



Memorandum from the Office of the Inspector General

November 8, 2017

William D. Johnson, WT 7B-K

**OFFICE OF THE INSPECTOR GENERAL – INDEPENDENT REPORT ON THE
AGREED-UPON PROCEDURES FOR TVA FISCAL YEAR 2017 PERFORMANCE
MEASURES**

We have performed the procedures enumerated in Attachment 1, Agreed-Upon Procedures and Findings, which were requested and agreed to by Tennessee Valley Authority (TVA) management solely to assist management in determining the validity of the Winning Performance (WP) payout awards for year ending September 30, 2017. TVA management is responsible for the WP payout award data provided.

In summary, we found:

- The fiscal year (FY) 2017 WP goals for the enterprise measures were properly approved. There were no change forms for FY 2017 measures.
- The FY 2017 goals (i.e., target) for the corporate multiplier measures were properly approved.
- The actual year-to-date results for the enterprise scorecard measures agreed with the underlying support.
- The actual year-to-date results for the corporate multiplier measures agreed with the underlying support, without exception.
- The FY 2017 WP payout percentage provided by the Benchmarking and Enterprise Performance organization on November 6, 2017, was mathematically accurate and agreed with the Office of the Inspector General's recalculation. The TVA payout percentage is included in Attachment 2.

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

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:SDB

Attachments

cc (Attachments):

- TVA Board of Directors
- Susan E. Collins, LP 6A-C
- Robertson D. Dickens, WT 9C-K
- Megan T. Flynn, LP 3A-C
- Stephen H. Gaby, WT 8C-K
- Christopher L. Hinton, WT 8D-K
- Dwain K. Lanier, MR 6D-C
- Justin C. Maierhofer, WT 7B-K
- Jill M. Matthews, ET 4C-K
- Michael J. McCall, MR 3K-C
- A. Douglas Perry, MR 3K-C
- Thomas C. Rice, MR 3K-C
- Wilson Taylor III, WT 7D-K
- John M. Thomas III, MR 6D-C
- Diane T. Wear, WT 4B-K
- OIG File No. 2018-15522

AGREED-UPON PROCEDURES AND FINDINGS

Agreed-Upon Procedures	Findings
<p>1. Compare the approved measures, weights, and goals (i.e., threshold, target, and stretch) on the enterprise balanced scorecard with the measures, weights, and goals (i.e., threshold, target, and stretch) used in the calculations for fiscal year (FY) ending September 30, 2017, and trace all differences to approved change forms obtained from the Benchmarking and Enterprise Performance organization.</p>	<p>We compared the approved measures, weights, and goals (i.e., threshold, target, and stretch) on the enterprise balanced scorecard with the measures, weights, and goals (i.e., threshold, target, and stretch) used in the calculations for FY ending September 30, 2017. There were no change forms for FY 2017 measures.</p> <p>The enterprise scorecard and associated definition sheets were approved by the President and Chief Executive Officer (CEO) on October 12, 2016.</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 measures to the goals (i.e., target) shown on the balanced scorecard for year ending September 30, 2017, and trace all differences to approved change forms obtained from the Benchmarking and Enterprise Performance organization.</p>	<p>We compared the approved goals (i.e., target) of the corporate multiplier measures to the goals (i.e., target) shown on the balanced scorecard for the year ending September 30, 2017, to the measures Tennessee Valley Authority (TVA) used to calculate the Winning Performance (WP) payout percentage, without exception.</p> <p>The TVA corporate multiplier performance measures and goals for FY 2017 were approved by the TVA Board of Directors (Board) on August 25, 2016.</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 FY-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 Procedures	Findings
<p>3. Compare the actual year-to-date results for the enterprise measures to the underlying support.</p>	<p>We compared the actual year-to-date results for the enterprise balanced scorecard measures to the definition sheets and the respective supporting documentation.</p> <p>The definition sheets approved by the CEO did not reflect the actual computation used to calculate the Total Spend metric for FY 2017. Rather than the computation reflected in the approved definition sheet, the calculation was changed to include the Strategic Capital Other reporting class. According to TVA management, this was added to properly report the Decommissioning Capital projects and Boone remediation work, and the calculation now contains projects that were previously included in other categories listed in the Total Spend calculation. While this addition to the calculation was not included in the definition sheets approved by the CEO, TVA did provide an e-mail confirmation from the Vice President, Financial Operations and Performance, clarifying Strategic Capital Other was properly included in the calculation of the FY 2017 Total Spend metric.</p>
<p>4. 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 FY-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>5. Test the mathematical accuracy of the FY 2017 WP payout percentage.</p>	<p>The FY 2017 WP payout percentage provided by the Benchmarking and Enterprise Performance organization on November 6, 2017, was mathematically accurate and agreed with the Office of the Inspector General's recalculation. The TVA payout percentage is included in Attachment 2.</p>

<i>Scorecard</i>	<i>Payout Percentage</i>
TVA Enterprise	102.5%
<i>Corporate Multiplier</i>	<i>Results</i>
Safety – Recordable Incident Rate	0.39
Total Financing Obligations (\$ Billion)	25.2
Operating Cash Flow (\$ Million)	2,736
Net Income (\$ Million)	685
Jobs Created and Retained	70,076
Board Level Significant Events	0