



Memorandum from the Office of the Inspector General

November 10, 2015

William D. Johnson, WT 7B-K

**OFFICE OF THE INSPECTOR GENERAL – INDEPENDENT REPORT ON THE
AGREED-UPON PROCEDURES FOR TVA FISCAL YEAR 2015 PERFORMANCE
MEASURES**

We have performed the procedures enumerated in Attachment 1, Agreed-Upon Procedures and Findings, which were requested and agreed to by TVA management solely to assist management in determining the validity of the Winning Performance (WP) payout awards for year ending September 30, 2015. TVA management is responsible for the WP payout award data provided.

In summary, we found:

- The fiscal year (FY) 2015 WP goals for the enterprise-wide and Strategic Business Unit (SBU) measures were properly approved. Two scorecard adjustment change forms for FY2015 were approved on February 4, 2015, one change form was approved on March 2, 2015, and one change form was approved June 24, 2015. The change forms affected seven scorecards and seven measures and/or payout percentages.
- The FY2015 goals (i.e., target) for the corporate multiplier measures were properly approved.
- The actual year-to-date results for the SBU scorecard measures agreed with the respective supporting documentation, without exception.
- The actual year-to-date results for the enterprise-wide scorecard measures agreed with the underlying support, without exception.
- The actual year-to-date results for the corporate multiplier measures agreed with the underlying support, without exception.
- The FY2015 WP payout percentages provided by the Benchmarking and Performance Analysis organization on November 4, 2015, were mathematically accurate and agreed with the Office of the Inspector General's recalculations. TVA payout percentages are included in Attachment 2.

The procedures performed and corresponding detail findings are presented in Attachment 1.

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We were not engaged to and did not conduct an audit or a review of the matters addressed herein, the objective of which would be the expression of an opinion or limited assurance on WP payout awards. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States. TVA management determined the agreed-upon procedures to be performed and, therefore, the sufficiency of these procedures is the responsibility of TVA management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

This report is intended solely to assist TVA management in determining the validity of the payout awards and is not intended to be, and should not be, used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

We appreciate the cooperation and support provided by your staff. If you have any questions or would like to discuss further, please contact me at (865) 633-7373.



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

MAD:FAJ
Attachments

cc (Attachments):

TVA Board of Directors
Katherine J. Black, LP 6A-C
Melanie E. Farrell, MR 3K-C
Donna G. Golden, LP 3A-C
Dwain K. Lanier, MR 3K-C
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Michael J. McCall, MR 3K-C
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John M. Thomas III, MR 6D-C
Diane T. Wear, WT 4B-K
OIG File No. 2016-15356

AGREED-UPON PROCEDURES AND FINDINGS

Agreed-Upon Procedure	Findings
<p>1. Compare the approved measures, weights, and goals (i.e., threshold, target, and stretch) on the enterprise-wide and Strategic Business Unit (SBU) balanced scorecards with the measures, weights, and goals (i.e., threshold, target, and stretch) used in the calculations for year ending September 30, 2015, and trace all differences to approved change forms obtained from the Benchmarking and Performance Analysis organization.</p>	<p>We compared the approved measures, weights, and goals (i.e., threshold, target, and stretch) on the enterprise-wide and SBU balanced scorecards with the measures, weights, and goals (i.e., threshold, target, and stretch) used in the calculations for year ending September 30, 2015, and traced all differences to approved change forms, without exception. Two scorecard adjustment change forms for fiscal year (FY) 2015 were approved by the Chief Executive Officer (CEO) on February 4, 2015, and one change form was approved by the CEO on March 2, 2015. One change form was approved by the Chief Financial Officer on June 24, 2015. The change forms affected seven scorecards and seven measures and/or payout percentages.</p> <p>The enterprise-wide and SBU scorecards and associated definition sheets were approved by the CEO on September 22, 2014.</p> <p>No exceptions were found as a result of applying the procedure.</p>
<p>2. Compare the goals (i.e., target) of the corporate multiplier measure to the goals (i.e., target) shown on SBU balanced scorecards for year ending September 30, 2015, and trace all differences to approved change forms obtained from the Benchmarking and Performance Analysis organization.</p>	<p>We compared the approved goals (i.e., target) of the corporate multiplier measure to the goals (i.e., target) shown on the balanced scorecards for the year ending September 30, 2015, to the measures TVA used to calculate the Winning Performance (WP) payout percentages, without exception.</p> <p>The TVA corporate multiplier performance measures and goals for FY2015 were approved by the TVA Board of Directors on August 21, 2014.</p> <p>According to the board minutes and the memorandum referenced in them, the measures and goals (i.e., results) of the corporate multiplier will be reviewed by the CEO and the TVA Board after the fiscal year-end and a determination made of what the multiplier is. As they have not yet met, the multiplier has not been determined.</p>

AGREED-UPON PROCEDURES AND FINDINGS (Cont.)

Agreed-Upon Procedure	Findings
<p>3. Sample the measures on the SBU balanced scorecards. Compare the actual year-to-date for September 2015 on the SBU balanced scorecards for the selected measures to the supporting documentation.</p>	<p>We compared all of the measures on the SBU scorecards to the respective supporting documentation provided, without exception.</p> <p>During FY2015, TVA purchased the Ackerman Combined Cycle gas plant for \$341 million. TVA executive management made the determination to exclude this amount for the purposes of calculating the Operations Total Spend measure. TVA's response for excluding this purchase was: (1) the acquisition was based on a business decision that was outside the scope of normal business, and (2) since acquisition was outside the scope of normal business, business units should not be rewarded nor penalized based on this strategic purchase. We obtained written documentation for the reasoning to exclude the Ackerman purchase, which was signed by the CEO and Chief Financial Officer.</p>
<p>4. Compare the actual year-to-date for the enterprise-wide measures to the underlying support.</p>	<p>We compared the actual year-to-date results for the enterprise-wide balanced scorecard measures to the definition sheets and the respective supporting documentation, without exception.</p>
<p>5. Compare the actual year-to-date results for the corporate multiplier measures to the underlying support.</p>	<p>We compared the actual year-to-date results for the corporate multiplier measures to the underlying support, without exception.</p> <p>According to the board minutes and the memorandum referenced in them, the measures and goals (i.e., results) of the corporate multiplier will be reviewed by the CEO and the TVA Board after the fiscal year-end and a determination made of what the multiplier is. As they have not yet met, the multiplier has not been determined. The actual year-to-date results are included in Attachment 2.</p>
<p>6. Test the mathematical accuracy of the FY2015 WP payout percentages.</p>	<p>The FY2015 WP payout percentages provided by the Benchmarking and Performance Analysis organization on November 4, 2015, were mathematically accurate and agreed with the Office of the Inspector General's recalculations. TVA payout percentages are included in Attachment 2.</p>

<i>Scorecard</i>	<i>Payout Percentage</i>
TVA Corporate	126.79%
Operations	118.05%
Nuclear Operations	108.41%
Power Operations	120.29%
Projects	119.29%
Transmission	118.86%
Nuclear Construction	76.79%
<i>Corporate Multiplier</i>	<i>Results</i>
Safety – Recordable Incident Rate	0.72
Total Financing Obligations (\$ Million)	25,845
Operating Cash Flow (\$ Million)	3,315
Net Income (\$ Million)	1,111
Jobs Created and Retained	76,220
Board Level Significant Events	0