



Memorandum from the Office of the Inspector General

November 14, 2018

William D. Johnson, WT 7B-K

**OFFICE OF THE INSPECTOR GENERAL – INDEPENDENT REPORT ON THE
AGREED-UPON PROCEDURES FOR TVA FISCAL YEAR 2018 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/Executive Annual Incentive Plan (WP) Measures for fiscal year ending (FYE) September 30, 2018. TVA management is responsible for the WP Measures data provided.

In summary, we found:

- The fiscal year (FY) 2018 WP goals for the enterprise measures were properly approved. There were four change forms that clarified the definition sheet formulas for three separate measures. However, these change forms did not impact the measures, weights, and goals of the Enterprise measures.
- The FY2018 goals (target) for the corporate multiplier measures were properly approved.
- The actual FY to-date results for the Enterprise measures agreed with the underlying support.
- The actual FY to-date results for the corporate multiplier measures agreed with the underlying support, without exception.
- The FY2018 WP payout percentage provided by the Benchmarking and Enterprise Performance organization on November 5, 2018, 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.

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We were not engaged to and did not conduct an examination or a review of the matters addressed herein, the objective of which would be the expression of an opinion or limited assurance on WP measures. 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 WP measures and is not suitable for any other purpose.

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)
WT 2C-K

MAD:FAJ
Attachments

cc (Attachments):

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
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, WT 2C-K
A. Douglas Perry, MR 3K-C
Sherry A. Quirk, WT 7C-K
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
Mary E. Williams, MR 3K-C
OIG File No. 2018-15602

AGREED-UPON PROCEDURES AND FINDINGS

| Agreed-Upon Procedures | Findings |
|---|---|
| <p>1. Compare the approved measures, weights, and goals (threshold, target, and stretch) of the Enterprise measures found on the approved definition sheets with the measures, weights, and goals (threshold, target, and stretch) used in the calculations for fiscal year ending September 30, 2018, 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 (threshold, target, and stretch) on the approved definition sheets with the measures, weights, and goals (threshold, target, and stretch) used in the calculations for fiscal year ending (FYE) September 30, 2018. There were four change forms that clarified the definition sheet formulas for three separate measures. However, these change forms did not impact the measures, weights, and goals of the Enterprise measures.</p> <p>The enterprise scorecard and associated definition sheets were approved by the President and Chief Executive Officer (CEO) on July 20, 2017.</p> <p>No exceptions were found as a result of applying the procedure.</p> |
| <p>2. Compare the goals (target) of the Corporate multiplier measures to the goals (target) shown on the approved definition sheets for fiscal year ending September 30, 2018, and trace all differences to approved change forms obtained from the Benchmarking and Enterprise Performance organization.</p> | <p>We compared the approved goals (target) of the corporate multiplier measures to the goals (target) shown on the approved definition sheets for FYE September 30, 2018, to the measures the Tennessee Valley Authority (TVA) used to calculate the Winning Performance payout percentage, without exception.</p> <p>The TVA corporate multiplier performance measures and goals for FY2018 were approved by the TVA Board of Directors (Board) on August 23, 2017.</p> <p>According to the Board minutes and the memorandum referenced in them, the measures and goals (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.</p> |

AGREED-UPON PROCEDURES AND FINDINGS (cont.)

| Agreed-Upon Procedures | Findings |
|---|---|
| 3. Compare the actual year-to-date results for the Enterprise measures to the underlying support. | We compared the actual FY to-date results for the Enterprise measures to the definition sheets and the respective supporting documentation, without exception. |
| 4. Compare the actual year-to-date results for the Corporate multiplier measures to the underlying support. | <p>We compared the actual FY 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 (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. The actual FY to-date results are included in Attachment 2.</p> |
| 5. Test the mathematical accuracy of the fiscal year 2018 Winning Performance/EAIP payout percentage. | The FY2018 Winning Performance payout percentage provided by the Benchmarking and Enterprise Performance organization on November 5, 2018, was mathematically accurate and agreed with the Office of the Inspector General's recalculation. The TVA payout percentage is included in Attachment 2. |

| Scorecard | Payout Percentage |
|--|--------------------------|
| TVA Enterprise | 130.6% |
| | |
| Corporate Multiplier | Results |
| Safety – Recordable Incident Rate | 0.34 |
| Total Financing Obligations (\$ Billion) | 24.0 |
| Operating Cash Flow (\$ Million) | 3,955 |
| Net Income (\$ Million) | 1,119 |
| Jobs Created and Retained | 65,423 |
| Board Level Significant Events | 0 |