

Energizing the Valley



Office of the Inspector General
TENNESSEE VALLEY AUTHORITY
Semiannual Report
October 1, 2025 - March 31, 2025

TVA Locations

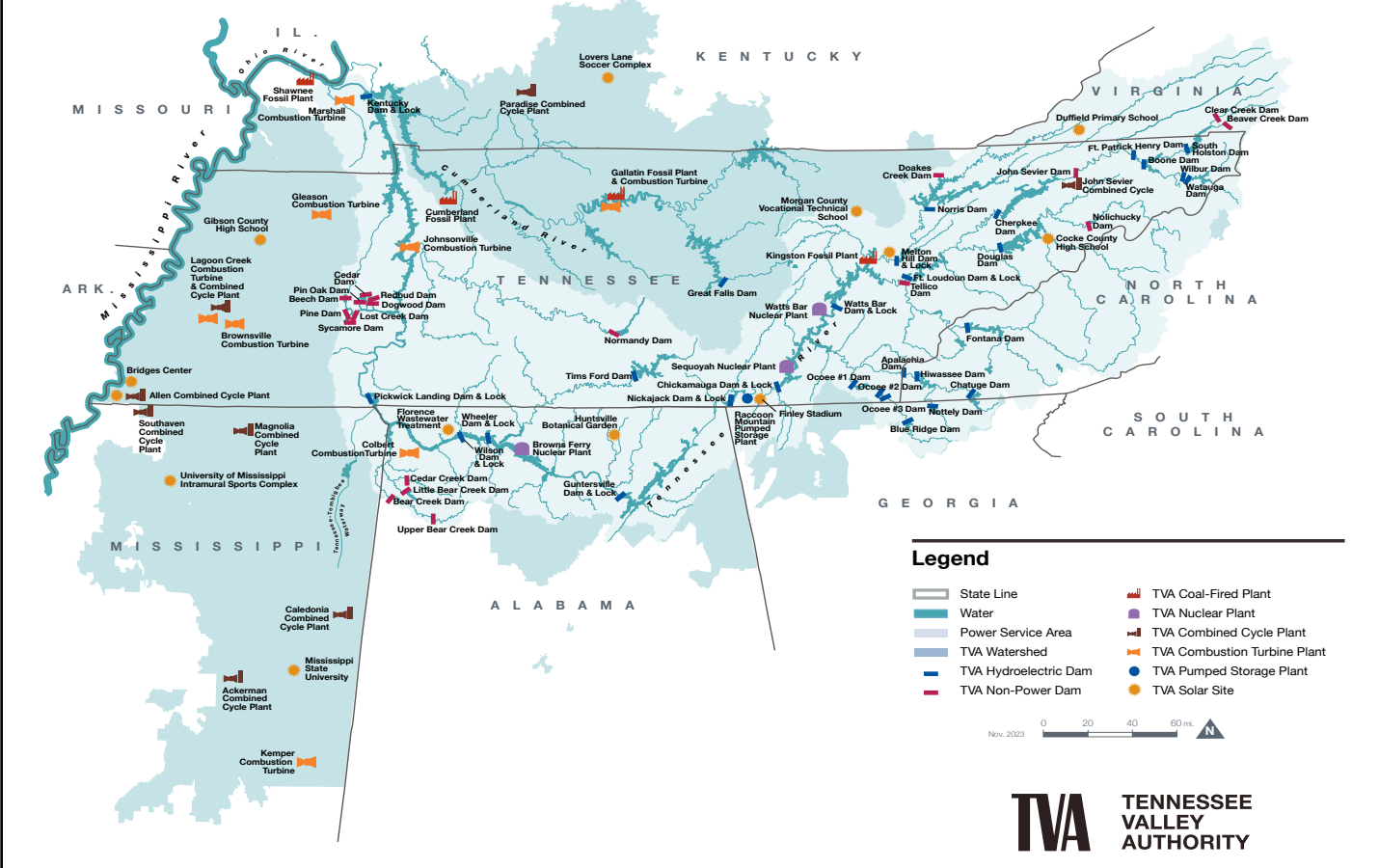


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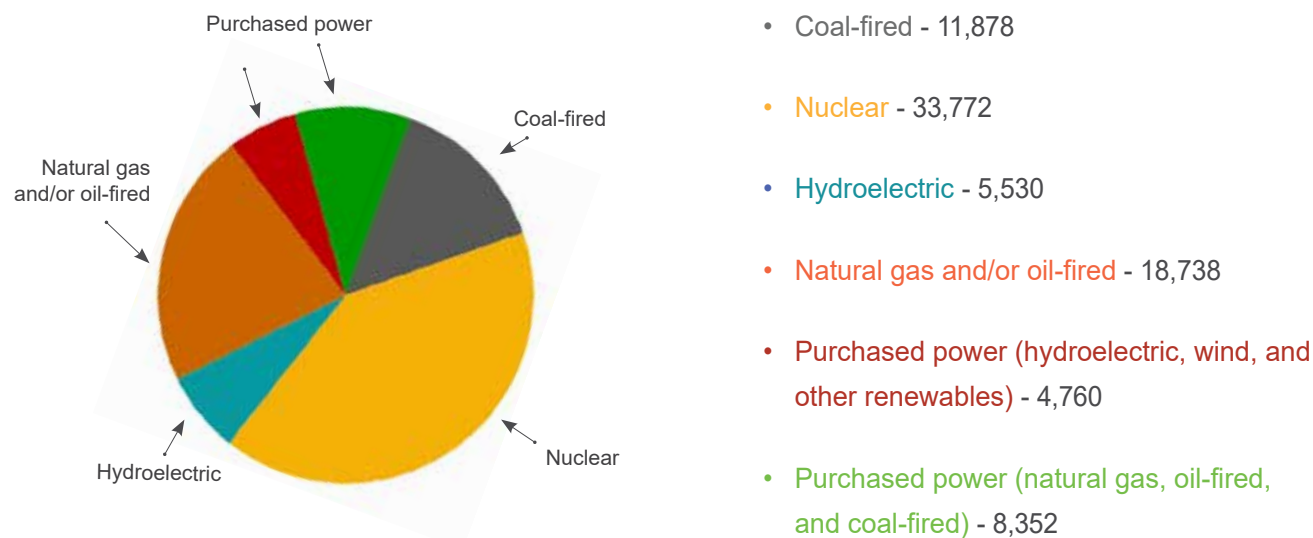
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Total Power Supply by Generating Source
Six Months Ended March 31, 2026^{(1) (2)}
 (millions of kilowatt hours)



¹ For additional detail, see TVA's 10-Q for the period ended March 31, 2026.

² Generation from TVA-owned renewable resources (nonhydroelectric) is less than one percent for the period shown and therefore is not represented in the chart above. Purchased power contains the majority of TVA's nonhydroelectric renewable energy supply.

MESSAGE FROM THE INSPECTOR GENERAL



I am pleased to present our report for the period October 1, 2025, to March 31, 2026. In our semiannual report feature, we discuss the Tennessee Valley Authority's (TVA) role and challenges in Energizing the Valley's and America's Future. TVA is positioned to play an integral role in supporting and advancing the goals of President Donald Trump's Administration through partnerships for development of new nuclear technologies. Also, in February, the TVA Board of Directors (TVA Board) announced its intent to extend the life of Cumberland and Kingston fossil plants, keeping more than 3,700 megawatts of needed generation.

TVA continues to pursue the largest capital investment in history for new generation, transmission upgrades, and life extensions of current generating assets. Moving forward will require navigating significant challenges such as TVA's debt ceiling cap, which could impact TVA's ability to pay for the new generation resources or cause TVA to use alternative financing—potentially raising the cost for ratepayers. Additionally, TVA will continue to face both competition for talent and expertise as other utilities are also building new generation, and continuing supply chain challenges which have significantly lengthened the lead time for equipment and increased costs.

In this semiannual period, our audit, evaluation, and investigative activities identified more than \$41.7 million in questioned costs, recoveries, fees, and savings; and opportunities for TVA to improve its programs and operations. Below are highlights of our work this period.

- In fiscal year (FY) 2025, TVA spent about \$6.8 billion on contracts primarily for labor, services, materials, and equipment. Our Contract Audits group audits these contracts to identify recovery opportunities and improve contract administration. During this period, we completed five contract compliance audits with approved expenditures totaling \$763 million and identified potential overbillings and excessive payments of almost \$34.4 million.
- The Occupational Safety and Health Administration states that establishing a safety and health program is one of the most effective ways of protecting workers. Due to the importance of the health and safety of personnel working at TVA sites, we performed an evaluation of TVA's oversight of contractor safety. We determined TVA was not providing adequate oversight of contractor safety in accordance with the contractor safety program. While some oversight was provided through tracking and trending of contractor safety performance, there were several areas that were not adequate. Specifically, TVA (1) could not provide completed site-specific safety and health plans for some contracts, (2) could not identify the contractor oversight representative for most of the contracts we reviewed or provide documentation that some of their responsibilities were being performed, and (3) did not perform safety audits as required.
- We performed an evaluation of the moisture separator reheater (MSR) project at Sequoyah Nuclear Plant (SQN). This project was initiated to extend and preserve the life of the nuclear unit. The project's initial forecasted cost was \$43.6 million with an in-service

date of December 31, 2022. By September 2024, the forecasted cost had increased to \$93.9 million with a December 31, 2025, in-service date. Because of the operational and financial impact to SQN, we performed an evaluation to determine the reasons for cost increases and schedule delays of the MSR replacement project. We determined the primary reason for the cost increases and schedule delays for the MSR replacement project was the initial estimate and schedule did not fully consider the scope of the structural modifications necessary to support the increased size and weight of the new MSRs. We also identified \$3.5 million in billings by the contract partner for positions TVA had not authorized.

- The risk of a cyberattack on critical energy infrastructure remains one of TVA's most significant threats. During the semiannual period, we completed three audits: (1) penetration testing of TVA networks, (2) protection against a specific type of cyberattack, and (3) transmission control center network cybersecurity to identify potential vulnerabilities and other cybersecurity weaknesses. Across all three audits, we identified opportunities for improvement and issued recommendations to TVA management to strengthen cybersecurity and reduce exposure to future cyber threats.
- We conducted three audits of corporate-related functions: (1) the unmanned aircraft systems program, (2) business meetings and external relationship events, and (3) tool management controls. Through this work, we identified two drone pilots operating without required certifications, expenses that did not comply with established policy, and limited guidance governing the management and oversight of tools.
- An investigation of an international power equipment manufacturer led to an agreement for the manufacturer to pay civil penalties of \$2.75 million to settle allegations of falsifying data in factory acceptance testing results.

- Investigations of alleged fraud involving federal programs associated with (1) TVA and federal funds intended to provide home energy assistance to low-income residents and (2) CARES Act funds through the Paycheck Protection Program and Economic Injury Disaster Loan Program led to guilty pleas by two individuals.
- An investigation led to the termination of a TVA employee after the investigation found he was working full time for a private company while employed by TVA on a full-time basis.

The TVA Office of the Inspector General (OIG) is committed to helping TVA meet its mission and advancing the Administration's goals for energy. As TVA moves forward with the largest construction and acquisition of new generation resources in its recent history, the TVA OIG, in our independent oversight role, will continue to identify ways to improve operations and mitigate risks; save or recover money; and prevent and detect fraud, waste, and abuse. I am proud to work with the men and women of the TVA OIG who demonstrate daily their commitment to helping TVA be better for the 10 million residents of the Valley.

In January 2026, Mitch Graves of Memphis, Tennessee; Jeff Hagood of Knoxville, Tennessee; Art Graham of Jacksonville, Florida; and Randy Jones of Guntersville, Alabama; were sworn in as members of the TVA Board, restoring a quorum. Subsequently, Bill Renick, who was the TVA Board Chair, transitioned off the TVA Board in February 2026. I want to thank Chair Renick for his service to the Tennessee Valley and engagement with our office. I also look forward to working with Chair Graves, who assumed the role of TVA Board Chair in March, and the other new Directors, all of whom have demonstrated a desire to maintain a productive working relationship with the OIG.

A handwritten signature in black ink that reads "Ben R. Wagner". The signature is fluid and cursive, written in a professional style.

Ben R. Wagner
Inspector General

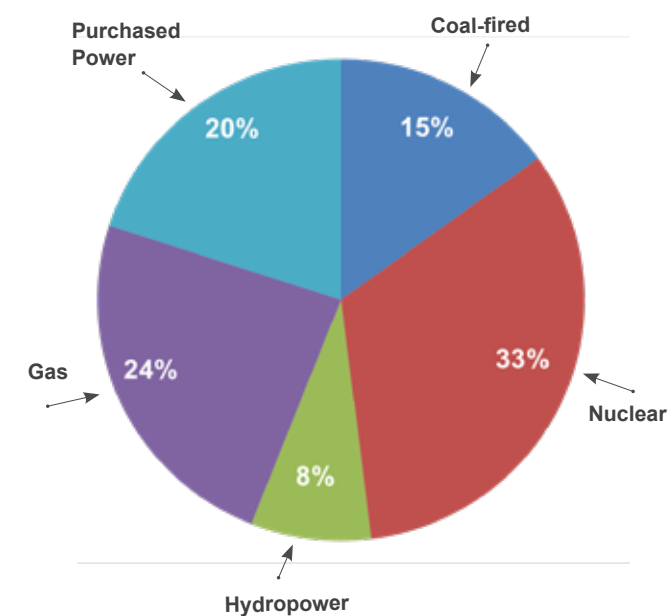
SPECIAL FEATURE

ENERGIZING THE VALLEY'S AND AMERICA'S FUTURE: TVA'S LEADERSHIP AND CHALLENGES

The Tennessee Valley Authority (TVA) is playing a central role in advancing national energy goals, navigating both progress and challenges. Faced with unprecedented load growth, extreme weather, and a call to advance energy innovation, TVA must fulfill its mandate to maintain affordable and reliable electricity for a population growing faster than the national average and increasing data center buildouts. This intensified growth presents unique challenges to TVA.

To strengthen energy supply and respond to growing demand, TVA is actively updating its generation fleet. In 2025, TVA's electricity was sourced from a diversified portfolio of generation types as shown below.

Portfolio of Generation Types



TVA is pursuing more than 6 gigawatts of new generation to meet load growth and plans to invest more than \$11 billion through 2028 to build new generation assets, upgrade existing power systems, and improve transmission systems. Beyond these, TVA is also investing to extend the life and capacity of current assets as well as supporting regional programs to improve overall energy efficiency.

GENERATION EXPANSION

To grow generation capacity, TVA is adding roughly 1.4 gigawatts of natural-gas capacity at both the Kingston and Cumberland sites to meet peak demands. TVA also announced its intent to extend coal-fired operations at these locations, keeping more than 3,700 megawatts of reliable capacity in place while new resources come online. TVA is also evaluating new hydroelectric pump-storage opportunities to meet increasing peak demands.

Advancements in nuclear generation are central to fulfilling demand for reliable and resilient power. In addition to conventional generation, TVA is taking a leadership role through partnerships and collaboration to prove new types of generation that could be a model for other utilities. TVA submitted the first United States (U.S.) construction-permit application for a small modular reactor (SMR) at the Clinch River site in Oak Ridge, Tennessee. The project, accepted by regulators in May 2025, marks a significant step toward modern nuclear deployment. Beyond potentially building its own SMRs, TVA is exploring partnerships or agreements with other nuclear developers. In addition to new nuclear, TVA's vision for future generation includes exploring other energy sources like fusion technology.

TVA's decisions in new generation asset buildouts and upgrades present financial challenges. SMRs are a first-of-a-kind generation asset that will require enormous investment. While SMR's total costs have not yet been determined, all agree it will require investments far greater than a conventional generation asset. Decisions to potentially extend the usage of coal plants may require significant investments to update and maintain the plants. Because the lifespan extensions come with limited operating timeframes, it may be hard to recover the upgrade costs in an economic way. As more gas plants are built, TVA increases its exposure to potential

price volatility in the gas market, which could adversely impact ratepayers if the fuel cost adjustment increases significantly.

LIFESPAN EXTENSIONS

TVA is actively extending the lifespan and capacity of current generation assets. The nuclear fleet has undergone strategic life extension work during planned outages. Browns Ferry nuclear units received a 20-year license renewal, extending their operating license through the mid-century. Hydroelectric extensions have included refurbishing turbines and a 5-year hydro maintenance contract to maintain and modify 29 hydroelectric sites. TVA is assessing extending operations for its coal fleet. Also, as mentioned, the TVA Board recently approved TVA to take steps toward continuing operations of units at Cumberland and Kingston coal-fired plants to meet rising demand.

ENERGY EFFICIENCY

As TVA is working to increase generation capacity, it is also focused on growing energy efficiency throughout the region. Through partnerships with local power companies, TVA offers programs like EnergyRight® to deliver community-based efficiency initiatives that reduce energy use and support customer savings. TVA is collaborating with local utilities and businesses to implement demand response programs, grid-optimization efforts, and electrification projects to enhance system performance. Together, these types of initiatives support energy reliability and a more resilient grid.

CHALLENGES

While TVA has made advancements in growing generation capacity, there are a variety of challenges to overcome. These include financing limitations, workforce shortages, supply chain bottlenecks, extreme weather, and cybersecurity risks. Any of these singularly

could stall progress to meet electricity demand. In combination, they could derail TVA's mission to keep the lights on for the 10 million people of the Tennessee Valley.

Financing

Congress imposed a statutory debt ceiling of \$30 billion which has not been raised since 1979. At the end of fiscal year (FY) 2025, TVA's statutory debt load was \$22.1 billion. This ceiling limits capital investments across nuclear, gas, and grid systems. To stay within the \$30 billion cap and still meet generation demand, TVA will evaluate alternative financing methods such as sale and lease back arrangements and partnerships to grow capacity without adding to the debt. A 2025 cooperative agreement with Type One Energy explores developing plans for a 350-megawatt fusion pilot plant called Infinity Two, with possible siting at retired fossil fuel sites like Bull Run. TVA is also working with Kairos Power and Google on a first-of-a-kind power purchase agreement for advanced nuclear. The agreement secures up to 50 megawatts from Kairos's Hermes 2 molten-salt reactor, aimed at supporting Google data centers in Tennessee and Alabama beginning in 2030. This represents the first commercial commitment from an American utility to advanced nuclear technology, and it showcases a unique public-private partnership model. Additionally, in April 2026, Japan announced a \$40 billion investment in support for small nuclear reactors in Tennessee and Alabama. Details on how the funding will be distributed have not yet been announced.

While increased demand requires TVA to make significant investments to grow generation, it must maintain financial health and ensure electricity rates are as low as feasible. To fund the investments, TVA needs to obtain the least-cost financing, which could necessitate increasing the statutory \$30 billion debt cap. Data center demand climbed to 15 percent of industrial load in 2025 in TVA's service territory and is projected to double by 2030. TVA has pledged to pursue electric rate fairness to mitigate the risk of other ratepayers

subsidizing the costs incurred to meet data center demands. TVA is developing a separate rate class specifically for data centers to pay for the cost of their service and is considering higher electricity rates for other heavy users to avoid disproportionate residential and other industrial customer rate increases.

Workforce

Workforce shortages pose a strategic vulnerability. Utilities across the nation are facing the same growth challenges as TVA, resulting in intense competition for talent. Skilled craft labor and talent with expertise needed to solve complex work challenges are difficult to recruit in tight labor markets. For TVA to lead nuclear advancements and complete aggressive major project buildouts, it is vital for TVA to attract and retain necessary talent. Anything less could derail its ability to meet growing electricity demand. In response, TVA has funded a registered apprenticeship program for craft labor and a \$3 million endowment for a nuclear engineering chair at the University of Tennessee, Knoxville. Despite these efforts, it will take years to increase the pool of talent needed, and those new to the pool will not yet have the expertise of seasoned professionals.

Supply Chain

Just as other utilities are competing with TVA for labor, they are also competing for materials to support new generation buildouts and grid upgrades, resulting in supply chain bottlenecks and higher costs. Multi-year lead times for critical parts and components persist as energy demand grows.

Extreme Weather

Extreme weather has driven new demand peaks. Over the last two years, TVA reached new demand peaks with 34,577 megawatts in 2024 and 35,430 megawatts in 2025. It is during these peaks that TVA faces the largest risk of maintaining electricity reliability. While TVA can purchase power from neighboring utilities, they too are experiencing the same increased demand and, as a result, may have less excess power to sell to TVA. To offset the risk of blackouts, TVA is entering into demand response programs with industrial customers where they agree to reduce energy consumption during peak demand on the grid. TVA is supporting local power companies to offer similar incentives to residents.



Cybersecurity

TVA's role as both the nation's largest public utility and a government corporation make it a prime target for cyberattacks. Bad actors view utilities as high-value targets because disruption has both economic and public safety implications. In 2024, cyberattacks against U.S. utilities spiked 70 percent, and that trend continued into 2025. Energy and utility networks are deeply connected, often relying on numerous third-party vendors and service providers. Each one introduces potential entry points for hackers looking to attack. Cyber pre-positioning is a strategic tactic where state-sponsored actors infiltrate critical infrastructure networks to establish long-term hidden access and then wait for a future crisis to attack. Cyberattacks across federal agencies are also on the rise with increased targeting by nation-state actors. While TVA is diligent in putting defenses in place, tools like artificial intelligence have changed the landscape of threats.

As TVA navigates unprecedented electricity demand growth, it must manage economic development growth consistent with the growth of generation availability. As it invests to build new generation assets, especially the first-of-a-kind generation, it needs to ensure a fair and equitable process for setting rates for the varying types of ratepayers, including residential, industrial, and other government agencies. Both the location and amount of new generation must be planned carefully to ensure a balanced transmission grid.

OUR ROLE

TVA's approach offers a forward path, but its next steps make the difference between promises and delivery. Our oversight role discussed in this semiannual report is focused on a wide range of risks. True to our mission, our efforts are focused on ensuring TVA operates in an efficient and effective manner, and the prevention and detection of fraud, waste, and abuse.



Kingston Fossil Plant

NOTEWORTHY EVENTS



The Richard W. Moore Leadership Award

Under the leadership of the Honorable Richard W. Moore, Inspector General (IG), 2003-2017, the OIG championed the value of maintaining a healthy workplace culture to support both employee engagement and operational excellence. Through his leadership, the TVA OIG engaged in establishing sustainable programs to advance workplace culture. These efforts resulted in the OIG being recognized as one of the Best Places to Work in the Federal Government in its category. Richard, along with Jill Matthews, Deputy IG, and Terri Beatty, Assistant IG Administration, actively supported the Council of the Inspectors General on Integrity and Efficiency (CIGIE) community by sharing our approach, inspiring and supporting other IGs to focus on improving their culture as well. After Richard's retirement, this focus was continued with the leadership of the Deputy IG Jill Matthews, and

IG Ben Wagner remains focused on it today. In total, the OIG was awarded as one of the Best Places to Work by the Partnership for Public Service for six years in a row.

In honor of Richard's leadership and impact, the OIG has established an annual recognition award in his name that will be awarded to the individual or individuals that best reflect the continuation of those values and behaviors.

It is with great honor that the first-year award was presented to Jill and Terri in recognition of exemplary leadership and dedication to the TVA OIG values and workplace culture. The first ever Richard W. Moore Leadership Award was presented at an All Hands meeting on November 13, 2025.

TVA OIG Making a Difference

TVA OIG hosted a food drive in support of the 2025 Combined Federal Campaign, partnering with Second Harvest Food Bank of East Tennessee. The food drive not only raised awareness about hunger in our community, but also helped Second Harvest in their mission to support those in East Tennessee experiencing food insecurity. The donation resulted in 6,617 pounds of nonperishable food, which will provide approximately 5,514 meals to neighbors facing hunger across our service area.

In addition to the food drive, employees had the opportunity to make a difference in local communities by volunteering at Muse Knoxville, Humane Society of the Tennessee Valley, Knoxville's Lakeshore Park cleanup, and the local Food Bank in Chattanooga, Tennessee.



EXECUTIVE OVERVIEW

TVA manages one of the nation's largest public power systems and faces a variety of strategic, operational, and compliance risks as the energy landscape rapidly evolves. As TVA continues to build new generation and integrate new nuclear technologies to increase capacity, it must also keep at the forefront the need to maintain high reliability and keep rates as low as feasible.

The TVA OIG provides independent oversight with the vision to help make TVA better. Through audits, evaluations, and investigations, the OIG identifies vulnerabilities, promotes efficiency, and addresses concerns involving fraud, waste, or misconduct. By delivering objective analysis and actionable recommendations, the OIG supports TVA leadership in making informed decisions, enhancing transparency, and improving operations for the 10 million people of the Tennessee Valley.

AUDITS

Our audit organization includes three departments that focus on contract audits, financial and operational audits, and information technology (IT) audits. During this reporting period, these teams completed 15 audits, including five contract compliance audits that identified potential overbillings and excessive payments of almost \$34.4 million.

Contract Audits

To support TVA management in negotiating procurement actions, we completed five compliance audits of contracts with approved expenditures totaling \$763 million related to (1) coal combustion residual conversion program services; (2) energy efficiency services in support of TVA's EnergyRight® Services for Business and EnergyRight® Services for Industry; (3) nuclear modification, outage, and supplemental maintenance services; (4) designing, furnishing, and installing power transformers and related equipment at TVA designated locations; and (5) electrical and telecommunication staff augmentation services. These audits identified potential overbillings and excessive payments of \$34.4 million. The Contract Audits section begins on page 25 of this report.

Financial and Operational Audits

With a focus on financial reporting, compliance with applicable laws and regulations, and TVA operations, we completed audits of TVA's (1) surplus inventory, (2) unmanned aircraft systems program, (3) business meetings and external relationship events, and (4) tool management controls. In addition to our audit work, we monitored the audit of TVA's FY 2025 financial statements by an external auditor and applied agreed-upon procedures related to TVA's 2025 Winning Performance (WP)/Executive Annual Incentive Plan (EAIP) measures. The Financial and Operational Audits section begins on page 27 of this report.

IT Audits

IT Audits completed five audits during the semiannual period. These included audits of (1) TVA's network security measures by performing a penetration test, (2) protection against a certain type of cyberattack, (3) transmission control center network cybersecurity, (4) third party security controls of a TVA benefit provider, and (5) backup and recovery of operational technology in TVA Gas Operations. The IT Audits section begins on page 30 of this report.



EVALUATIONS

Our Evaluations organization includes two groups, one of which focuses on TVA operations and one on project management processes. During this reporting period, our teams completed five evaluations that identified a number of opportunities for improvement.

Evaluations – Operations

The Evaluations – Operations group completed three evaluations during this semiannual period. These included evaluations of TVA's (1) oversight of contractor safety, (2) hydro life extension program, and (3) demand response program. The Evaluations – Operations section begins on page 33 of this report.

Evaluations – Projects

The Evaluations – Projects group completed two evaluations during this semiannual period. The Evaluations – Projects group completed evaluations of the (1) Shawnee selective catalytic reduction project and (2) SQN moisture separator reheater project. The SQN moisture separator reheater project identified \$3.5 million in billings by the contractor partner for positions TVA had not authorized. The Evaluations – Projects section begins on page 35 of this report.

INVESTIGATIONS

During this reporting period, we opened 53 cases and closed 42. Investigation results included multiple convictions, indictments, and criminal restitutions and recoveries to TVA or other entities totaling more than \$3.7 million. The Investigations section begins on page 38 of this report.

STATISTICAL HIGHLIGHTS

October 1, 2025 - March 31, 2026

Audit Reports Issued	15
Evaluations Issued	5
Questioned Costs	\$37,933,120
Questioned Costs Agreed to by TVA	\$37,879,159
Questioned Costs Recovered by TVA	\$480,488
Funds to be Put to Better Use	\$0
Savings Realized by TVA	\$0
Investigations Opened	53
Investigations Closed	42
Recoveries/Fees/Savings	\$3,772,255
Waste/Other Monetary Loss	\$0
Criminal Forfeiture Ordered	\$0
Civil Forfeiture Ordered	\$0
Criminal Actions	4
Management Actions	12

ORGANIZATION

Since 1985, the OIG has worked to help TVA become better. Through our audits, evaluations, and investigations, we provide TVA management, the TVA Board, and Congress with an independent look at the economy, efficiency, and effectiveness of TVA programs and help prevent and detect fraud, waste, and abuse. Over the years, the OIG has helped TVA save or recover millions of dollars and recommended numerous program improvements. We credit our success to the efforts of our hardworking and talented staff and the professional responsiveness of TVA management to our recommendations.



ADMINISTRATION

The Administration team works closely with the IG, Deputy IG, and Assistant IGs to support the day-to-day operations of the OIG and to develop policies and procedures designed to drive and enhance productivity, quality, and compliance, all of which help achieve office goals. Responsibilities include personnel administration, budget and financial management, purchasing and contract services, facilities coordination, training-event coordination, strategic planning, communications facilitation, and IT support.

AUDITS AND EVALUATIONS

The Audits and Evaluations teams perform a wide variety of engagements designed to promote positive change and provide assurance to TVA stakeholders. Based upon the results of these engagements, the Audits and Evaluations teams make recommendations to enhance the effectiveness and efficiency of TVA programs and operations and save or recover money.

The organizations use an impact- and risk-based approach to develop an annual work plan. In developing the plan, the OIG considers TVA's strategic plans, major management challenges, TVA's enterprise risk management process, and other input from TVA management. This planning model also evaluates each potential engagement from the standpoint of materiality (i.e., costs or value of assets), potential impact, sensitivity (including public and congressional interest), and the likelihood it will result in significant recommendations for cost savings, recovery of dollars, or process improvements. The result of the

OIG Audits and Evaluations planning process is a focus on the issues of highest impact and risk to TVA. These issues vary depending on the objectives of the project. The graphic on page 22 shows some representative examples of issues our audit and evaluation projects are commonly designed to identify.

The Audits team conducts performance audits of TVA programs and operations, providing insight into TVA's overall fiscal and operational health. The organization is made up of three departments—Contract Audits, Financial and Operational Audits, and IT Audits. The Audits organization performs its work in accordance with *Government Auditing Standards*.

- Contract Audits has lead responsibility for contract compliance audits and preaward examinations. In addition, this department performs audits of TVA contracting processes.
- Financial and Operational Audits is responsible for performing audit work mandated by legislation, agreed-upon procedures, and risk-based audits associated with TVA financial and operational activities. The work stems largely from mandated activities, review of TVA's business-risk environment, consideration of emerging issues, and requests. This department also provides oversight of the TVA external auditor's compliance with professional standards.
- IT Audits has lead responsibility for audits relating to the security of TVA's IT infrastructure, application controls, and general controls associated with TVA systems. This department also performs operational audits of the effectiveness of IT-related functions.

TYPES OF AUDIT & EVALUATION ISSUES

Contract Audits	Financial & Operational Audits	IT Audits	Evaluations - Operations	Evaluations - Projects
<ul style="list-style-type: none"> ➤ Inflated Proposals ➤ Contract Overpayments ➤ Inferior Performance ➤ Fraud 	<ul style="list-style-type: none"> ➤ Program Inefficiencies/ Ineffectiveness ➤ Legal/Regulatory Noncompliance ➤ Policy Noncompliance ➤ Internal Control Deficiencies ➤ Fraud 	<ul style="list-style-type: none"> ➤ Internal Control Deficiencies ➤ Policy Noncompliance ➤ Integrity of Data and Assets ➤ Cybersecurity ➤ Fraud 	<ul style="list-style-type: none"> ➤ Operational Efficiency ➤ Policy Noncompliance ➤ Legal/Regulatory Noncompliance ➤ Fraud 	<ul style="list-style-type: none"> ➤ Project Management ➤ Contractor Performance ➤ Contractor Waste ➤ Fraud

The **Evaluations team** assesses both operational and management oversight of projects across TVA to ensure objectives and operational functions are achieved effectively and efficiently. This organization is made up of two departments—one focusing on TVA operations and one on project management and oversight. This organization performs its work in accordance with *Quality Standards for Inspection and Evaluation* as prescribed by the CIGIE.

- Evaluations – Operations performs both comprehensive reviews and more limited-scope policy and program reviews to monitor compliance and assess the efficiency and effectiveness of operations.
- Evaluations – Projects performs risk-based evaluations focusing on the effectiveness and efficiency of project management.

INVESTIGATIONS

The **Investigations team** focuses on proactive and reactive efforts to uncover fraud, waste, and abuse in TVA programs and operations. This organization performs its investigations in accordance with the *Quality Standards for Investigations* as prescribed by the CIGIE, applicable U.S. Attorney General Guidelines, and other guiding documents. OIG special agents maintain liaisons with federal and state prosecutors and notify the U.S. Department of Justice whenever the OIG has reason to believe there has been a violation of federal criminal law. Special agents partner with other investigative agencies and organizations on special projects and assignments, including interagency law enforcement task forces on terrorism, the environment, healthcare, and public corruption. The graphic on page 23 shows the major categories of investigations.

LEGAL

The **OIG Legal Counsel team** monitors existing and proposed legislation and regulations that relate to the mandate, operations, and programs of the OIG and TVA. Additionally, this team provides legal advice as needed for administrative, audit, evaluation, and investigative projects. OIG attorneys serve as ethics officials, providing OIG employees guidance on government ethics and standards of conduct. The TVA Whistleblower Protection Coordinator is also a part of this team and provides information regarding the statutory protections against retaliation for all TVA employees.

MAJOR CATEGORIES OF INVESTIGATIONS

<p>Employee Misconduct</p> <p>Misuse of TVA-furnished equipment, travel voucher fraud, a multitude of miscellaneous matters of abuse, conflict of interest, and violations of code of conduct</p>	<p>Environmental Crime</p> <p>Violations of environmental criminal law pertaining to the Tennessee River system and its watershed, along with violations relating to TVA land and facilities</p>	<p>Healthcare Fraud</p> <p>Intentional misrepresentation of healthcare services, expenses, billings, needs, or coverage that results in unauthorized payments or other benefits</p>	<p>Contract Fraud</p> <p>Defrauding TVA through its procurement of goods and services, including fraud schemes such as misrepresenting costs, overbilling, product substitution, and falsification of work certifications</p>
<p>Workers' Compensation Fraud</p> <p>Falsification of documents to receive payments by employees, former employees, or healthcare providers</p>	<p>Theft of Government Property and Services</p> <p>Theft of TVA property such as material, tools, equipment, or resources</p>	<p>Unauthorized Access into TVA Computer Systems</p> <p>Accessing a TVA computer without authorization or exceeding authorized access</p>	<p>Special Projects</p> <p>Management requests, data mining and predictive analysis, congressional and TVA Board requests, and Fraud Risk Assessments</p>

SUMMARY OF REPRESENTATIVE AUDITS

During this semiannual reporting period, the TVA OIG audit organization completed 15 audits, including five contract compliance audits that identified potential overbillings and excessive payments of almost \$34.4 million. We also identified several opportunities for TVA to improve the effectiveness and efficiency of its programs and operations.

CONTRACT AUDITS

Contract Compliance Reviews

In this period of construction, oversight of contractors is even more critical. In FY 2025, TVA spent about \$6.8 billion on contracts primarily for labor, services, materials, and equipment. During this semiannual period, our Contract Audits group completed five compliance audits of contracts with approved expenditures totaling \$763 million. These audits identified potential overbillings and excessive payments of \$34.4 million. Highlights of our completed compliance audits follow.

- We audited \$133.7 million in costs billed by a contractor for work performed in support of TVA's coal combustion residual conversion program. In summary, we determined:
 - The contractor overbilled TVA \$51,251, including (1) \$24,192 in ineligible fee and general and administrative costs, of which \$8,097 was due in part to contradictory language in the contract; (2) \$15,957 in a duplicate materials cost; and (3) \$11,102 in incorrect craft labor costs.
 - The contractor billed TVA for reimbursement of temporary living allowance (TLA) costs that were not supported. Specifically, the contractor billed TVA an average of \$4,396 per month per employee for TLA. However, the contractor only provided documentation supporting an average of \$2,310 per month per employee in TLA costs incurred. Based on our analysis and the contractor's inability to provide documentation supporting the full amount of TLA costs it incurred, we referred this matter to the OIG Investigations for further review.

In addition, we noted opportunities to improve contract administration by TVA related to (1) tax exemption requests, (2) craft labor rate schedules that did not match the Project Labor Agreement, and (3) TLA employee certification forms that were not notarized, as required by the contract.

TVA management agreed with our findings and stated they will (1) recover \$51,251 in overbilled and ineligible costs, (2) consider whether contract language should be revised to clarify intent, and (3) take action to address contract administration issues.

- We audited \$43.6 million in costs billed by a contractor for energy efficiency services provided in support of TVA's EnergyRight® Services for Business and EnergyRight® Services for Industry. The contract provided for TVA to (1) reimburse the contractor for incentives paid to program customers and (2) compensate the contractor on a time and materials (T&M) basis for services performed. The \$43.6 million in audited costs included \$23.7 million in incentives and \$19.9 million in T&M costs. In summary, we determined the contractor billed incentives in accordance with the contract terms. However, we determined the contractor overbilled TVA \$251,352 in T&M costs, including (1) \$242,985 in labor costs and (2) \$8,367 in travel costs. In addition, meals and incidental costs and lodging costs associated with travel were not billed in accordance with the contract, resulting in a net immaterial overbilling.

TVA management agreed with our findings and stated they will (1) recover \$251,352 in overbilled and ineligible costs and (2) work with the contractor to ensure travel costs are billed in accordance with the contract terms.

- We audited \$100 million in costs billed by a contractor for the services of qualified craft, noncraft, or staff augmented personnel to perform modification, outage, supplemental maintenance, and technical support work at TVA nuclear generating sites. In summary, we determined the costs billed by the contractor generally complied with the contract except for \$56,659 in overbilled costs. Specifically, we determined the contractor billed TVA (1) \$53,961 in ineligible incentives and (2) \$2,698 in ineligible labor costs.

TVA management agreed with our findings and stated they will recover \$2,698 in ineligible labor costs. However, TVA management stated they will not seek recovery of \$53,961 in ineligible incentives but stated they will revise the contract language to include reimbursement for craft incentive costs to match the parties' intent.

- We audited \$471 million in approved spending under purchase orders (PO) issued to a contractor to design, furnish, and install power transformers and related equipment at TVA designated locations. Our audit objectives were to determine (1) if costs billed to TVA and POs issued were in compliance with the contract's terms and (2) the reasonableness of TVA's process for evaluating the prices for products and services outside the contract's pricing schedule. We selected ten POs issued under the contract, which included six POs for transformers listed in the contract's pricing schedule and four POs for unique transformers or related services not listed on the contract's pricing schedule. We determined the costs for transformers included in the contract's pricing schedule did not always comply with the contract's pricing terms. Specifically, we found:

- Between 2022 and 2024, TVA issued POs with transformer prices that significantly exceeded the contract's pricing because of changing market conditions. This resulted in TVA agreeing to pay \$33.5 million more than the contract price for transformers on four POs. Contract No. 13814 expired in 2024. TVA executed a new contract

with the contractor in 2025, which included the necessary remediations to prevent TVA from agreeing to pay excessive transformer prices in the future.

- Although the contractor followed the contract's pricing on two POs we reviewed, the contractor used incorrect index values when adjusting the base transformer pricing, resulting in \$321,560 in overbilled transformer costs.

We also found the contractor billed TVA unsupported transportation costs in which the contractor subsequently provided the necessary supporting documentation. Additionally, for any transformer or transformer-related material, equipment, or services outside the contract's pricing schedule, we determined TVA's process for evaluating PO prices was reasonable.

TVA management agreed with the findings and stated they will (1) recover \$321,560 in overbilled costs due to incorrect index values and (2) require the contractor to provide support for the actual costs of transportation prior to payment.

- We audited \$15.1 million in costs billed by a contractor for electrical and telecommunication staff augmentation services. In summary, we determined the contractor overbilled TVA \$187,600, including (1) \$69,790 in fuel and oil costs not provided for in the contract, (2) a net \$65,805 due to duplicate and incorrectly billed invoices, (3) \$48,257 in overbilled labor costs, and (4) \$3,748 in unsupported travel costs. In addition, the contract's pricing schedule did not include the contractor's billing rates. Without billing rates, TVA's field invoice approvers do not have sufficient information to effectively review invoices.

TVA management agreed with the findings and stated they will (1) take action to recover \$187,600 in overbilled costs and (2) address the billing rate deficiency in future iterations of the contract.

FINANCIAL AND OPERATIONAL AUDITS

Our Financial and Operational Audits team focuses on our mandated responsibility to provide oversight of work performed by TVA's external auditor as well as performing reviews of corporate-related functions. During this semiannual period, Financial and Operational Audits completed audits of TVA's (1) surplus inventory, (2) unmanned aircraft systems program, (3) business meetings and external relationship events, and (4) tool management controls. In addition to our audit work, we monitored the audit of TVA's FY 2025 financial statements by an external auditor and applied agreed-upon procedures related to TVA's 2025 WP/EAIP measures.

Surplus Inventory

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.

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.

TVA management agreed with our findings and recommendations to improve the management of surplus inventory and provided actions they plan to take to address each of our recommendations.



Blue Ridge Dam

Unmanned Aircraft Systems Program

TVA's Unmanned Aircraft Systems (UAS) Program, managed by TVA's Aviation Services organization, was created in 2019 to provide integration, training, and management for the use of UAS at TVA. UAS, commonly referred to as drones, are defined as unmanned aircraft vehicles and their associated sensors and control systems. According to TVA, UAS offer unique safety and cost-saving opportunities while providing valuable aerial data. Organizations at TVA utilize UAS to perform work such as aerial surveys, thermal imaging, and inspections. These include routine and emergent inspections of transmission lines and equipment, substations, and telecommunications equipment. During calendar year 2024, the program included 121 UAS and 64 active pilots who conducted 1,985 flights.

We performed an audit of TVA's UAS Program due to the increased use of unmanned aircraft in TVA operations. Our audit objectives were to determine if TVA's (1) UAS Program was in compliance with applicable federal requirements and (2) use of unmanned aircraft was in compliance with applicable TVA policies. Our audit scope included TVA's use of unmanned aircraft from January 1, 2024, through December 31, 2024.

In general, we determined TVA's (1) UAS Program complied with applicable federal requirements and (2) use of unmanned aircraft complied with applicable TVA policies. However, we determined 2 of 64 pilots did not have the remote pilot certificate required to operate UAS. TVA management agreed with our recommendation to address verification of remote pilot certificates and provided actions they plan to take to address the recommendation.

Business Meetings and External Relationship Events

TVA routinely engages in business meetings and external relationship events to conduct business and develop improved relationships. TVA Standard Programs and Processes 13.063, *Business Meetings & External Relationship Events*, requires all employees responsible for planning a business meeting or external relationship event to ensure and document that the (1) business need

is justified; (2) expense is reasonable, proper, and an efficient use of TVA resources; and (3) cost is appropriate to the occasion or circumstance. Approving managers are responsible for ensuring that purchases are reasonable, for official business use, within the organization's approved budget, and in accordance with policies and procedures. To add an additional level of oversight for expenditures, TVA management reports these activities annually to the TVA Board.

We performed an audit to determine if expenditures reimbursed as business meetings or external relationship events complied with TVA policies and procedures and any other applicable guidance. Our audit scope included approximately \$7.1 million in business meetings and external relationship event expenditures occurring from January 1, 2024, through December 31, 2024.

We reviewed expenditures associated with 180 business meetings and external relationship events. We determined that while all expenditures for meetings/events were approved by TVA management or their delegates, a substantial number had expenditures that were not in compliance with policies and procedures. Specifically, these events/meetings included (1) disallowed expenses for team-building events and alcohol and (2) meals that exceeded allowable amounts. In addition, we identified approved expense reports for meetings/events that did not comply with documentation requirements. We also determined TVA could improve transparency in its annual reporting of expenditures to the TVA Board.

The noncompliance issues identified were the result of TVA's system of internal controls, including the key control, management review and approval of expenses, not operating effectively because policies and procedures were not followed or enforced by approvers of expenditures. This included expenditures made and/or approved by some executives that did not adhere to policies.

In response to our recommendations, TVA management stated, in the spirit of continuous improvement, they plan to (1) notify employees and managers of the individual audit findings and policy requirements, (2) update the annual



required training to emphasize areas with findings, (3) review and update the policy to meet business requirements, and (4) reassess TVA Board and management reporting.

Tool Management Controls

Between January 1, 2022, and July 8, 2025, TVA spent about \$47 million on tools across the fleet. Due to the amount spent on tools at TVA, we performed an audit of TVA's tool management controls. Our audit objective was to determine if controls are in place to safeguard tools at selected sites. Our audit scope was limited to controls in place at selected sites during our site visits which occurred between May 28, 2025, and June 17, 2025.

Each of the selected sites had some physical controls in place to safeguard tools; however, some sites had more controls in place than others. Specifically, all sites included in our scope used tool room attendants and physical access controls on the main tool room doors, but not all the sites used safeguards such as video surveillance or web-based tool tracking. Additionally, we determined the only policy or procedure in place to safeguard tools across TVA was Nuclear's Business Practice 226, *Tool and Equipment Accountability*, which we determined was not effectively implemented. We also determined that the limited guidance resulted in control weaknesses in tool management.

TVA management agreed with our recommendations to (1) evaluate physical controls to safeguard tools and determine the cost benefit of implementing the controls and (2) develop policies and procedures for tool management.

Oversight of the FY 2025 Financial Statement Audit

TVA contracted with the independent public accounting firm of Ernst & Young LLP (EY) to audit TVA's consolidated financial statements for the FY ending September 30, 2025. In addition, the contract called for EY to report on TVA's internal control over financial reporting and compliance with laws and regulations as of September 30, 2025, and to perform reviews of TVA's FY 2025 interim financial information filed on Form 10-Q with the U.S. Securities and Exchange Commission. The contract required EY's work be performed

in accordance with *Government Auditing Standards*. Our monitoring of their work disclosed no instances where the firm did not comply, in all material respects, with these standards.

Agreed-Upon Procedures for TVA FY 2025 Performance Measures

TVA's WP/EAIP is a performance management program designed to promote teamwork, focus on continued high performance, and motivate and reward employees for achieving strategic objectives and critical success factors. We applied agreed-upon procedures, which were requested and agreed to by TVA management solely to assist management in determining the validity of the WP/EAIP measures for FY ending September 30, 2025. TVA management is responsible for the WP/EAIP measures data provided. In summary, we found:

- FY 2025 WP goals for the enterprise measures were properly approved.
- Actual FY-to-date results for the enterprise measures agreed with the underlying support, without exception.
- FY 2025 WP, EAIP, and Chief Executive Officer payout percentages provided by the Enterprise Financial and Performance Reporting organization on October 31, 2025, were mathematically accurate and agreed with the OIG's recalculation.

IT AUDITS

As part of the nation's critical energy infrastructure and as a government corporation, cybersecurity remains a high risk for TVA. In addition, TVA's reliance on information technology and data is key for continued operations. During this semiannual period, our IT Audits group completed the following audits focused on TVA's cybersecurity and operations: (1) TVA's network security measures by performing a penetration test, (2) protections against a certain type of cyberattack, (3) transmission control center network cybersecurity, (4) third party security controls of a TVA benefit provider, and (5) backup and recovery of operational technology in TVA Gas Operations. For the first three IT Audit summaries that follow, specifics

are being withheld from public release due to their sensitive nature in relation to TVA's cybersecurity.

TVA Penetration Test

An important test of the security posture of TVA is a penetration test which seeks to identify and exploit vulnerabilities in a network, systems, and applications. We performed a penetration test of TVA's network, systems, and applications to determine if vulnerabilities and other cybersecurity weaknesses were present and exploitable. We made five recommendations, each of which TVA management agreed with and provided planned actions.

Protection Against a Specific Type of Cyberattack

TVA has protections in place for various types of cyberattacks. We audited TVA's protection mechanisms for a specific cyberattack to determine if TVA's protection mechanisms to prevent or protect against that type of cyberattack were adequately designed, properly implemented, and operating effectively. We made two recommendations, each of which TVA management agreed with and provided planned actions.

Transmission Control Center Network Cybersecurity

We performed an audit of TVA's transmission control center network cybersecurity. Our objective was to determine if TVA has sustainable processes for identifying, implementing, and managing the network architecture to reduce the overall cybersecurity risk to TVA resources in their transmission networks. The audit scope was limited to TVA's transmission control center network. We made one recommendation, with which TVA management agreed and provided planned actions.

Third Party Security Controls

The protection of TVA employee information held by a third party is a significant risk for TVA and TVA employees. As such, we performed an audit of one of TVA's benefit

provider's security controls. Our audit objective was to determine if the provider had controls in place to meet contract requirements for the protection of data held by the vendor on behalf of TVA. We determined the provider had controls in place to meet the contract requirements for the protection of data held on behalf of TVA. However, we identified wording in the contract that could be improved to avoid potential confusion. TVA management agreed with our recommendation and incorporated improvements into a recent contract amendment.

Backup and Recovery of Operational Technology – Gas Operations

Because of the risk of critical equipment failure, cyber exploitation of generation assets, and a previous audit finding related to contingency plans at gas plants, we performed an audit of backup and recovery of operational technology assets at TVA's natural gas plants. Our objectives were to determine if the backup and recovery process for operational technology cyber assets at TVA natural gas plants were (1) designed in accordance with federal guidance and (2) operating as defined by TVA policy.

We determined TVA Generation's backup and recovery procedure was designed in accordance with federal guidance for backups, restoration testing, reliability and integrity testing, critical and alternate storage, recovery, and restoration within timeframe. However, the (1) procedure did not align with federal guidance for encryption and (2) process for backup and recovery was not operating as defined by TVA Generation's procedure. Additionally, none of the plants selected for testing had a documented backup and recovery plan as required by procedure. TVA management agreed with our recommendations to (1) revise and communicate the backup and recovery procedure and (2) develop backup and recovery plans for each plant.

SUMMARY OF REPRESENTATIVE EVALUATIONS

Evaluations performs both comprehensive reviews and more limited-scope policy and program reviews to monitor compliance and assess the efficiency and effectiveness of operations. During this semiannual reporting period, our Evaluations teams completed five evaluations and identified \$3.5 million in billings by a contractor for positions TVA had not authorized.

EVALUATIONS – OPERATIONS

The Evaluations – Operations group provides independent insight across the full breadth of TVA's operations, examining performance and risk across TVA's diverse generating portfolio which includes hydroelectric dams, nuclear, gas, and coal plants—as well as the extensive transmission network. The team assesses how effectively TVA manages programs that impact operations, reliability, and safety. During this semiannual reporting period, the Evaluations – Operations department completed three evaluations, including reviews of TVA's (1) oversight of contractor safety, (2) hydro life extension program, and (3) demand response program.

Oversight of Contractor Safety

The Occupational Safety and Health Administration states that establishing a safety and health program is one of the most effective ways of protecting workers. TVA Standard Programs and Processes 18.004, *Contractor Safety Management*, establishes the contractor safety program and defines oversight requirements for managed task contractors and subcontractors working on TVA-owned-or-controlled sites to meet state and federal safety and health regulations.

TVA Standard Programs and Processes 18.004 outlines several contract pre-mobilization requirements, including requiring all contractors to submit a Site-Specific Safety and Health Plan (SSSHP), which should adequately identify hazards inherent to the work environment and address safe-work practices based on the scope of work identified in the contract. In addition, the process requires (1) a TVA contractor oversight representative (COR) be assigned as the single point of contact for providing appropriate technical direction and oversight of work performed by each contractor and (2) TVA Safety to conduct audits of contractor safety

performance. Due to the importance of the health and safety of personnel working at TVA sites, we performed an evaluation of TVA's oversight of contractor safety. The objective of the evaluation was to determine if TVA was providing oversight of contractor safety in accordance with the contractor safety program.

We determined TVA was not providing adequate oversight of contractor safety in accordance with the contractor safety program. While some oversight was provided through tracking and trending of contractor safety performance, there were several areas that were not adequate. Specifically, TVA (1) could not provide completed SSSHPs for some contracts, (2) could not identify the COR for most of the contracts we reviewed or provide documentation that some of their responsibilities were being performed, and (3) did not perform safety audits as required.

TVA management provided planned actions to address our recommendations related to (1) completing SSSHPs, (2) assigning CORs for each contract and increasing awareness of CORs' responsibilities, and (3) conducting audits of safety performance as required.

Hydro Life Extension

TVA has 109 conventional hydroelectric generating units with a combined capacity of 3,783 megawatts. The hydro fleet supports TVA's mission of providing clean, reliable, and affordable electricity to people and businesses of the Tennessee Valley. As of 2021, 53 of TVA's 109 hydro units had low asset health scores indicating the need for repair. To extend the life of the hydro fleet, the Hydro Life Extension (HLE) program was formed in 2021. Due to the importance of TVA's hydro fleet in providing low cost, clean, and reliable energy, we performed an evaluation of TVA's HLE program to determine if the program was

achieving intended results. We determined the HLE program achieved the intended results on completed projects for availability, efficiency, and flexibility, but did not meet the efficient project execution goal for some projects. Specifically, all HLE projects met budget targets, but only two met in-service date targets. Variances between target and actual in-service dates ranged from 59 to 261 days.

While HLE projects have increased the maximum output capability, these additional megawatts cannot be transmitted to the system due to transmission limits for the hydro sites. The transmission limits (1) were not evaluated during HLE project planning and (2) have not been increased due to a lack of funding. In addition, we found one lesson learned related to cost and schedule had not been incorporated into future projects as required.

TVA management provided planned actions to address our recommendations to (1) develop a plan to determine which hydro plant transmission upgrades to pursue and responsibilities for funding, (2) formalize a process to evaluate transmission impacts in the planning phase for HLE projects, and (3) reinforce the expectation to incorporate lessons learned.

TVA Demand Response

TVA makes investments in energy efficiency (EE), demand response (DR), renewable, and resiliency programs, as part of its commitment to meet the Tennessee Valley's growing energy needs and to support a decarbonized and more resilient grid. DR programs offer incentives for electric utility customers to reduce their energy use during peak demand which reduces the need for generation and helps offset market purchases during times of peak cost. TVA is expanding its portfolio and plans to invest more than \$1.5 billion in its EE and DR programs from FY 2024 through FY 2028. Due to the risk of TVA's investment not meeting the anticipated reduction in energy needs, we performed an evaluation to determine if TVA's investment in DR programs was delivering intended benefits. While the Demand Management (DM) organization increased the DR curtailment capacity, they did not meet the targets for FY 2024 or FY 2025. The curtailment capacity achieved was 27 percent less than planned in FY 2024 and 23 percent less than planned in FY 2025.

We identified two contributing causes for not achieving the DR program targets for curtailment capacity: (1) the planned increases in DR capacity were set before some

new and redesigned programs were completed, which resulted in inaccurate estimates; and (2) there were challenges with implementation and adoption of new and redesigned DR programs that impacted achievement of the goal. Not achieving the planned curtailment capacity could result in increased cost to TVA. Planned curtailment capacity is included in TVA's strategy to meet demand. If DM does not achieve its goals, TVA could be required to meet the demand with purchased power. Since DR programs are mainly used when demand and, therefore, prices are the highest, purchasing the necessary capacity can be costly.

TVA management agreed with our recommendation and provided actions taken to determine if impacts from program implementation and adoption challenges had been incorporated into future goals.

EVALUATIONS – PROJECTS

Strong project management is critical at this time in TVA's history in which TVA is focused on building new generation, upgrading transmission, and extending the life of current assets to meet the growing demand in the Valley. Our Evaluations – Projects group is focused on reviews of how well TVA is managing these projects. During this semiannual reporting period, this group completed evaluations of the (1) Shawnee selective catalytic reduction project and (2) SQN moisture separator reheater project.

Shawnee Selective Catalytic Reduction Project

TVA's Shawnee Fossil Plant (SHF), located in Paducah, Kentucky, has nine active units with a maximum generating capacity of more than 1,100 megawatts. In 2023, changes to the Clean Air Act required the reduction of nitrogen oxide (NOx) from power plants. To comply with the changes, TVA made the decision to install Selective Catalytic Reduction (SCR) systems¹ on SHF Units 2,

3, 7, and 8 and entered into a \$59.5 million contract for the design and delivery of SCR systems. The contract included over \$732,000 for contractor services related to start up and commissioning for the SCRs, which included tuning. The contract also included performance guarantees for meeting metrics such as NOx emissions, ammonia slip limits,² and system pressure drop. Due to the importance of complying with environmental regulations and the cost of the project, we initiated an evaluation to determine whether performance guarantees were met for the SHF SCR project.

We determined metrics associated with performance guarantees for the SHF SCR project were met. However, TVA project support personnel performed the SCR tuning, which was a defined contractor responsibility. This resulted in unnecessary risk and additional cost to TVA.

TVA management agreed with our recommendations related to evaluating risk associated with TVA's performance of SCR tuning and education of project support personnel's roles and responsibilities to help ensure contract compliance.

Sequoyah Nuclear Plant Moisture Separator Reheater Project

During FY 2024, TVA communicated its intent to invest approximately \$7 billion over the next 20 years to ensure safe and reliable operations of its three nuclear sites. This investment is to extend and preserve the life of its nuclear units and will be accomplished through nuclear life extension (NLE) projects. MSRs are a major plant asset that will be included in the NLE focus. SQN's Unit 1 includes six MSRs located at the SQN Turbine Building. These MSRs have been in place since SQN Unit 1 entered commercial operation in 1981.

In February 2020, because of MSR performance degradation and the risk to plant operability, SQN issued a purchase order to an original equipment



Shawnee Fossil Plant

¹ SCR systems are an emission control technology designed to remove NOx from flue gases emitted by combustion sources.

² Ammonia slip is the amount of unreacted ammonia emitted from the SCR control equipment, as collected and measured pursuant to testing methods.

manufacturer (OEM) to perform a study on improvement options for the MSRs. The OEM recommended that SQN perform a complete MSR replacement with new MSRs that were 6.5 feet longer and approximately 75,000 pounds heavier than the existing MSRs. The new MSRs could also provide an increase in capacity of approximately 10 megawatts. TVA accepted the OEM's recommendation and initiated the SQN Unit 1 MSR replacement project.

The project's initial forecasted cost was \$43.6 million with an in-service date of December 31, 2022. By September 2024, the forecasted cost had increased to \$93.9 million with a December 31, 2025, in-service date. Because of the operational and financial impact to SQN, we performed an evaluation to determine the reasons for cost increases and schedule delays of the MSR replacement project.

We determined the primary reason for the cost increases and schedule delays for the MSR replacement project was the initial estimate and schedule did not fully consider the scope of the structural modifications necessary to support the increased size and weight of the new MSRs. As a result, TVA spent more than three years evaluating options without an identified solution. With the cost estimate increasing and over \$55 million spent, TVA deferred the MSR replacement project and instead planned a partial refurbishment project. As of December 2025, the partial refurbishment project was complete and in service with a spend of approximately \$37 million. TVA continues to evaluate the feasibility of utilizing the six purchased MSRs, which cost \$25.4 million, on future projects.

We also identified other cost increases related to storage costs resulting from project delays, the initial installation estimate being understated, and \$3.5 million in billings by the contractor partner for positions TVA had not authorized.

In addition, we determined the MSRs were not purchased as quality-related components in accordance with TVA's Nuclear Regulatory Commission approved Nuclear Quality Assurance Plan (NQAP). The NQAP details the steps necessary for properly overseeing the manufacture of quality-related nuclear plant components. Since the MSRs

were not manufactured in accordance with the NQAP, they may require additional evaluation to determine if they can be used at SQN or another site in the future. We also found that the MSR quality-related identification and purchasing issues were not properly documented in TVA's Corrective Action Program (CAP), as required.

Lastly, we identified actions that increased risk to TVA, including the (1) OEM being absolved of liability related to the study of improvement options for the MSRs, (2) contracting officer not being included in some contract changes, and (3) OEM not being held accountable for procuring components from unapproved sources.

TVA management agreed with or will perform further review for seven of the OIG's recommendations related to (1) identifying and evaluating key project assumptions and risks; (2) evaluating the process for project estimates; (3) evaluating vendor charges; (4) recovering unauthorized charges; (5) implementing a process to ensure an engineering review is performed for long-lead procurements; (6) documenting MSR issues in the CAP; and (7) determining why issues were not documented in the CAP in a timely manner. However, TVA management disagreed that the MSRs were not procured in accordance with TVA's NQAP.



Sequoyah Nuclear Plant

SUMMARY OF REPRESENTATIVE INVESTIGATIONS

During this reporting period, we opened 53 cases and closed 42. Our investigations have resulted in significant civil, criminal, and administrative outcomes. Highlights of investigative accomplishments follow.

International Power Equipment Manufacturer Agrees to Pay \$2,750,000 in Civil Penalties to Settle Allegations Under the False Claims Act

In September of 2025, an international power equipment manufacturer agreed to settle allegations under the False Claims Act (FCA) related to invoices paid by TVA under a contract for the purchase of power equipment for the TVA Allen Combined-Cycle Power Plant, a natural gas-fired power plant located near Memphis, Tennessee. The United States contended that the invoices were, in part, for factory acceptance testing results that included false data. Under the settlement, the international power equipment manufacturer will pay civil penalties in the amount of \$2,750,000.

Community Action Partnership Employee Pleads Guilty to Fraud Involving Federal Programs

TVA OIG, Federal Bureau of Investigation (Huntsville, Alabama), and Health and Human Services (HHS) OIG investigated concerns of corruption involving Megan Tillery, a Community Intake Specialist employed with the Community Action Partnership (CAP) of Madison and Limestone Counties in Alabama. Ms. Tillery's job at CAP included administering Low Income Home Energy Assistance Program (LIHEAP) benefits to eligible residents. LIHEAP is a federally funded program administered by HHS, which along with funds from TVA programs, provides assistance to eligible households to pay their utility bills and expenses.

The Alabama Department of Economic and Community Affairs (ADECA) manages federally funded programs, including LIHEAP, administered by the state. ADECA partners with nonprofit entities in each county to process

applications and make payments of LIHEAP funds to utility companies on behalf of eligible households.

On March 5, 2025, Ms. Tillery was indicted in the U.S. District Court, Northern District of Alabama, on multiple counts of Use of a Facility in Interstate Commerce in Furtherance of Unlawful Activity in violation of 18 U.S.C. § 1952(a)(3). On October 9, 2025, Ms. Tillery pled guilty to one count of 18 U.S.C. § 1952(a)(3) and is currently awaiting sentencing.

Individual Pleads Guilty to Making False Statements in Furtherance of Cares Act Fraud

TVA OIG participates in the Pandemic Response Accountability Committee (PRAC) Fraud Task Force. The PRAC was established by Congress in March 2020 to promote transparency and facilitate coordinated oversight of the federal government's COVID-19 pandemic response. The PRAC's member Inspectors General identify major risks that cross program and agency boundaries to detect fraud, waste, abuse, and mismanagement in the more than \$5 trillion in COVID-19 spending, including spending via the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (COVID-19 EIDL) program. In July 2025, the One Big Beautiful Bill Act (Public Law 119-21) extended the PRAC's sunset date until September 30, 2034, and expanded its jurisdiction to programs funded in the bill.

In 2022, the TVA OIG received law enforcement information alleging multiple individuals, including Wilbert S. Cannaday, Jr., were suspected of obtaining fraudulent CARES ACT funds via PPP and COVID-19 EIDL. Subsequently, through TVA OIG's participation in the PRAC Task Force, the case was assigned to TVA OIG for investigation.

The investigation into Cannaday revealed he received a combined total of \$76,291 in fraudulent PPP and EIDL loans. In applying for his PPP and COVID-19 EIDL loans, Cannaday claimed to be operating three separate businesses, including a full-service restaurant, out of a single-family residence. He also utilized fraudulent tax forms and altered bank statements in his applications. The PPP and COVID-19 EIDL funds received were then withdrawn in-person or via ATM or used for personal expenses.

In October of 2025, Cannaday was indicted on two counts of Wire Fraud and two counts of False Statements. Subsequently, Cannaday pled guilty to Count 3 of making a false statement in violation of 18 U.S.C. § 1001 in December 2025. Sentencing is currently set for April 2026.

TVA Employee Resigns in Lieu of Termination After Investigation Finds He was Working for a Private Company During TVA Employment

The OIG completed an investigation regarding an allegation of unreported external employment by a TVA Information Technology employee. In addition to working for TVA, the employee was also purportedly working for a private corporation.

The employee was hired by TVA in June 2023, as a business analyst, working 40 hours per week, Monday through Friday, from 8:00 a.m. to 4:45 p.m. The investigation verified the employee was also employed with a private corporation from June 2021 through July 2025, as a full-time senior business analyst, working 40 hours per week, Monday through Friday, from 8:00 a.m. to 5:00 p.m. None of the employee's work at the private corporation involved TVA.

As a result of the investigation, in March 2026, TVA determined the employee's behavior was unacceptable and the employee was allowed to resign in lieu of termination for violation of TVA Standard Programs and Processes 11.316, *Employee Discipline/Code of Conduct/Policy Procedure*, as well as the Standards of Ethical Conduct for Employees of the Executive Branch Subpart G – *Misuse of Position*, C.F.R. § 2635.705 *Use of Official Time*.



LEGISLATION AND REGULATIONS



In this section of our semiannual report, it is our intent to address only current and pending legislation which relates to the economy or efficiency of TVA operations when we have recommendations or comments to make to Congress regarding the legislation. At times, we may direct recommendations to general positions and issues, particularly when there are multiple bills dealing with the issue. At other times, we anticipate making recommendations relating to particular statutes and bills and their particular wording.

During this reporting period, we are not making any recommendations to Congress regarding current or pending legislation.

APPENDICES

APPENDIX 1

INDEX OF REPORTING REQUIREMENTS UNDER THE INSPECTOR GENERAL ACT

REPORTING	REQUIREMENT	PAGE OR APPENDIX
Section 4(a)(2)	Review of legislation and regulations.	42-43
Section 5(a)(1)	Description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the establishment and associated reports and recommendations for corrective action made by the Office of the Inspector General.	24-41
Section 5(a)(2)	Identification of each recommendation made before the reporting period, for which corrective action has not been completed, including the potential costs savings associated with the recommendation.	Appendix 3
Section 5(a)(3)	Summary of significant investigations closed during the reporting period.	38-41
Section 5(a)(4)	Identification of the total number of convictions during the reporting period resulting from investigations.	Appendix 4
Section 5(a)(5)	Information regarding each audit, inspection, or evaluation report issued during the reporting period, including (a) a listing of each audit, inspection, or evaluation; (b) if applicable, the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use, including whether a management decision had been made by the end of the reporting period.	Appendix 2
Section 5(a)(6)	Information regarding any management decision made during the period with respect to any audit, inspection, or evaluation issued during a previous reporting period.	Appendix 3
Section 5(a)(7)	Information described under Section 804(b) of the Federal Financial Management Improvement Act of 1996.	Not Applicable
Section 5(a)(8)	Appendix containing the results of any peer review conducted by another Office of the Inspector General during the reporting period; or if no peer review was conducted within that reporting period, a statement identifying the date of the last peer review conducted by another Office of the Inspector General.	Appendix 8
Section 5(a)(9)	List of any outstanding recommendations from any peer review conducted by another Office of the Inspector General that have not been fully implemented, including a statement describing the status of the implementation and why implementation is not complete.	None
Section 5(a)(10)	List of any peer reviews conducted of another Office of the Inspector General during the reporting period, including a list of any outstanding recommendations made from any previous peer review (including any peer review conducted before the reporting period) that remain outstanding or have not been fully implemented.	Appendix 9
Section 5(a)(11)	Statistical table showing (a) the total number of investigative reports issued during the reporting period; (b) the total number of persons referred to the Department of Justice for criminal prosecution during the reporting period; (c) the total number of persons referred to state and local prosecuting authorities for criminal prosecution during the reporting period; and (d) the total number of indictments and criminal informations during the reporting period that resulted from any prior referral to prosecuting authorities.	Appendix 6

INDEX OF REPORTING REQUIREMENTS UNDER THE INSPECTOR GENERAL ACT
(CONTINUED)

REPORTING	REQUIREMENT	PAGE OR APPENDIX
Section 5(a)(12)	Description of the metrics used for developing the data for the statistical tables under Section 5(a)(17).	Appendix 4
Section 5(a)(13)	Report on each investigation conducted by the Office where allegations of misconduct were substantiated involving a senior government employee ¹ or senior official (as defined by the Office) if the establishment does not have senior government employees.	None
Section 5(a)(14)	Detailed description of (a) any instance of whistleblower retaliation, including information about the official found to have engaged in retaliation; and (b) what, if any, consequences the establishment actually imposed to hold the official accountable.	None
Section 5(a)(15)	Information related to interference by the establishment, including (a) a detailed description of any attempt by the establishment to interfere with the independence of the Office, including (i) with budget constraints designed to limit the capabilities of the Office, and (ii) incidents where the establishment has resisted or objected to oversight activities of the Office or restricted or significantly delayed access to information, including the justification of the establishment for such action; and (b) a summary of each report made to the head of the establishment under Section 6(c) (2) during the reporting period.	None
Section 5(a)(16)	Detailed descriptions of the particular circumstances of each (a) inspection, evaluation, and audit conducted by the Office that is closed and was not disclosed to the public; and (b) investigation conducted by the Office involving a senior government employee that is closed and was not disclosed to the public.	Appendix 5

¹ Pursuant to Section 5(a)(13) of the IG Act, as amended, which gives discretion to the OIG to make determinations where an Agency does not have "Senior Government employees," senior managers are those categorized as Officer/Executive in the TVA pay bands and others by exception, based on their responsibilities.

OIG AUDIT REPORTS • ISSUED DURING THE SIX-MONTH PERIOD ENDED MARCH 31, 2026

Report Number and Date	Title	Questioned Costs	Unsupported Costs	Funds Put To Better Use
CONTRACT AUDITS				
2025-17534 11/10/2025	Contract for Coal Combustion Residual Conversion Program Services	\$51,251	\$0	\$0
2025-17566 01/26/2026	Contract for Energy Efficiency Services	251,352	0	0
2025-17545 02/09/2026	Contract for Nuclear Modification, Outage, and Supplemental Maintenance Services	56,659	0	0
2025-17572 02/09/2026	Contract for Power Transformers and Related Equipment	33,844,258	0	0
2025-17567 02/24/2026	Contract for Staff Augmentation Electrical and Telecommunication Services	187,600	3,748	0
FINANCIAL AND OPERATIONAL AUDITS				
2025-17550 10/06/2025	Surplus Inventory	\$0	\$0	\$0
2025-17552 10/21/2025	Unmanned Aircraft Systems Program	0	0	0
2025-17597 11/06/2025	Agreed Upon Procedures for TVA Fiscal Year 2025 Performance Measures	0	0	0
2025-17536 02/02/2026	Business Meetings and External Relationship Events	0	0	0
2025-17560* 02/11/2026	Tool Management Controls	0	0	0
INFORMATION TECHNOLOGY AUDITS				
2025-17581 01/15/2026	TVA Penetration Test	\$0	\$0	\$0
2025-17542 01/20/2026	Protection Against a Specific Type of Cyberattack	0	0	0
2025-17580 01/21/2026	Transmission Control Center Network Cybersecurity	0	0	0
2025-17582 01/22/2026	Third Party Security Controls - Benefit Provider	0	0	0
2025-17557 02/26/2026	Backup and Recovery of Operational Technology - Gas Operations	0	0	0
TOTAL AUDITS (15)		\$34,391,120	\$3,748	\$0

*Management decision was not received by the end of the reporting period.

Note: A summary of or link to the full report may be found on the OIG's website at <https://www.tvaog.gov>.

OIG EVALUATION REPORTS • ISSUED DURING THE SIX-MONTH PERIOD ENDED MARCH 31, 2026
(CONTINUED)

Report Number and Date	Title	Questioned Costs	Unsupported Costs	Funds Put To Better Use
EVALUATIONS - OPERATIONS				
2025-17547 11/05/2025	Oversight of Contractor Safety	\$0	\$0	\$0
2025-17564 12/22/2025	Hydro Life Extension	0	0	0
2025-17554 01/12/2026	TVA Demand Response	0	0	0
EVALUATIONS - PROJECTS				
2025-17563 10/28/2025	Shawnee Selective Catalytic Reduction	\$0	\$0	\$0
2025-17531* 02/02/2026	Sequoyah Nuclear Plant Moisture Separator Reheater Replacement Project	3,542,000	0	0
TOTAL EVALUATIONS (5)		\$3,542,000	\$0	\$0

*Management decision was not received by the end of the reporting period.

Note: A summary of or link to the full report may be found on the OIG's website at <https://www.tvaog.gov>.



RECOMMENDATIONS INCLUDED IN A PREVIOUS SEMIANNUAL REPORT AND AWAITING IMPLEMENTATION

At the end of the semiannual period, final corrective action was not complete on 60 recommendations associated with 13 audit and 8 evaluation reports issued in a prior period. Presented below for each audit and evaluation are the report number, date, and title, along with a brief description of action management agreed to take to resolve the open recommendation, including the date management expects to complete final action and potential cost savings. (Report numbers followed by an "*" indicates management decision was received during this semiannual period.)

Audit Report Number and Date	Report Title and Actions Agreed to by Management to Resolve Recommendations
2023-17434 04/29/2024	Corporate Wi-Fi Security TVA agreed to remediate an insecure protocol. TVA expects to complete final action by October 1, 2028.
2024-17508 01/30/2025	Cybersecurity Vulnerability Management TVA agreed to design and implement a documented process for maintaining an accurate inventory of internet-accessible internet protocol addresses and update the Cybersecurity and Infrastructure Security Agency within five days of changes. TVA expects to complete final action by June 30, 2026.
2024-17523 04/21/2025	TVA Transmission Network Cybersecurity TVA agreed to improve the configuration management process by developing an action plan that includes increased training and awareness, alongside improvements to existing processes and procedures. TVA expects to complete final action by April 21, 2026.
2025-17539 04/25/2025	Proposal for Hydro Modernization TVA agreed to enter into negotiations with the contractor to remove sick leave markups from their craft billing rates. TVA expects to complete final action by April 25, 2026.
2025-17540 05/20/2025	Proposal for Hydro Modernization TVA agreed to enter into negotiations to reduce (a) markup rates to recommended levels, (b) excessive contingencies from fixed price projects, and (c) profit on fixed price projects. TVA expects to complete final action by May 20, 2026.
2024-17506 05/21/2025	Contract for Site Grading Services and Material TVA agreed to (1) reiterate to the business unit the requirement to compete all projects as intended in the contract; (2) require a detailed cost breakout for all task proposals and corresponding invoices; (3) ensure fair pricing if only one bid is received and instruct the business unit that adequate documentation to support the reasonableness of any project that is not competed should be collected; and (4) attempt to recover any incorrect or unsupported time and material costs. TVA expects to complete final action by May 21, 2026.
2024-17519 05/27/2025	Contract for Geotechnical and Hydrogeological Investigation and Monitoring Services TVA agreed to (1) review the audit data and enter into negotiations to recover (a) \$81,898 in ineligible subcontractor markups, (b) any portion of \$301,267 in overbilled labor Supply Chain deems to be recoverable, and (c) \$1,550 in overbilled travel costs if Supply Chain deems it recoverable; (2) communicate to Supply Chain personnel the importance of ensuring all contract documentation is complete and included in the final contract documents prior to contract execution; and (3) work to ensure their understanding of U.S. General Services Administration rates for meals and incidental costs. TVA expects to complete final action by May 27, 2026.

RECOMMENDATIONS INCLUDED IN A PREVIOUS SEMIANNUAL REPORT AND AWAITING IMPLEMENTATION (CONTINUED)

Audit Report Number and Date	Report Title and Actions Agreed to by Management to Resolve Recommendations
2024-17521 06/17/2025	<p>Cloud Inventory</p> <p>TVA agreed to (1) implement preventive measures to disallow potential cloud services procured outside of the IT procurement process; (2) require field inputs to improve cloud inventory accuracy; (3) update the cloud inventory reconciliation process to include other data sources; and (4) review and update cloud inventory based on the updated reconciliation process. TVA expects to complete final action by June 17, 2026.</p>
2024-17518 07/10/2025	<p>TVA's Process for Issuing Purchase Orders Under Blanket Contracts</p> <p>TVA agreed to (1) review procedures and guidance documents related to blanket contract management; (2) review training materials, contents, tools, and frequency; and (3) assess if additional involvement from Supply Chain is needed in the administration of blanket contracts. TVA expects to complete final action by July 10, 2026.</p>
2025-17559 09/03/2025	<p>Contract for Noncraft Staff Augmentation Services</p> <p>TVA agreed to (1) adhere to contract terms as written and document business decisions and exceptions as appropriate and (2) enter into negotiations to recover a net overbilled amount of \$1,588. TVA expects to complete final action by September 3, 2026.</p>
2025-17548* 09/09/2025	<p>2025 Federal Information Security Modernization Act</p> <p>TVA agreed to (1) ensure data and corresponding metadata comply with TVA's information system continuous monitoring strategy through comprehensive security control assessments; (2) oversee foundational systems' internet protocols to identify and remediate vulnerabilities in accordance with TVA's patch management policy; (3) establish an annual refresh cadence for its cybersecurity profile by leveraging existing business planning and maturity assessment processes; (4) implement and maintain common secure configuration settings for Red Hat Enterprise Linux 9 servers and active identified routers, firewalls, and switches; and (5) incorporate credentialed scanning to the greatest extent possible for network-based and agent-based scans in accordance with Binding Operational Directive 23-01, in coordination with the U.S. Department of Homeland Security, as necessary. TVA expects to complete final action by October 31, 2026.</p>
2025-17537 09/24/2025	<p>TVA's Financial Hedging Program</p> <p>TVA agreed to (1) annually perform back-testing to calculate the hedging impact on fuel rate volatility; (2) evaluate the financial hedging program objective of balancing operational and financial risk to determine if it should be eliminated or rewritten to clarify intent; and (3) report annually the financial hedging program's impact on fuel rate volatility and hedging gains/losses to the TVA Board and select external stakeholders. TVA expects to complete final action by September 24, 2026.</p>
2025-17575* 09/25/2025	<p>Proposal for Nuclear Maintenance and Modification Services</p> <p>TVA negotiated with the contractor and have agreed to (1) apply the general and administrative (G&A) rate to unburdened noncraft wages only, (2) reduce the G&A rate, (3) remove the G&A application on noncraft staff augmented labor, and (4) a reduced daily rate based on the published General Service Administration lodging and meals incidental expenses for the locality of long-term temporary assignments. TVA expects to complete final action by September 25, 2026.</p>

RECOMMENDATIONS INCLUDED IN A PREVIOUS SEMIANNUAL REPORT AND AWAITING IMPLEMENTATION (CONTINUED)

Evaluation Report Number and Date	Report Title and Actions Agreed to by Management to Resolve Recommendations
2024-17510 04/10/2025	<p>TVA Transmission Capacity</p> <p>TVA agreed to (1) work to improve project estimation and execution by (a) establishing reoccurring meetings with Supply Chain to identify and discuss equipment costs and schedule impacts, (b) conducting analysis of actual expenses through a project's life cycle, and (c) providing training and education on forecasting accuracy; and (2) improve communications between Transmission Planning and Financial Operations & Performance of transmission specific needs for business planning. TVA expects to complete final action by April 10, 2026.</p>
2024-17486 05/07/2025	<p>Aurora Transmission Project</p> <p>TVA agreed to (1) fully implement previously identified actions that are intended to mitigate the risk of cost overruns on future transmission projects and (2) create a plan to mitigate the risk of not fully recovering infrastructure costs for additional capacity. TVA expects to complete final action by May 7, 2026.</p>
2024-17503 05/29/2025	<p>Condition of Fire Protection and Ammonia Safety Systems at Coal Plants</p> <p>TVA agreed to (1) update Power Operations Standard Programs and Processes 18.121, <i>Fixed Fire Protection and Detection Subsystems - Inspection, Testing, Maintenance</i>, to (a) require a preliminary priority level for impairments, (b) emphasize the importance of including all impairment information in the fire impairment database, and (c) clarify allowable variances to the inspection schedule based on the design of each subsystem; and (2) reinforce the use of site fire impairment logs to ensure timely resolution of fire protection system issues. TVA expects to complete final action by April 30, 2026.</p>
2024-17507 06/24/2025	<p>TVA Dam Maintenance and Inspections</p> <p>TVA agreed to (1) develop (a) a master inspection list that includes each inspection and its associated inspection frequency and classification, (b) a technical instruction that details the planning and prioritization of dam safety inspections, including an appropriate focus on addressing overdue inspections, (c) an automated metric calculation to track completion of informal inspections; (2) create an improved categorization/prioritization system in the engineering task list to aid in determining if open items should be closed, addressed, or left on the list; (3) update existing processes to evaluate open recommendations; and (4) include the frequency for each inspection in the inspection summaries in the master inspection list. TVA expects to complete final action by June 24, 2026.</p>
2025-17533 09/12/2025	<p>Transmission Condition of Assets</p> <p>TVA agreed to (1) closely monitor the Transmission budget, actively seek additional funding for asset replacements, and evaluate additional funding measures; and (2) document the risk of inadequate funding for Transmission assets on TVA's enterprise risk matrix. TVA expects to complete final action by September 12, 2026.</p>
2025-17549 09/23/2025	<p>Gallatin Ash Pond Complex Closure and Restoration</p> <p>TVA agreed to (1) educate employees to ensure contractor's confidential information is not shared with potential competitors; (2) develop processes to support and monitor definitive estimates; and (3) ensure any nontypical projects going to the Project Review Board include documentation regarding any project cost estimate risks due to incomplete scope. Regarding project change requests, TVA agreed to (a) obtain sufficient detail of itemized additional scope and cost to verify approved amounts, (b) review any unverified amounts, and (c) reinforce the need for adequate support prior to approving project change requests and ensure the project change request log documents project revisions. TVA expects to complete final action by September 23, 2026.</p>

RECOMMENDATIONS INCLUDED IN A PREVIOUS SEMIANNUAL REPORT AND AWAITING IMPLEMENTATION (CONTINUED)

Evaluation Report Number and Date	Report Title and Actions Agreed to by Management to Resolve Recommendations
Alternatives for the Chattanooga Office Complex	
2025-17530 09/30/2025	TVA agreed to (1) review financial impacts of project alternatives in accordance with TVA Standard Programs and Processes 34.000, <i>Project Management</i> , to ensure informed decision-making and effective resource allocation; (2) review inputs used in economic analysis for reasonableness; and (3) verify projects include all costs. TVA expects to complete final action by September 30, 2026.
Inspection and Maintenance of Coal Combustion Residual (CCR) Storage Facilities	
2025-17544* 09/30/2025	TVA agreed to (1) include a review of weekly inspection reports in the Data Review section of the annual inspection report; (2) complete corrective actions on unresolved instrumentation maintenance issues identified in monthly instrumentation monitoring reports; (3) consider the need to document the resolution of issues identified during CCR site inspections based on severity; (4) emphasize the importance of identifying and documenting findings during weekly inspections; (5) implement measures to ensure the completion of required training for all personnel performing inspections; and (6) document the training of contractors performing inspections of CCR storage facilities. Additionally, TVA management stated they will (a) develop a listing of instruments used for stability monitoring and those used for supplementary and corollary data, (b) establish an annual review of instrumentation used for stability monitoring, (c) complete a review of instrumentation data included in monthly and annual inspection reports, and (d) update and reissue reports as warranted. TVA expects to complete final action by September 30, 2026.

INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

Referrals	
Reports Issued to TVA Management	3
Subjects Referred to U.S. Attorneys	7
Subjects Referred to State/Local Authorities	0
Results	
Subjects Indicted/Informations Filed	2
Subjects Convicted	2
Pretrial Diversion	0
Federal Referrals Declined	14
State/Local Referrals Declined	0

Metrics: Reports issued to TVA management are comprised of formal written reports and, when appropriate, e-mailed summaries conveying the findings of a completed investigation.

The number of indictments does not include sealed indictments or superseding indictments of the same individual already reported in this or a prior semiannual report unless charges or charging mechanism differs substantially.

Results include persons and companies/entities as applicable and may include task force activities and joint investigations with other agencies.

PREVIOUSLY UNDISCLOSED INVESTIGATIONS INVOLVING SENIOR AGENCY OFFICIALS

Case No.	Allegation and Disposition
25-0125	An anonymous allegation was made regarding a fraudulent, \$1 million secret agreement between a TVA contract company and TVA senior leaders. These funds were supposedly being used to train contractors at a TVA site with the intent of demonstrating it would be cheaper training at the site than using Central In-processing, proving Central In-processing should be abolished. Unsubstantiated.
25-0200	An anonymous hotline complainant alleged a gross waste of money by a plant manager by spending thousands of dollars purchasing unnecessary tools; most of which were missing within a few months. Unsubstantiated.

Metrics: Pursuant to Section 5(a)(13) of the IG Act, as amended, which gives discretion to the OIG to make determinations where an agency does not have "Senior Government employees," senior managers are those categorized as Officer/Executive in the TVA pay bands and others with salaries equal to or greater than 86.5 percent of the rate for level II of the Executive Schedule.

APPENDIX 6
HIGHLIGHTS - STATISTICS

MAR 31, 2026 SEPT 30, 2025 MAR 31, 2025 SEPT 30, 2024 MAR 31, 2024

AUDITS					
AUDIT STATISTICS					
Carried Forward	19	17 ¹	19	20 ²	17 ³
Started	18	15	12	15	13
Canceled	(1)	(1)	(0)	(0)	(0)
Completed	(15)	(13)	(14)	(17)	(9)
In Progress at End of Reporting Period	19 ⁴	19	17 ⁵	19 ⁶	20 ⁷
AUDIT RESULTS (Thousands)					
Questioned Costs	\$34,391	\$1,860	\$666	\$25,124	\$2,940
Disallowed by TVA	\$34,337	\$1,860	\$666	\$11,124	\$2,940
Recovered by TVA	\$480	\$143	\$401	\$67	\$517
Funds to Be Put to Better Use	\$0	\$25,925	\$71,090	\$22,990	\$0
Agreed to by TVA	\$10,600	\$15,325	\$71,090	\$22,990	\$0
Realized by TVA	\$0	\$12,600	\$749	\$0	\$54,290 ⁸
OTHER AUDIT-RELATED PROJECTS					
Completed	3	3	3	5	3
Cost Savings Identified/Realized	\$0	\$0	\$0	\$0	\$0
EVALUATIONS					
Completed	5	9	6	8	5
Cost Savings Identified/Realized (Thousands)	\$3,542	\$0	\$0	\$0	\$9,713
SPECIAL PROJECTS					
Completed	0	0	0	0	0

¹ Does not include one project that was postponed at the beginning of the period.
² Ibid.
³ Ibid.
⁴ Does not include two projects that were postponed during the period.
⁵ Does not include one project that was postponed prior to the period.
⁶ Ibid.
⁷ Does not include one project that was postponed during the period.
⁸ Amounts were identified in the prior period.

APPENDIX 6

HIGHLIGHTS - STATISTICS (CONTINUED)

MAR 31, 2026 SEPT 30, 2025 MAR 31, 2025 SEPT 30, 2024 MAR 31, 2024

INVESTIGATIONS ⁹					
INVESTIGATION CASELOAD					
Opened	53	45	55	46	58
Closed	42	51	56	48	61
In Progress at End of Reporting Period ¹⁰	63	51	57	58	61
INVESTIGATIVE RESULTS (Thousands)					
Restitution - Court Ordered Criminal	\$1,000.0	\$1,051.6	\$133.5	\$124.3	\$192.8
Civil Settlement	\$2,770.0	\$617.0	\$3,188.6	\$0	\$0
Recoveries ¹¹	\$1.2	\$83.0	\$6.5	\$166.1	\$0
Projected Savings	\$0	\$1,870.5	\$0	\$0	\$332.0
Fines/Penalties/Fees	\$1.0	\$0.1	\$51.3	\$0.2	\$0.3
Waste/Other Monetary Loss	\$0	\$0	\$0	\$0	\$212.7
Forfeiture(s) Ordered - Criminal	\$0	\$0	\$0	\$0	\$0
Forfeiture(s) Ordered - Civil	\$0	\$0	\$0	\$0	\$0
MANAGEMENT ACTIONS					
Disciplinary Actions Taken	4	4	4	3	2
Counseling/Management Techniques Employed	8	7	6	5	10
Debarments	0	0	0	0	0
PROSECUTIVE ACTIVITIES (Number of Subjects)					
Referred to U.S. Attorneys	7	7	8	15	5
Referred to State/Local Authorities	0	0	1	0	0
Indicted/Informations Filed	2	4	1	0	6
Convicted	2	4	2	6	2
Pretrial Diversions	0	0	1	0	1
TRAFFICKING VICTIMS PREVENTION & PROTECTION ACT OF 2022 (REQUIRED ANNUAL REPORTING PUBLIC LAW 117-348, § 122E (S.3949))					
Suspected cases of misconduct, waste, fraud, or abuse relating to trafficking in persons	0	0	0	0	0

⁹ These numbers may include task force activities and joint investigations with other agencies.
¹⁰ One case was still under review and not yet referred, therefore, not counted in previous SAR.
¹¹ Sum of all administrative recoveries pursued by TVA or repayments made as a result of investigative events occurring during the reporting.

GOVERNMENT CONTRACTOR AUDIT FINDINGS

The National Defense Authorization Act for Fiscal Year 2008, P.L. 110-181, requires each Inspector General appointed under the Inspector General Act of 1978 to submit an appendix on final, completed contract audit reports issued to the contracting activity that contain significant audit findings—unsupported, questioned, or disallowed costs in an amount in excess of \$10 million, or other significant findings—as part of the Semiannual Report to Congress. As previously noted in Appendix 2, we issued one contract report with questioned costs in excess of \$10 million. Specifically, audit report 2025-17572, Contract for Power Transformers and Related Equipment, contained questioned costs of \$33,844,258.



PEER REVIEWS OF THE TVA OIG

Audits Peer Review

Inspector General audit organizations are required to undergo an external peer review of their system of quality control at least once every three years, based on requirements in the *Government Auditing Standards*. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. The Tennessee Valley Authority (TVA) Office of the Inspector General (OIG) underwent its most recent peer review of its audit organization for the period ended September 30, 2022. This review was performed by the U.S. Securities and Exchange Commission (SEC) OIG. The SEC OIG issued its report, dated February 28, 2023, in which it concluded the system of quality control for the audit organization of TVA OIG in effect for the year ended September 30, 2022, has been suitably designed and complied with to provide TVA OIG with reasonable assurance of performing and reporting in conformity with applicable professional auditing standards in all material respects. Accordingly, the TVA OIG received a rating of pass. There are no outstanding recommendations from this review. The peer review report is posted on our website at <https://www.tvaogig.gov>.

The U.S. Nuclear Regulatory Commission OIG is currently performing a peer review of our audit organization for the period ended September 30, 2025. We plan to include the results of the ongoing peer review in our next semiannual report.

Evaluations Peer Review

Inspector General organizations that conduct evaluations in accordance with the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) *Quality Standards for Inspection and Evaluation* (Blue Book) are required to undergo an external peer review every three years. The TVA OIG underwent its most recent peer review of its evaluation organization for the period ended March 31, 2023. This review was performed by the U.S. Department of Housing and Urban Development (HUD) OIG. The HUD OIG issued its report, dated August 24, 2023, in which it determined the (1) TVA OIG's internal policies and procedures generally were consistent with the Blue Book standards addressed in the external peer review and (2) TVA OIG reports reviewed generally complied with the Blue Book standards. The peer review report is posted on our website at <https://www.tvaogig.gov>.

The U.S. Department of Health and Human Services OIG has initiated a peer review of our evaluation organization for the period ended March 31, 2026. We plan to include the results of the peer review in our next semiannual report.

Investigations Peer Review

Investigative operations undergoes a Quality Assessment Review (QAR) on a recurring basis as designated by the CIGIE. The Export-Import Bank of the United States (EXIM) OIG completed a QAR of TVA OIG Investigative Operations on August 21, 2024. EXIM OIG found “. . . the system of internal safeguards and management procedures for the investigative function of the TVA OIG follows the quality standards established by the CIGIE and the other applicable guidelines and statutes cited above. Those safeguards and procedures provide reasonable assurance of conforming with professional standards in the planning, execution and reporting of its investigations.” This confirmation is posted on our website at <https://www.tvaogig.gov>.

APPENDIX 9

PEER REVIEW OF ANOTHER OFFICE OF INSPECTOR GENERAL

The Tennessee Valley Authority Office of the Inspector General (OIG) completed a peer review of the U.S. Department of the Interior (DOI) OIG audit operations. We issued our final report to the DOI Inspector General on March 5, 2026, in which we reported that in our opinion, the system of quality control for the audit organization of DOI, in effect for the 12-month period ended September 30, 2025, had been suitably designed and complied with to provide DOI OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards and applicable legal and regulatory requirements in all material respects. Accordingly, the DOI OIG received a peer review rating of pass.

DOI OIG has posted its peer review report on its website at https://www.doioig.gov/sites/default/files/media/document/2026-03/System-Review-Report_Peer-Review_Tennessee-Valley-Authority_1.pdf.



Raccoon Mountain Pumped-Storage Plant

GLOSSARY

Disallowed Cost

A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the agency.

Final Action

The completion of all management actions, as described in a management decision, with respect to audit findings and recommendations. When management concludes no action is necessary, final action occurs when a management decision is made.

Funds Put To Better Use

Funds which the OIG has disclosed in an audit report that could be used more efficiently by reducing outlays, deobligating program or operational funds, avoiding unnecessary expenditures, or taking other efficiency measures.

Improper Payment

Any payment that should not have been made or was made in an incorrect amount, including an overpayment or underpayment, under statutory, contractual, administrative, or other legally applicable requirement, as defined in the Payment Integrity Information Act of 2019.

Information

A formal accusation of a crime made by a prosecuting officer as distinguished from an indictment presented by a grand jury.

Management Decision

Evaluation by management of the audit findings and recommendations and the issuance of a final decision by management concerning its response to such findings and recommendations.

Questioned Cost

A cost the Inspector General questions because (1) of an alleged violation of a law, regulation, contract, grant, cooperative agreement, or other document governing the expenditure of funds; (2) such cost is not supported by adequate documentation; or (3) the expenditure of funds for the intended purposes was unnecessary or unreasonable.

Unsupported Costs

A cost that is questioned because of the lack of adequate documentation at the time of the audit.

ABBREVIATIONS AND ACRONYMS



Fort Loudoun Dam

THE FOLLOWING ARE ABBREVIATIONS AND ACRONYMS WIDELY USED IN THIS REPORT.

ADECA	Alabama Department of Economic and Community Affairs
Blue Book	Quality Standards for Inspection and Evaluation
CAP	Community Action Partnership
CAP	Corrective Action Plan
CCR	Coal Combustion Residual
CIGIE	Council of the Inspectors General on Integrity and Efficiency
COR	Contractor Oversight Representative
COVID-19 EIDL	Economic Injury Disaster Loan
DM	Demand Management
DR	Demand Response
DOI	U.S. Department of Interior
EAIP	Executive Annual Incentive Plan
EE	Energy Efficiency
EXIM	Export-Import Bank of the United States
EY	Ernst & Young LLP
FCA	False Claims Act
FY	Fiscal Year
G&A	General and Administrative
HHS	Health and Human Services
HLE	Hydro Life Extension
HUD	U.S. Department of Housing and Urban Development
IG	Inspector General
IT	Information Technology
LIHEAP	Low Income Home Energy Assistance Program
MSR	Moisture Separator Reheater
NLE	Nuclear Life Extension
NOx	Nitrogen Oxide
NQAP	Nuclear Quality Assurance Plan
OEM	Original Equipment Manufacturer
OIG	Office of the Inspector General
PO	Purchase Orders
PPP	Paycheck Protection Program
PRAC	Pandemic Response Accountability Committee
QAR	Quality Assessment Review
SCR	Selective Catalytic Reduction
SEC	U.S. Securities and Exchange Commission
SHF	Shawnee Fossil Plant
SMR	Small Modular Reactor
SQN	Sequoyah Nuclear Plant
SSSHP	Site-Specific Safety and Health Plan
T&M	Time and Materials
TLA	Temporary Living Allowance
TVA	Tennessee Valley Authority
TVA Board	TVA Board of Directors
UAS	Unmanned Aircraft Systems
U.S.	United States
WP	Winning Performance

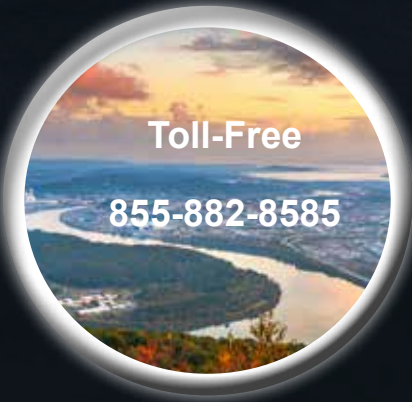


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If you see something that doesn't look right, say something. By doing so, you help the OIG stop fraud, waste, and abuse in its tracks! Anonymous & Confidential. The EMPOWERLINE® is a safe outlet for reporting and is available 24/7.



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Examples include:

- Contractor Fraud
- Employee Misconduct
- Environmental Crimes
- Conflict of Interest
- Workers' Compensation Fraud
- Healthcare/Prescription Drug Fraud

WHISTLEBLOWER COORDINATOR

Educates TVA employees about prohibitions on retaliation for protected disclosures, as well as the rights and remedies of employees who have been subjected to workplace retaliation for making protected disclosures.

Emails may be directed to: whistleblowercoordinator@tvaig.gov.



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TVA OIG VALUES

- Effective Communication
- Trusting Relationships
- Integrity
- Independence
- Continuous Improvement
- Accountability

We are a high performing work team that achieves OIG strategic objectives through operational excellence and modeling our values and behaviors every day.





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TENNESSEE VALLEY AUTHORITY
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