



Memorandum from the Office of the Inspector General

June 29, 2017

Christopher L. Hinton, WT 8D-K

**FINAL REPORT – EVALUATION 2016-15445-04 – COMPENSATION AND BENEFITS’
ORGANIZATIONAL EFFECTIVENESS**

Attached is the subject final report for your review. Your written comments, which addressed your management decision and actions taken, have been included in the report. No further action is needed at this time.

If you have any questions, please contact Lindsay J. Denny, Senior Auditor, at (865) 633-7349 or Lisa H. Hammer, Director, Evaluations – Organizational Effectiveness, at (865) 633-7342. We appreciate the courtesy and cooperation received from your staff during the evaluation.

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

LJD: BSC

Attachment

cc (Attachment):

TVA Board of Directors
Janet J. Brewer, WT 7C-K
Susan E. Collins, LP 6A-C
Robertson D. Dickens, WT 9C-K
Megan T. Flynn, LP 3A-C
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OIG File No. 2016-15445-04



Office of the Inspector General

Evaluation Report

To the Vice President,
Compensation and Benefits

COMPENSATION AND BENEFITS' ORGANIZATIONAL EFFECTIVENESS

Evaluation Team
Lindsay J. Denny
Amy R. Rush

Evaluation 2016-15445-04
June 29, 2017

ABBREVIATIONS

Benefits	Employee Benefits
CHRO	Chief Human Resource Office
C&B	Compensation and Benefits
FY	Fiscal Year
HR	Human Resources
Retirement	Retirement Services
TVA	Tennessee Valley Authority
TVARS	TVA Retirement System

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Evaluation 2016-15445-04 – Compensation and Benefits’ Organizational Effectiveness

EXECUTIVE SUMMARY

Why the OIG Did This Evaluation

Organizational effectiveness, as defined in this evaluation, is the ability of an organization to achieve its mission and goals. To achieve and sustain organizational effectiveness, there should be alignment between strategy, team engagement, and operational performance. Specifically, values and behaviors that drive good performance should be embedded throughout the organization’s business processes and exemplified by the individuals that manage and work in the organization. The Tennessee Valley Authority’s (TVA) 2017 3-year Enterprise Risk Profile recognized ongoing workforce refinementⁱ might negatively affect the performance environment. Therefore, employee engagement is critical.

Due to the importance of alignment between strategy, team engagement, and operational performance, the Office of the Inspector General is conducting organizational effectiveness evaluations of business units across TVA. In support of TVA’s mission and performance risk mitigation efforts, TVA’s Chief Human Resources Office (CHRO) is responsible for “fostering an environment that enables all employees to contribute at optimum levels through connections to each other and to TVA’s mission.” Within CHRO, Compensation and Benefits (C&B) leads the design and implementation of competitive, market/employee-driven total reward benefits that support TVA’s pay-for-performance culture and business strategy. As of August 2016, C&B had 43 employees, including management. This evaluation assesses strengths and risks that could impact C&B’s effectiveness.

What the OIG Found

We identified strengths within C&B in the areas of (1) organizational alignment, (2) teamwork, (3) direct management support, (4) knowledge and experience, and (5) customer service. However, we also identified an employee engagement risk related to a relationship issue with one manager.

Based on our findings and using TVA’s Business Operating Model, we assessed C&B’s level of risk in the areas of alignment, engagement, and execution. As shown in Table 1 on the following page, we determined alignment risk to be low due to the alignment of C&B with the CHRO mission and vision. We assessed engagement risk to be low. Although there were risks identified with engagement due to relationship issues with one manager, there were strengths in the areas of teamwork and direct

ⁱ Refinement of the workforce includes activities such as reduction in force.



Evaluation 2016-15445-04 – Compensation and Benefits’ Organizational Effectiveness

EXECUTIVE SUMMARY

management support. Execution risk is low due to strengths in knowledge and experience and customer service.

	Low Risk	Medium Risk	High Risk
Alignment	X		
Engagement	X		
Execution	X		

Table 1

What the OIG Recommends

We recommend the Vice President, C&B, identify ways to improve the applicable manager’s leadership skills and ensure each manager is demonstrating TVA’s Values and Competencies.

TVA Management’s Comments

TVA management agreed with our recommendation and described actions already completed. See Appendix B for TVA management’s complete response.

BACKGROUND

Organizational effectiveness, as defined in this evaluation, is the ability of an organization to achieve its mission and goals. To achieve and sustain organizational effectiveness, there should be alignment between strategy, team engagement, and operational performance. Specifically, values and behaviors that drive good performance should be embedded throughout the organization's business processes and exemplified by the individuals that manage and work in the organization.

In recent years, the Tennessee Valley Authority (TVA) has faced internal and external economic pressures and implemented cost-cutting measures in an attempt to keep rates low and reliability high while continuing to fulfill its broader mission of environmental stewardship and economic development. In addition to recognizing operational risks related to those pressures, TVA's 2017 3-year Enterprise Risk Profile recognized ongoing workforce refinement¹ might negatively affect the performance environment. Therefore, employee engagement is critical.

Due to the importance of alignment between strategy, team engagement, and operational performance, the Office of the Inspector General is conducting organizational effectiveness evaluations of business units across TVA. TVA's Chief Human Resources Office (CHRO), in support of TVA's mission and performance risk mitigation efforts, is responsible for "fostering an environment that enables all employees to contribute at optimum levels through connections to each other and to TVA's mission." Specifically, the CHRO's key initiatives for fiscal year (FY) 2017 are to:

- Optimize the workforce in order to support nonfuel Operations and Maintenance reductions.
- Foster a work environment where employees are fully engaged.
- Build individual, leadership, and organizational capabilities.
- Leverage Human Resources (HR) technology to enhance employee efficiencies.

The CHRO is comprised of five organizations, including: HR Business Office and Ombudsman; Learning, Growth, and Management; Talent Acquisition and Diversity; Compensation and Benefits (C&B); and HR.²

¹ Refinement of the workforce includes activities such as reduction in force.

² Separate reports have been or will be completed for each of the five organizations within the CHRO:

- Evaluation Report 2016-15445-01, HR Business Office and Ombudsman, May 18, 2017.
- Evaluation Report 2016-15445-02, Learning, Growth, and Management, May 18, 2017.
- Evaluation Report 2016-15445-03, Talent Acquisition and Diversity.
- Evaluation Report 2016-15445-04, C&B.
- Evaluation Report 2016-15445-05, HR.

C&B, the focus of this report, leads the design and implementation of competitive, market/employee-driven total reward benefits that support TVA's pay-for-performance culture and business strategy. C&B supports the CHRO FY2017 initiative of "fostering a work environment where employees are fully engaged through developing and implementing improved compensation, benefits and retirement delivery strategies." C&B consists of three departments including Employee Benefits (Benefits), Compensation, and Retirement Services (Retirement).

- The overall objective of Benefits is to offer and deliver a competitive benefits package that enables TVA to compete in attracting and retaining a highly qualified workforce, while ensuring optimum use of employee benefit dollars and fostering the overall health and well-being of employees, retirees, and their families.
- Compensation develops, oversees, and manages the overall compensation strategy for TVA employees, including developing an overall TVA compensation philosophy; documenting individual compensation plans as described in the TVA Act and approved by the TVA Board, governing compliance with those plans, and supporting implementation of the plans across the company. TVA's compensation philosophy and strategy includes competitive compensation levels based on relevant market data, compensation targeted at the median of the relevant labor market for most positions, and a strong emphasis on at-risk pay for performance. As stated in the TVA Act, TVA's compensation plan must (1) specify all compensation components for the chief executive officer and employees; (2) be based on an annual survey of prevailing compensation; and (3) provide that education, experience, level of responsibility, geographic differences, and retention and recruitment needs be taken into account.
- Retirement's business objective is to administer the TVA Retirement System (TVARS) rules and regulations, manage the pension trust for the sole and exclusive benefit of employees, retirees and beneficiaries, and provide TVARS board, TVA board, TVA employees and retirees with informative and timely data to make informed decisions. TVARS is a separate legal entity from TVA, governed by its own seven member board of directors responsible for the administration of the system.

TVA had the Corporate Executive Board³ benchmark CHRO-related functions and the report, dated April 2015, indicated an overall "medium" maturity rating for the management of employee rewards and benefits. This rating included "high" maturity ratings for the design and delivery of benefits⁴ and "medium" maturity for the design and delivery of compensation.

³ The Corporate Executive Board is a best practice insight and technology company. The benchmarking report covered 38 functional activities across seven CHRO-related objectives.

⁴ Retirement was included in the design of benefits rating.

C&B documentation indicated the organization achieved various initiatives in FY2016 related to developing and implementing revised compensation, benefits, and retirement delivery strategy. Some of the initiatives included:

- Performing a 401(k) recordkeeping vendor fee benchmark study.
- Conducting a Request for Proposal for defined benefit plan trustee and custodian.
- Developing enhanced compensation metrics.
- Benchmarking the Manager and Specialist market pricing methodology and processes.
- Conducting a Request for Proposal for medical plan administrator.
- Designing and implementing a Wellness Strategy.

As of August 4, 2016, C&B had 43 employees in two locations: Chattanooga (5) and Knoxville (38). The current management team is made up of the vice president and three directors.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this evaluation was to identify strengths and risks that could impact C&B's organizational effectiveness. We assessed operations of C&B as of September 30, 2016, and culture as of the date of our interviews occurring from December 2016 through April 2017. To complete the evaluation, we:

- Reviewed the CHRO business plan for FY2017 through FY2019 to gain an understanding of goals and initiatives.
- Reviewed TVA values and competencies (see Appendix A) for understanding of cultural factors deemed important to TVA.
- Interviewed the C&B Vice President and 3 direct reports as well as 6 other designated supervisory/management-level employees to obtain their perceptions related to strengths and risks that could affect organizational effectiveness.
- Conducted interviews with all 33⁵ employees and analyzed the results to identify themes related to strengths and risks that could affect organizational effectiveness.
- Surveyed and/or conducted interviews with a nonstatistical sample of 40 TVA employees and recent retirees and analyzed results to identify strengths and risks from a customer service standpoint.
- Reviewed retiree feedback regarding the OneExchange⁶ private Medicare exchange offered to Medicare-eligible retirees.

⁵ During the time of our interviews, an additional employee was hired into the C&B organization and we conducted an interview with this individual.

⁶ TVA partnered with OneExchange, a leading coordinator of individual coverage in the marketplace to offer a private Medicare exchange.

- Reviewed performance management documentation for all management and employees in the C&B organization and analyzed the documentation for alignment with department and organizational goals, where applicable.
- Reviewed select TVA Standard Programs and Processes and guidelines to gain an understanding of processes and controls.
- Reviewed results of TVA's 2016 Pulse Survey as compared to the 2015 Employee Engagement Survey to gain additional understanding of the C&B work environment. Reviewed results of TVA's 2015 Employee Engagement Survey to gather ratings regarding TVA employee perspectives on pay and benefits.
- Assessed the overall effectiveness of C&B in the following areas, as included in TVA's Business Operating Model:
 - Alignment – How well the organization coordinates the activities of its many components for the purpose of achieving its long-term objectives—this is grounded in an understanding of what the organization wants to achieve, and why.
 - Engagement – How the organization achieves the highest level of performance from its employees.
 - Execution – How well the organization achieves its objectives and mission.

This evaluation was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

OBSERVATIONS

Within C&B, we identified strengths in the areas of (1) organizational alignment, (2) teamwork, (3) direct management support, (4) knowledge and experience, and (5) customer service. However, we also identified a risk that could impact employee engagement related to a relationship issue with one manager.

STRENGTHS

According to TVA, its values and competencies are the foundation from which the organization can successfully meet goals and strategic imperatives to achieve the mission of service. We identified strengths within C&B in the areas of (1) organizational alignment, (2) teamwork, (3) direct management support, (4) knowledge and experience, and (5) customer service.

Organizational Alignment

Our review of performance management documentation revealed individuals' performance goals were consistent with the overarching C&B goals. In addition, the majority of employees felt they had input into their performance goals, and their goals aligned with C&B's mission.

Teamwork

TVA's value of collaboration includes a commitment to fostering teamwork. Most employees cited teamwork as a strength within their individual departments. In our interviews, employees stated they are collaborative and work well together.

Direct Management Support

In the 2016 Employee Engagement Pulse Survey, 80 percent of C&B employees responded favorably when asked if they trust management below the vice president. We found most C&B employees feel supported by their direct supervisors. Most employees indicated their supervisors display the leadership competencies of Effective Communication and Accountability and Driving for Results. Employees in the Retirement department indicated their Director shows support for them by requiring all employees in the department, including management, take calls from retirees.

Knowledge and Experience

Of the C&B respondents in the 2016 Employee Engagement Pulse Survey, 95 percent responded favorably when asked to rate the comment, "I am proud to work for TVA." While more than half of TVA's workforce has 10 years of service or less, C&B has an average tenure of 19 years, which displays a commitment to TVA and its mission of service. Employees and managers spoke of their fellow coworkers' knowledge and experience as a strength of their organization.

Customer Service

The TVA value of service was a strength identified by employees and managers within C&B. Employees indicated they have a passion for helping employees and retirees. Additionally, customer feedback obtained from employees who have interacted with the Benefits and Retirement departments was very positive regarding the customer service received. Employees who called in to the Benefits department indicated the Benefits specialists were helpful, timely, and pleasant. Our sample of recent retirees indicated the Retirement team was helpful and the process went smoothly.

RISKS

We identified a risk in the area of employee engagement due to relationship issues with one manager.

Employee Engagement

Employee engagement within a certain area of C&B is at risk due to relationship issues with one manager. Although support from direct supervisors was an overall strength, our interviews identified one manager with whom employees have unresolved conflict and relationship issues. We discussed these relationship concerns with the Vice President, C&B.

CONCLUSION

In TVA's 2015 Employee Engagement survey,⁷ employees responded positively regarding the competitiveness of their pay and the various employee benefit programs offered by TVA. C&B plays an important role in supporting TVA's pay-for-performance culture and business strategy. Continued focus on the strengths and addressing the relationship issues between employees and one manager may help C&B remain effective in serving to retain TVA employees with competitive pay and benefits in order to support the CHRO and TVA missions.

Based on TVA's Business Operating Model, we evaluated the risk of three critical areas that could impact C&B's effectiveness:

- Alignment risk is low based on alignment of C&B with the CHRO mission and vision.
- Engagement risk is low. Although we identified risks to employee engagement related to relationships with one manager, strengths were identified in teamwork and direct management support.
- Execution risk is low due to the strengths identified in knowledge and experience and customer service.

RECOMMENDATION

We recommend the Vice President, C&B, identify ways to improve the applicable manager's leadership skills and ensure each manager is demonstrating TVA's Values and Competencies.

Management's Response – TVA management agreed with our recommendation. To address this recommendation, TVA management stated they have discussed the relationship issue with the specific manager to ensure awareness and provide coaching. Management also stated they will continue to ensure each manager demonstrates TVA's values and competencies by continuing to set expectations, identify and provide teachable moments, support, and measure results through the performance review process. See Appendix B for TVA management's complete response.

Auditor's Response – We concur with TVA management's completed actions.

⁷ The 2016 Employee Engagement Pulse survey was not a full survey, but a pulse of the population; therefore, it did not include all questions asked in the 2015 survey. This question was not included in the 2016 survey.

TVA Values	
Safety	We share a professional and personal commitment to protect the safety of our employees, our contractors, our customers, and those in the communities that we serve.
Service	We are privileged to be able to make life better for the people of the Valley by creating value for our customers, employees, and other stakeholders. We do this by being a good steward of the resources that have been entrusted to us and a good neighbor in the communities in which we operate.
Integrity	We conduct our business according to the highest ethical standards and seek to earn the trust of others through words and actions that are open, honest, and respectful.
Accountability	We take personal responsibility for our actions, our decisions, and the effectiveness of our results, which must be achieved in alignment with our company values.
Collaboration	We are committed to fostering teamwork, developing effective partnerships, and valuing diversity as we work together to achieve results.

TVA Leadership Competencies

- Accountability and Driving for Results
- Continuous Improvement
- Leveraging Diversity
- Adaptability
- Effective Communication
- Leadership Courage
- Vision, Innovation, and Strategic Execution
- Business Acumen
- Building Organizational Talent
- Inspiring Trust and Engagement



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401

June 22, 2017

Mr. David P. Wheeler
Office of Inspector General
400 W. Summit Hill Drive
Knoxville, Tennessee 37902

Dear Mr. Wheeler:

**RESPONSE TO DRAFT EVALUATION 2016-15445-04 COMPENSATION AND BENEFITS'
ORGANIZATIONAL EFFECTIVENESS**

Compensation and Benefits leadership appreciates the opportunity to review and respond to the Draft evaluation from the Office of Inspector General regarding Compensation and Benefits' organizational effectiveness. We value the positive observations made and the recognition that Compensation & Benefits' risk levels are low in the areas of alignment, engagement, and execution.

In regards to the one recommendation, Compensation & Benefits leadership acknowledges the importance of TVA's leadership competencies and values, and their reinforcement of TVA's core competencies and the standard they set for the requirements and expectations of a leader. We have discussed the noted relationship issue with the manager to ensure awareness and provided coaching. Several actions have been identified that the manager has taken and can continue to take to reinforce leadership skill development. We will continue to ensure each manager demonstrates TVA's values and competencies by continuing to set expectations, identify and provide teachable moments, support, and measure results through the performance review process.

Sincerely,

A handwritten signature in black ink, appearing to read "Christopher L. Hinton".

Christopher L. Hinton
Vice President
Compensation and Benefits

CLH:JPB

cc: Susan E. Collins, LP 6A - C
Robertson D. Dickens, WT 4D - K
Megan T. Flynn, LP 3A - C
Dwain K. Lanier, MR 6D - C
Wilson Taylor III, WT 7D - K