

As a component of the new Community Contributions framework, a process is being developed and implemented to improve the segregation of duties of requesting, approving, and distributing contributions payments. We are updating system requirements to support this process.

Owner – Althea Jones
Due Date – 3/31/2022

4. Update the contributions system to automatically assign the approver to a contributions request according to the levels required by TVA-SPP-36.001, *Corporate Contributions*.

Response

As a component of the new Community Contributions framework, a process is being developed and implemented to automatically assign the approver to a contributions request according to the levels required by TVA-SPP-36.001, *Corporate Contributions*. We are updating system requirements to support this process.

Owner – Althea Jones
Due Date – 3/31/2022

5. Consider an upgrade and/or replacement of the online contributions request and approval system, to receive ongoing support from Technology and Innovation, and allow for better segregation of duties and processing of contribution requests.

Response

We agree the online contributions request and approval system should be upgraded and/or replaced as funding allows, to receive ongoing support from Technology and Innovation, and allow for better segregation of duties and processing of contribution requests. Our External Relations Analytics and Technology Group will partner with TVA Technology and Innovation to evaluate upgrade and/or replacement options.

Owner – Cornelius Bayes
Due Date – 7/31/2022

6. Reinforce the requirement for Investment Recovery to track and report in-kind donations annually.

Response

We will collaborate with Supply Chain Investment Recovery and develop a tracking and reporting process and for in-kind donations.

Owner – Althea Jones
Due Date – 7/31/2022

7. Update TVA-SPP-36.001, *Corporate Contributions*, to clarify the responsibility for maintaining in-kind donation documentation.

Response

The document TVA-SPP-36.001, *Corporate Contributions*, will be updated to include clarification of the responsibility for maintaining in-kind donation documentation.

Owner – Steven Moore
Due Date – 1/31/2022

8. Consider processing in-kind donations through the same system as contributions to allow for easier tracking and management of in-kind donations and associated documentation.

Response

We will collaborate with Supply Chain Investment Recovery and evaluate options for tracking and managing in-kind donations and the associated documentation in the same system.

Owner – Althea Jones
Due Date – 7/31/2022

Thank you for the opportunity to provide these comments. If you need additional information, please contact me directly.



Melanie E. Farrell
Vice President
External Strategy & Regulatory Oversight