



Memorandum from the Office of the Inspector General

October 6, 2025

Melanie E. Farrell

REQUEST FOR FINAL ACTION – AUDIT 2025-17550 – SURPLUS INVENTORY

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 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.

Greg Stinson
Assistant Inspector General
(Audits and Evaluations)

JRB:KDS

Attachment

cc (Attachment):

TVA Board of Directors
Angela S. Ballew
Collins Bishop
Hannah S. Clements
R. Howell Conway
Melanie J. Cross
Jessica Dufner
Tina J. Martin
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Ben R. Wagner
OIG File No. 2025-17550



Office of the Inspector General

Audit Report

To the Vice President,
Supply Chain

SURPLUS INVENTORY

Audit Team
Jennifer R. Bogus
Andy A. Bailey

Audit 2025-17550
October 6, 2025

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MEMORANDUM DATED SEPTEMBER 30, 2025, FROM MELANIE E. FARRELL
TO GREG STINSON



Audit 2025-17550 – Surplus Inventory

EXECUTIVE SUMMARY

Why the OIG Did This Audit

The Tennessee Valley Authority (TVA) Standard Programs and Processes 04.050, *Investment Recovery*, defines surplus material as material or equipment considered excess at a site that cannot be sold back to the original supplier or manufacturer. Before items are considered surplus, TVA personnel are responsible for determining if the materials have a forecasted usage at the site or within the TVA fleet within 3 years. From October 1, 2020, through March 31, 2025, TVA transferred approximately 370,000 inventory items to surplus with a book value of \$34.7 million. TVA's Investment Recovery group is responsible for managing surplus inventory in a manner that recovers as much of TVA's original capital investment as possible.

Due to the significant investment TVA makes in inventory, we conducted an audit of TVA's surplus inventory. Our objective was to determine if TVA surplus inventory was managed in accordance with TVA policies and procedures. The scope of this audit was inventory items transferred to surplus from October 1, 2020, through March 31, 2025.

What the OIG Found

We determined, in general, TVA managed its surplus inventory in accordance with policies and procedures; however, we identified two opportunities for improvement. We found TVA policies and procedures could be improved by clearly defining how to determine forecasted usage across TVA. We also noted opportunities to improve the management of surplus inventory related to documentation completion.

What the OIG Recommends

We made four recommendations to the Vice President, Supply Chain, to improve management of surplus inventory.

TVA Management's Comments

In response to our draft, TVA management agreed with our findings and provided actions they plan to take to address each of our recommendations. See the Appendix for TVA management's complete response.

Auditor's Response

We agree with TVA management's planned actions.

BACKGROUND

The Tennessee Valley Authority (TVA) Standard Programs and Processes (SPP) 04.050, *Investment Recovery*, defines surplus material as material or equipment considered excess at a site that cannot be sold back to the original supplier or manufacturer. The policy requires the material owner to work with an inventory analyst to determine if the material could be used elsewhere within TVA. According to TVA-SPP-04.024, *Returning Material to Inventory*, the item will be handled as surplus if the material has no forecasted usage at the site or within the TVA fleet within the next 3 years.

TVA-SPP-04.050 states if no other sites need the material, the material owner is required to complete TVA Form 3610, *Investment Recovery Property Report*. TVA Form 3610 is processed in an electronic template and includes fields for the item number, description, quantity, quantity unit of measure, condition of item, and estimated value (if known). The form should be fully completed and approved by the senior business unit manager on-site before the material is processed by Investment Recovery.¹ The *Investment Recovery Material Owner Guide* states the material owner may upload a spreadsheet of items if preferred; however, the material owner should ensure the spreadsheet has the same item details as shown on the template.

According to Investment Recovery personnel, once TVA Form 3610 has been completed and approved, the material is moved to a virtual storeroom in Maximo,² where it is available for disposition by Investment Recovery. Investment Recovery is responsible for determining the appropriate disposition method (i.e., online auction, direct sale, etc.), awarding the sale of the material, preparing sales contracts, and maintaining all associated records.

From October 1, 2020, through March 31, 2025, TVA transferred approximately 370,000 inventory items to surplus, with a book value of \$34.7 million, as shown in Table 1 on the following page. During the same time frame, Investment Recovery sold surplus inventory items for \$4.0 million.³

¹ Investment Recovery's purpose is to manage surplus inventory in a manner that recovers as much of the original capital investment as possible.

² Maximo is TVA's supply chain and work management system. For materials and supplies, Maximo supports contracting, ordering, inventory management, receiving, and payments.

³ The surplus inventory items sold during the audit scope were not necessarily the same items transferred to surplus during the audit scope, due to the time to sell the items. Items sold at the beginning of the audit scope would have been transferred to surplus prior to the audit scope, and items transferred to surplus at the end of the audit scope would not yet be sold.

Transfers to Surplus Inventory October 1, 2020 – March 31, 2025		
<u>Fiscal Year</u>	<u>No. of Items</u>	<u>Amount</u>
2021	29,037	\$ 4,632,859
2022	46,615	2,140,282
2023	167,014	13,072,792
2024	115,111	12,869,716
2025*	12,300	1,977,772
Total	370,077	\$ 34,693,421

* Through March 2025

Table 1

Inventory management features in Maximo include reorder points for items specific to each site's inventory storeroom. The reorder point is an established inventory level at which an order for replenishment is automatically triggered in Maximo. To prevent an item from automatic reorder, the reorder point must be set to negative one.

We included an audit of TVA's management of surplus inventory due to the significant investment TVA makes in inventory.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine if TVA surplus inventory was managed in accordance with TVA policies and procedures. The scope of this audit was inventory items transferred to surplus from October 1, 2020, through March 31, 2025. To achieve our objective, we:

- Identified and reviewed relevant TVA policies and procedures to gain an understanding of surplus inventory processes, including:
 - TVA-SPP-04.021, *TVA Inventory Management Process*
 - TVA-SPP-04.024, *Returning Material to Inventory*
 - TVA-SPP-04.050, *Investment Recovery*
- Obtained information from Supply Chain and site personnel to gain an understanding of surplus inventory processes.
- Obtained an understanding of internal controls associated with surplus inventory. We identified the following three key controls and designed testing to assess the design, implementation, and operating effectiveness of each control:
 - The material owner works with an inventory analyst to determine if a need exists within TVA before completing TVA Form 3610.
 - The material owner is required to complete TVA Form 3610 before Investment Recovery will accept the material as surplus.

- After receipt of an approved TVA Form 3610, Investment Recovery will award the sale of material, prepare and execute sales contracts, confirm payment, and maintain records.
- Obtained (1) data showing all item transfers to surplus, (2) purchase history for the transferred items, (3) TVA Form 3610s, and (4) investment recovery sales for the audit period.
- Judgmentally selected the items, as shown in Table 2 below, to test for compliance with key policy requirements. Since these were judgmentally selected, the results cannot be projected to the population.

Sample Category	Population	No. of Sampled Items	Sampled Amount
Items Sent to Surplus and Repurchased Within 3 Years (Repurchases)	7,979	35	\$ 213,528
Surplus Sales	533	25	\$1,429,318
TVA Form 3610	256	25	n/a

Table 2

- Repurchases – Selected 35 repurchased items, totaling \$213,528. The items were judgmentally selected to include a representation of various items purchased, surplus and purchase locations, time between surplus and purchase dates, and total cost of the items.
- Surplus Sales – Selected 25 surplus sales, totaling \$1,429,318. The sales were judgmentally selected to include a representation of various dates, business units, descriptions, dollar amounts, and sales type (e.g., online auction, direct sale, donation).
- TVA Form 3610 – Selected 25 TVA Form 3610s. The forms were judgmentally selected to include a representation of various business units, approver names, form descriptions, and approval dates, focusing on more recent dates. They were also chosen in a manner to ensure the selection did not overlap with forms reviewed in the previous two samples.

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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS

We determined, in general, TVA managed its surplus inventory in accordance with policies and procedure; however, we identified two opportunities for improvement. We found TVA policies and procedures could be improved by clearly defining how to determine forecasted usage across TVA. We also noted

opportunities to improve the management of surplus inventory related to documentation completion.

IMPROVEMENT IS NEEDED WHEN EVALUATING FORECASTED USAGE ACROSS TVA

As stated in the background, material should have no forecasted usage for 3 years to be considered unusable. We performed data analysis to identify all instances where an item was sent to surplus during our audit scope and later repurchased within the 3-year time frame. Table 1 below shows the number of purchases and the cost of the items purchased for up to 3 years after the surplus date.

Surplus Items Repurchased Within 3 Years October 1, 2020 – March 31, 2025		
<u>Timeframe</u>	<u>No. of Purchases</u>	<u>Amount</u>
0 – 30 Days	589	\$ 534,713
1 – 6 Months	2,251	2,498,138
6 – 12 Months	2,434	2,847,268
1 – 2 Years	2,472	2,757,259
2 – 3 Years	233	418,048
Total	7,979	\$ 9,055,426

Table 1

We selected 35 items repurchased within 3 years for further analysis and identified 2 main reasons for the repurchases:

- When the material was transferred to the virtual Maximo storeroom, it dropped the site's quantity on hand to the designated reorder point causing Maximo to automatically reorder the material. For example, in one instance, the site transferred the material to the virtual storeroom before TVA Form 3610 was approved. The transfer to the virtual storeroom triggered a reorder for the item. The site subsequently decided not to surplus the material and returned it to their inventory, resulting in them having both the original material and the newly purchased material. The material was subsequently sent to surplus 4 months later.
- After material was transferred to the virtual Maximo storeroom, a different TVA site reordered the material. While TVA policies clearly state personnel must evaluate whether there is a need for the item at TVA before sending it to surplus, there is no prescribed method for determining forecasted usage, nor is the process documented. As a result, material was sent to surplus that was needed at another TVA location. Determining if there is a need elsewhere in TVA before sending an item to surplus is a key control in this process but has not been designed effectively. We acknowledge an item sent to surplus and then later reordered could be a legitimate transaction due to scenarios like product redesigns, shelf life, and urgent needs. However, the policies and

procedures should clearly define how to determine forecasted usage across TVA.

We performed additional analysis of the items repurchased within 3 years and found 90 percent of all the surplus items were the results of automatic order points and not identifying the material is needed at another TVA location.

OPPORTUNITIES TO IMPROVE SURPLUS INVENTORY MANAGEMENT

TVA was able to provide TVA Form 3610 for all sampled items as well as surplus sales documentation; however, we identified the following issues:

- For 18 of the 65 forms reviewed, some of the material listed on the forms was transferred to an incorrect virtual Maximo storeroom, not transferred at all, or not transferred in the same quantity listed on the forms. Instances like these create inaccuracies in inventory totals.
- For all 40 instances where a spreadsheet was used to document surplus material instead of TVA Form 3610, we noted the spreadsheet did not include a description of the condition of the items in accordance with procedure.

These items present opportunities to improve the management of surplus inventory.

RECOMMENDATIONS

We recommend the Vice President, Supply Chain:

1. Establish a prescribed method for making a forecasted usage determination.

TVA Management's Comments – In response to our draft, TVA management agreed with the finding and stated they will review the usage and potential usage of surplus inventory and identify areas of improvement, including process gaps, policy revisions, and technology improvements. See the Appendix for TVA management's complete response.

Auditor's Response – We agree with TVA management's planned actions.

2. Establish a process for reorder points to be reviewed and adjusted as necessary, before surplus inventory is transferred.

TVA Management's Comments – In response to our draft, TVA management agreed with the finding and stated they will review the current process for improvements to reduce reorders of surplus inventory. See the Appendix for TVA management's complete response.

Auditor's Response – We agree with TVA management's planned actions.

3. Develop and review a report identifying surplus items that were repurchased within a specified period of time to determine if the purchases were appropriate and take actions to address any issues identified.

TVA Management's Comments – In response to our draft, TVA management agreed with the finding and stated they will develop a reporting mechanism to track surplus materials that have been repurchased that can be reviewed regularly. See the Appendix for TVA management's complete response.

Auditor's Response – We agree with TVA management's planned actions.

4. Take steps to improve surplus inventory documentation completion.

TVA Management's Comments – In response to our draft, TVA management agreed with the finding and stated they will review the documentation process for surplus inventory for improvement and will update training for the surplus inventory process. See the Appendix for TVA management's complete response.

Auditor's Response – We agree with TVA management's planned actions.

September 30, 2025

Greg Stinson, WT 2C-K

RESPONSE TO REQUEST FOR COMMENTS – DRAFT AUDIT 2025-17550 – SURPLUS
INVENTORY

Reference: Request for Comments – Draft Audit 2025-17550 – Surplus Inventory dated August
29, 2025

Supply Chain has reviewed the report and provides the following comments and management
decision:

**ESTABLISH A PRESCRIBED METHOD FOR MAKING A FORECASTED USAGE
DETERMINATION**

Supply Chain agrees with the finding and will review the usage and potential usage of surplus
inventory. This review will also identify areas of improvement including process gaps, policy
revisions, and technology improvements.

**ESTABLISH PROCESS FOR REORDER POINTS BEFORE SURPLUS INVENTORY IS
TRANSFERRED**

Supply Chain agrees with the finding and will review the current process for improvements to
reduce reorders of surplus inventory.

**DEVELOP REPORT IDENTIFYING SURPLUS MATERIALS THAT WERE REPURCHASED
WITHIN A SPECIFIED TIMEFRAME**

Supply Chain agrees with the finding and will develop a reporting mechanism to track surplus
materials that have been repurchased that can be reviewed regularly.

IMPROVE SURPLUS INVENTORY DOCUMENTATION

Supply Chain agrees with the finding and will review the documentation process for surplus
inventory for improvement. Supply Chain will also update training for the surplus inventory
process.

We would like to thank Jennifer R. Bogus, Rick C. Underwood and the OIG staff for their
professionalism in conducting this audit. If you have further questions, please contact Crystal S.
Winters, Senior Manager, Inventory at 731-343-2606.

Melanie E. Farrell

Melanie E. Farrell
Vice President, Supply Chain

CSW:MDW
cc: See page 2

Greg Stinson
Page 2
September 30, 2025

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