November 5, 2015

Diane T. Wear, WT 4B-K

REQUEST FOR MANAGEMENT DECISION – EVALUATION 2015-15313 – CORPORATE ACCOUNTING ORGANIZATIONAL EFFECTIVENESS

Attached is the subject final report for your review and management decision. You are responsible for determining the necessary actions to take in response to our findings. Please advise us of your management decision within 60 days of the date of this report.

Information contained in this report may be subject to public disclosure. Please advise us of any sensitive information in this report that you recommend be withheld.

If you have any questions or wish to discuss our findings, please contact Meghan Petty, Auditor, at (423) 785-4812 or Gregory R. Stinson, Deputy Assistant Inspector General, Evaluations, at (865) 633-7367. We appreciate the courtesy and cooperation received from your staff during the evaluation.

Richard W. Moore

MHP:FAJ
Attachment
cc (Attachment):
 TVA Board of Directors
 Katherine J. Black, LP 6A-C
 Susan E. Collins, LP 3A-C
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 OIG File No. 2015-15313

TVA

Office of the Inspector General　　*Evaluation Report*

To the Vice President
and Controller,
Corporate Accounting

CORPORATE ACCOUNTING ORGANIZATIONAL EFFECTIVENESS

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<u>ABBREVIATIONS</u>

AP&R	Accounting Policy and Research
BU	Business Unit
CEO	Chief Executive Officer
FY	Fiscal Year
IIF	Institute of Internal Finance
M&S	Management and Specialist
OEI	Organizational Effectiveness Initiative
OHI	Organizational Health Index
OIG	Office of the Inspector General
PLUS	People Lifecycle Unified System
SEC	U.S. Securities and Exchange Commission
SOX	Sarbanes-Oxley
SPP	Standard Programs and Processes
STAR 7	Strategic Teamwork for Actions and Results
TES	Team Effectiveness Survey
TQ	Total Quality
TVA	Tennessee Valley Authority

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APPENDICES

Why the OIG Did This Evaluation

This is one of a series of organizational effectiveness reviews that the Office of the Inspector General (OIG) will be conducting across Tennessee Valley Authority's (TVA) business units. Organizational effectiveness, as we have defined it in this review, is the ability of an organization to achieve its mission and goals. To achieve and sustain organizational effectiveness, there should be alignment between strategy, operational performance, and team engagement. Specifically, values and behaviors that drive good performance should be embedded throughout the organization's business processes and exemplified by the individuals that manage and work in the organization.

In April of 2015, TVA's Chief Executive Officer (CEO) explained to Congress the significant challenges that TVA has faced in his 2 years as CEO, including record weather events, a stagnant economy, aging infrastructure, increased regulation, and low load growth. Due to these internal and external economic pressures, TVA has taken cost-cutting measures in an attempt to keep rates low, keep reliability high, and continue to fulfill its broader mission of environmental stewardship and economic development. While addressing TVA's financial challenges, TVA also developed new corporate values as well as individual contributor and leadership competencies, which are being rolled out to management and specialist-level employees. Significant changes such as those described above can change the organization's risks. TVA's Enterprise Risk Management's 3-year Strategic Risk Profile, as of April 2015, recognized one of TVA's key risks as "organizational refinement – ongoing organizational refinement and optimization may negatively effect [*sic*] performance environment."

For the past 30 years, the OIG, through its audits, evaluations, and investigations, has provided "snapshots" of TVA's organizational health that have been sometimes directly referred to as "culture" but, more often than not, labeled as "leadership" or "process control" issues as well as "snapshots" of an organization's performance. As part of our professional audit, evaluation, and investigation duties, the OIG has a vested interest in TVA's success. We are conducting these reviews as part of the OIG mission to promote economy, efficiency, and effectiveness for the following reasons: (1) TVA has struggled over the years to sustain any improvement in employee

engagement,[i] (2) TVA's organizational health could pose a significant risk to its financial and operational success, (3) OIG evaluations in this area provide an independent perspective to the TVA Board of Directors and TVA management, and (4) promote efforts to ensure a sustained focus on TVA's organizational effectiveness strategies.

Corporate Accounting, the focus of this review, provides financial services to TVA in the areas of (1) Accounting Reporting and Research, which includes Accounting Policy and Research, External Reporting, and Fuel Accounting; (2) Disbursement Services, which includes Payment Services and Payroll Operations; (3) Revenue; and (4) Sarbanes-Oxley. As of March 24, 2015, Corporate Accounting had 72 employees.

This review assesses operational and cultural strengths and opportunities for improvement within TVA's Corporate Accounting. We used operational expectations as defined in Corporate Accounting's business plan and behavioral expectations as defined by TVA's values as the criteria for this review.

What the OIG Found

We identified several operational and cultural strengths within Corporate Accounting. Specifically, we found Corporate Accounting effectively provides business support to TVA operations and works well with other TVA organizations. Additionally, employees reported they have the financial information systems they need to do their jobs. We also found Corporate Accounting has an ethical environment, engaged workforce, leadership that is trusted and respected, strong teams, and opportunities for input that are satisfactory to employees.

However, we also identified several operational and cultural areas for improvement within Corporate Accounting. Operational areas for improvement included: missing and misaligned performance measures for core services, not formally soliciting customer feedback, and differing management and employee perspectives around adequacy of staffing resources. Cultural areas for improvement included: minimal response to prior cultural surveys, perceived unfairness in hiring and promotion practices, lack of

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[i] In Appendix A of this report, we discuss TVA's efforts over several years and multiple programs to improve TVA's culture and employee engagement.

cohesion between Corporate Accounting departments, relationship issues with two managers, and perceived negative impacts from reorganizations and recent cost-cutting measures. These types of issues, if left unresolved, can undermine employee trust in management and negatively impact both employee engagement and operational performance.

Figure 1 on the following page provides a high-level description of the strengths and opportunities we identified along with the sources of information. These are all discussed in more detail later in the report.

EXECUTIVE SUMMARY

Figure 1: Information Sources for Observed Themes

	Questionnaire Results	Employee Interviews	Focus Groups	Customer Survey	Prior Cultural Surveys	Document/ Data Review
Strengths						
Effective business support	X	X	X	X		X
Work well with other TVA organizations		X	X	X		
Information systems meet employee needs	X	X	X			X
Ethical culture	X	X	X		X	
Most leaders trusted and respected	X	X	X		X	
Engaged workforce		X	X			
Strong teamwork	X	X	X		X	
Opportunities for input into process improvements		X	X			X
Opportunities for Improvement						
Performance measures for missing or misaligned						X
Not formally soliciting feedback from customers				X	X	X
Differing perspectives around adequacy of staffing resources	X	X				
Minimal actions taken to address prior cultural surveys		X	X			X
Perception of unfairness in hiring and promotions	X	X	X		X	X
Lack of cohesion among departments		X				
Relationship issues between two managers and employees		X				
Perceived negative impacts to employees from reorganizational restructuring and recent cost-cutting measures		X	X		X	
Source: Auditor Analysis						

EXECUTIVE SUMMARY

What the OIG Recommends

As we discuss in this report, Corporate Accounting has opportunities to leverage its strengths in trusted and respected leadership and engaged employees who enjoy working in teams to address some outstanding issues related to employee frustrations, management issues, and communication issues that we have identified. These types of issues can undermine trust in an organization and between management and employees and ultimately, hamper the effectiveness of the organization.

Resolving the existing issues between Corporate Accounting employees and management is only the first step. Creating the right process going forward to timely resolve issues on an ongoing basis and avoiding the accumulation of such will help minimize frustrations and increase trust and engagement. A continuous process where management and employees collaborate to determine optimal solutions to issues can increase trust and teamwork that are essential to enhancing and sustaining organizational effectiveness.

Accordingly, we recommend that the Controller:

1. Leverage the existing trust and respect of the management team from employees to take actions that address and resolve the issues identified in connection with this evaluation, which are capable of resolution at the Corporate Accounting level.

2. Continue to utilize existing methods for obtaining employee feedback and develop an ongoing effective resolution process with employee and management involvement that includes (a) methods to resolve issues, (b) transparency in tracking and reporting on feedback and resolutions, and (c) transparency to employees of rationales for selecting a particular solution.

The OIG will conduct a follow-up review at CUF approximately 6 months after the date of this report to assess progress in addressing the report's findings and recommendations.

TVA Management's Comments

TVA management reviewed and generally agreed with our draft report, and Corporate Accounting management is currently working on a plan to address the recommendations. See Appendix C for TVA management's complete response.

BACKGROUND

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

In Appendix A, we provide additional discussion regarding employee engagement and the correlation with business results and risk identification, information on TVA's historical organizational effectiveness efforts, TVA's challenge to sustain employee engagement over the long term, TVA's current efforts, and the risk to achieving TVA's business goals.

Corporate Accounting
Corporate Accounting's mission is ". . .to provide value-added financial services by partnering with [Tennessee Valley Authority] TVA management, staff and stakeholders to influence decision making and enhance the financial stewardship of the agency." As of March 24, 2015, Corporate Accounting had 72 employees spread across three locations: Knoxville (60), Chattanooga (11), and Muscle Shoals (1). Employees work within the following departments: (1) Accounting Reporting and Research, which includes Accounting Policy and Research (AP&R), External Reporting, and Fuel Accounting; (2) Disbursement Services, which includes Payment Services and Payroll Operations; (3) Revenue; and (4) Sarbanes-Oxley (SOX). The current management team is made up of the Controller, Managers and Directors of each department, three senior program managers, and one program manager.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this evaluation was to identify operational and cultural strengths and areas for improvement that could impact Corporate Accounting's organizational effectiveness. We assessed operations and culture from July 2012 to June 2015. In summary, we did the following to complete the evaluation:

- Reviewed the Corporate Accounting's business plan for fiscal years (FY) 2015-2017 to gain an understanding of Corporate Accounting's goals.

- Reviewed TVA values, behaviors, and competencies for understanding of cultural factors deemed as important to TVA.

- Administered a questionnaire to Corporate Accounting personnel and assessed results in order to identify themes related to strengths and areas for improvement. We also held informational sessions where Office of the

Inspector General (OIG) personnel were available for questions and/or discussions.

- Interviewed the Controller, direct reports, and other designated supervisory/management-level Corporate Accounting employees to obtain their perceptions related to strengths and areas for improvement of the operational and cultural factors discussed previously.

- Randomly selected a sample from 72 Corporate Accounting employees, conducted interviews and focus groups, and analyzed the results to identify themes related to the operational and cultural factors discussed previously.

- Identified Corporate Accounting's customers and existing customer feedback mechanisms. We also (1) administered a customer service questionnaire to a sample of Corporate Accounting customers and (2) analyzed the results to corroborate themes and fill in information gaps related to the operational and cultural factors discussed previously.

- Obtained and reviewed Corporate Accounting operational and cultural data to utilize in our assessment of themes related to strengths and areas for improvement.

- Obtained and reviewed TVA Standard Programs and Processes (SPP) and guidelines to gain an understanding of processes and controls.

For our complete methodology, see Appendix B.

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

OBSERVATIONS

The observations, as presented, are related to the strengths and opportunities that could improve the effectiveness of Corporate Accounting. These observations are based on the analyses of information gathered through completed questionnaires, focus groups attended by employees, and interviews of personnel within the Business Unit (BU), including the Controller and her direct reports. Additionally, we reviewed relevant documentation related to operational performance provided by management and feedback from internal customers. Below are strength areas for Corporate Accounting followed by opportunities for improvement.

Strengths
- Corporate Accounting is effectively providing business support to TVA by meeting its U.S. Securities and Exchange Commission (SEC) reporting deadlines and performing well on key measures related to accuracy of accounting work.

- Departments within Corporate Accounting work well with other TVA organizations and, in general, customers reported satisfaction with its services.

- Employees indicate the information systems they have meet their business needs.

- Employees report an ethical culture and believe co-workers and supervisors want to do the right thing.

- Most leaders are trusted and respected.

- Almost all employees rate their co-workers as "fully engaged" or "somewhat engaged." Compared to the national average of 30 percent[1] engagement, Corporate Accounting rates considerably higher than most.

- Employees cite teamwork as a strength area for their departments and enjoy working with others on their teams.

- Employees are satisfied with opportunities for giving input for process improvements.

Opportunities for Improvement
- Corporate Accounting's performance measures for core services are missing or misaligned.

- Most departments within Corporate Accounting do not formally solicit feedback from customers.

- Management and employees have differing perspectives around the adequacy of staffing resources.

- Minimal actions were taken to address employee concerns brought forward through previous cultural surveys.

- Some employees perceive unfairness in hiring and promotion practices.

- There is a lack of cohesion among departments within Corporate Accounting.

- There are relationship issues between two managers and some of their employees.

- Some employees within Corporate Accounting perceive they have been negatively impacted due to organizational restructuring and recent cost-cutting measures.

OPERATIONAL AND CULTURAL STRENGTHS

We identified operational strengths in Corporate Accounting in the following areas: effectively providing business support to TVA operations, working well with other TVA organizations, and financial information systems working for

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[1] "State of the American Manager: Analytics and Advice for Leaders," Gallup, Inc., http://www.aseonline.org/images/marketing/StateOfAmericanManager_Gallup.pdf.

employees. We also identified cultural strengths that positively impact Corporate Accounting operations. These include an ethical environment, employee engagement in their work, trust and respect for leadership, strong teams, and employee satisfaction with opportunities for input.

OPERATIONAL STRENGTHS

Effectively Providing Business Support to TVA Operations

According to Corporate Accounting, business support is provided through timely reporting, insightful analysis, and accurate accounting within a sound control environment. To evaluate Corporate Accounting's operational performance, we reviewed (1) the Corporate Accounting Scorecard,[2] (2) filings with the SEC, and (3) outstanding SOX deficiencies within Corporate Accounting. In addition, we solicited feedback from customers. Overall, we found Corporate Accounting is effectively providing business support to TVA operations in the following key areas:

- *Timely Reporting* – We verified external filings with the SEC met or exceeded filing requirements[3] from January 2014 to June 2015. TVA is required to file annual reports (10-Ks) with the SEC within 90 business days of year-end close, quarterly filings (10-Qs) are required within 45 business days of quarter-end close, and current reports (8-Ks) are required to be filed with the SEC within 4 business days. TVA has established more rigorous internal filing deadlines, setting its policy to file prior to the SEC's filing requirements for utility industry peers.

Figure 1: SEC Deadlines and External Reporting Average Days to File

Report	SEC Filing Deadlines		TVA Internal Deadline	Average Days to File
	TVA	Industry Peers		
10-K	90	60	45	48*
10-Q	45	40	35	35
8-K	4	4	3	3
*There was only one 10-K filed for the period we reviewed. According to TVA management, since it was filed after 5:30 PM on Friday, November 14, 2014 (45 days), it was posted on Monday, November 17, 2014.				
Source: External Reporting Overview, TVA Investor Relations Page, and Auditor Analysis.				

As shown in Figure 1 above, for the period we reviewed, TVA filed 10-K, 10-Q, and 8-Ks in advance of SEC filing deadlines.

- *Informative Policy Analysis and Research* – Based on input provided by customers in our customer service questionnaire, AP&R provides informative

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[2]   The OIG did not assess the reliability of the data on the Corporate Accounting Scorecard.

[3]   As TVA is a wholly owned entity of the U.S. Government with publically traded debt, it is subject to multiple external reporting requirements. The Consolidated Appropriations Act of 2005 requires TVA to file financial reports with the SEC. As such, TVA began filing financial reports (10-K, 10-Q, 8-K, etc.) with the SEC starting with its annual report on Form 10-K for FY2006.

policy guidance and research. When asked how well information provided met their needs, 96 percent of AP&R customers responded "well" or "very well." Additionally, when asked if the information received was "too much," "the right amount," or "not enough," 95 percent of AP&R customers indicated information received was "the right amount" or "too much." Open-ended, customer comments indicated AP&R provided value and was a good resource for working through complex accounting guidelines or regulation issues.

- *Accurate Accounting* – On the 2015 Corporate Accounting Scorecard, FY2014 performance on accuracy measures for Revenue Billing and Payroll was rated at greater than 99 percent. Corporate Accounting's Revenue Department receives formal feedback as part of the Voice of the Customer Survey. The Voice of the Customer Survey is an annual survey of local power companies and direct-serve customers designed to identify the performance drivers of customer commitment, assess the degree to which TVA is meeting expectations on these drivers, and pinpoint areas for improvement. In 2014, feedback from customers indicated 77 percent of local power companies and 70 percent of direct-serve customers were highly satisfied with the accuracy of billing (ratings of 9 or 10 on a 10-point scale). The 2015 results showed higher satisfaction ratings with the accuracy of billing with 81 percent of local power companies and 74 percent of direct-serve customers expressing satisfaction.

- *Sound Control Environment* – The SOX[4] Department within Corporate Accounting is responsible for providing oversight of TVA's internal controls, procedures, and policies related to financial reporting and compliance with the 2002 SOX Act. An internal control deficiency exists when the control design is ineffective to meet the objectives or a control is not operating as designed. TVA ranks deficiencies either as a "material weakness," "significant deficiency," or as a "needs improvement" control deficiency based on the risk that the deficiency presents to financial reporting. We reviewed SOX-identified deficiencies within Corporate Accounting outstanding as of May 19, 2015, and noted one open "needs improvement" deficiency.[5]

Working Well With Other TVA Organizations

Our customer service questionnaire asked Corporate Accounting's internal customers about (1) accuracy of information, (2) responsiveness to requests, (3) how well information provided meets their needs, (4) if information received was the right amount, too much, or not enough, (5) how well Corporate Accounting rectified customer issues, and (6) their customer service experience.

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[4] According to TVA, in response to a number of corporate accounting scandals around the turn of the twenty-first century, the SOX Act was signed into law in 2002; however, TVA became subject to SOX requirements beginning in 2008. The major provisions of SOX that relate to financial reporting require the Chief Executive Officer (CEO) and the Chief Financial Officer to certify to their responsibilities regarding information filed with the SEC. Annually, the CEO and Chief Financial Officer must also report on the effectiveness of the company's internal controls over financial reporting.

[5] There were a total of 10 open SOX deficiencies at that time, of which 9 were outside of Corporate Accounting.

See Figure 2 below.

**Figure 2: Responses to Service-Related Questions on
Customer Service Questionnaire**

Question	Response
How accurate is the information you receive?	81 percent "Accurate" or "Very Accurate"
How responsive are they to your request?	90 percent "Responsive" or "Very Responsive"
How well does the information provided meet your needs?	85 percent "Well" or "Very Well"
Is the information you receive "The Right Amount" or "Not Enough"?	75 percent "The Right Amount"
If you have had any issues in the past, how well do they work to rectify/fix issues?	71 percent* "Well" or "Very Well"
How would you rate your customer service experience?	80 percent "Good" or "Very Good"
*Respondents often selected the "Don't Know" response to this question, potentially not having had an issue in the past. If they are removed, the percentage of respondents answering "Well" or "Very Well" increases to 80. Source: Telephone Interviews with Corporate Accounting Internal Customers.	

Overall, we found that Corporate Accounting's customers rated its customer service highly across the board.

Financial Information Systems Working for Employees
Accounting work can rely on information systems to maintain records of assets, prepare financial reports, analyze financial information, and other financial activities. In order to perform their work, employees in Corporate Accounting interact with various systems including COGNOS, ERS, eWorkplace, Maximo, Oracle, People Lifecycle Unified System (PLUS), and Workiva. When we spoke to employees across Corporate Accounting, employees identified some areas where systems could be improved. However, they indicated systems were working well and anticipated upgrades to some systems. On the 2015 Corporate Accounting Scorecard, FY2014 performance for Monthly Key Financial System Availability was 99 percent. Overall, employees indicated that they had what they needed in terms of technology to do their job.

CULTURAL STRENGTHS

Ethical Environment
As part of TVA's value of integrity, employees are expected to conduct business according to the highest ethical standards and seek to earn the trust of others through words and actions that are open, honest, and respectful. In the

2014 Team Effectiveness Survey (TES),[6] most employees indicated that they trusted one another to be honest and ethical. Results from our employee questionnaire indicated that most employees believe co-workers and supervisors would choose to do the right thing even when no one is looking. Employees reported to us in interviews that they felt Corporate Accounting has an ethical culture, and they do not feel pressured to provide information that is misleading or untrue. Most employees also felt comfortable raising a different opinion than their manager and did not have concerns about retaliation. Managers also stated they had no concerns related to ethics. Most employees were not aware of any past ethical breaches; some employees also indicated if an unethical breach should occur, they believed management would do the right thing.

Trusted and Respected Leaders
As part of TVA's leadership competency of Inspiring Trust and Engagement, managers are encouraged to build a positive environment that motivates others to achieve and exceed organizational goals and team aspirations, and ensure teams and individuals have the resources they need to learn and grow. In the 2012 Organizational Health Index (OHI) study,[7] employees reported their managers' management style was supportive, consultative, and challenged people to stretch themselves.

Our questionnaire showed that most employees agreed with the following statements: managers/supervisors are open and honest when dealing with employees, are held responsible for what they say and do, engage in effective communication with employees (which includes honesty, understanding, and follow-up), and follow through on commitments they make. In addition, our questionnaire showed investment in employee development with most employees indicating their supervisors ensure they receive the training and tools they need to get the job done. Also, most employees indicated their supervisors create a positive environment that helps employees achieve work goals. In follow-up interviews with employees, most indicated supervisors/managers in Corporate Accounting are trusted and respected. As discussed in the following Cultural Opportunities section, we identified a couple of instances of relationship issues.

Engaged Workforce
In the "State of the American Manager: Analytics and Advice for Leaders," Gallup, Inc.,[8] estimates only about 30 percent of employees in the United States are engaged at work. Gallup defines engaged employees as involved in, enthusiastic about, and committed to their work and workplace.

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6   In November 2014, Corporate Accounting volunteered to participate in the TES, promoted by TVA's Human Resources Leadership and Organizational Development group. The purpose of the survey was to assess how Corporate Accounting works as a team and how to improve.

7   Since the time of the 2012 OHI study, the organization was renamed from Controller to Corporate Accounting and some staff and management shifted due to reorganization.

8   "State of the American Manager: Analytics and Advice for Leaders," Gallup, Inc., http://www.aseonline.org/images/marketing/StateOfAmericanManager_Gallup.pdf.

When we spoke with employees, we asked them to rate co-workers' engagement[9] within their departments. We found almost all employees rated their co-workers as "fully engaged" or "somewhat engaged." When employees were asked what motivates them, common motivations included they liked the work they do, the people they work with, and are motivated by TVA's mission. Overall, most employees would recommend Corporate Accounting as a place to work to others.

Collaboration Within Departments/Strong Teams
TVA's value of Collaboration includes being committed to fostering teamwork and valuing diversity to achieve results. In the 2014 TES, employees reported favorable aspects of being part of their teams, including (1) trusting other members of the team to get their work done effectively and to be honest and ethical, (2) having a strong performance culture, (3) meeting and communicating productively, (4) making effective decisions, and (5) enjoying being part of the team. In our interviews with employees, teamwork was indicated as a strength area within departments, and employees reported they worked well together. Many employees felt their co-workers were good at their jobs and stated their good teamwork environments were due to being able and willing to help, and general personality fit among the team.

In addition, we asked employees whether their co-workers and managers value differing opinions on how to get things done and most employees indicated they do. Many employees appreciate what other Corporate Accounting employees do for the team and indicated most supervisors show respect for people who are different from them.

Employee's Satisfied With Opportunities to Provide Input
As part of TVA's Core Competencies, which include Continuous Improvement and Leveraging Diversity, employees are encouraged to challenge the status quo, generate ideas, test and implement improvements, and to embrace others when developing solutions and establishing direction. When we asked if they are given opportunities to provide process improvements, employees indicated they are and they provide suggestions to their supervisor/manager. Reviews of individual goals on Performance Review and Development forms indicate that some managers formally encourage employees to bring forward ideas to improve processes and streamline activities.

OPERATIONAL AND CULTURAL OPPORTUNITIES FOR IMPROVEMENT

We identified operational areas for improvement in Corporate Accounting in the following areas: missing and misaligned performance measures for core

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[9]   We prompted employees with the following definition of engagement, which is different from Gallup's: the extent to which employees feel passionate about their jobs, are committed to the organization, and put discretionary effort into their work. We asked whether co-workers in their group were "fully engaged," "somewhat engaged," or "not engaged at all."

services, not formally soliciting customer feedback, and differing management and employee perspectives around adequacy of staffing resources. We also identified cultural areas for improvement which could negatively impact Corporate Accounting operations. These include minimal response to prior cultural surveys, perceived unfairness in hiring and promotion practices, lack of cohesion between Corporate Accounting departments, relationship issues with two managers, and perceived negative impacts from reorganizations and recent cost-cutting measures.

OPERATIONAL OPPORTUNITIES FOR IMPROVEMENT

Missing and Misaligned Performance Measures for Core Services

Corporate Accounting offers business support services including financial reporting, accounting, policy and research, and SOX compliance. As reported in the Operational Strengths section in previous pages, measured aspects related to these services are performing well. Scorecards are used in strategic planning to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. We reviewed Corporate Accounting's FY2015 Scorecard[10] to ensure alignment with TVA's mission, and Corporate Accounting's mission and business activities/services. We observed opportunities to include measures for certain core services, align measures with desired results, and improve the usefulness of a calculation.

- *External Reporting Department* – TVA is required to file or furnish information to a variety of external parties, including the SEC, Office of Management and Budget, and Energy Information Administration, among others. According to TVA, SEC reports are typically the most exhaustive, and as such, are used as the basis for the other required filings. TVA sets internal deadlines for filing SEC reports more aggressively than required by the SEC for TVA and its peers. On-time filings are not currently a metric in the Corporate Accounting Scorecard.

- *AP&R Department* – AP&R provides accounting expertise to organizations within TVA by issuing whitepapers, memorandums, and accounting determination letters. In addition, AP&R offers training on specific "hot topics" and holds two-day courses for TVA employees on areas of accounting routinely encountered by TVA accountants. According to TVA, the bulk of AP&R's work is in responding to requests for research on policy questions. The FY2015 Scorecard includes a single measure for this department: the completion rate (in percent) for employees who are required to take general accounting training.

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[10] We are not referring to a Winning Performance Scorecard, but Corporate Accounting's Operational Performance Scorecard. Only one of the measures on the Corporate Accounting Scorecard is financially incentivized through the Winning Performance Corporate Multiplier: Safe Workplace (i.e., Recordable Injury Rate).

- *Improper Payments Within Payment Services* – The accounts payable process is performed centrally at TVA and relates to the service function of paying suppliers' invoices for the materials and services purchased throughout TVA. Accounts Payable is responsible for ensuring that payments are made accurately and timely. The percentage of prompt payments[11] is reported on Corporate Accounting's Scorecard. While tracked on accountants' individual goals, improper payments[12] (a measure of accuracy) are not included on the Scorecard.

- *SOX Department* – Measures reported on FY2015 Scorecard are related to the number and materiality of SOX compliance findings and SOX training completion. The SOX department is responsible for executing the SOX testing plan, providing training and consulting to the control owners, and other TVA officers and employees in fulfilling their SOX responsibilities. Control owners are primarily responsible for the effective design and operation of controls within their assigned processes. The control owners certify to the operating effectiveness of their controls quarterly. They are also responsible for all remediation issues within their processes, including internally communicating the issue within their organization, developing and implementing remediation actions, and reporting the status of those activities to the SOX Steering Committee. Measures reported for this department do not currently reflect the effectiveness of the group's staff.

- *Revenue Billing Stakeholder Measure* – In addition to Revenue's calculated Revenue Billing Invoice Accuracy measure, a stakeholder view of timeliness and accuracy is incorporated into the FY2015 Corporate Accounting Scorecard. The Voice of the Customer Survey asks customers to rate their satisfaction with two aspects of Revenue's performance: accuracy of bill and timeliness in resolving billing issues. According to the Director of Revenue, these measures are weighted according to the number of stakeholders who are local power companies and direct-serve customers. Responses from the timeliness and accuracy measures are then averaged for reporting as a single measure on Corporate Accounting's FY2015 Scorecard. This calculation makes it difficult to determine whether customer perception of timeliness or accuracy are performing well or need improvement.

Gaps in measurement or misalignment of measures to strategy could impair monitoring of performance across service areas important to management.

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[11] In 1982, Congress enacted the Prompt Payment Act to require Federal agencies to pay their bills on a timely basis and to pay interest penalties when payments are late. This was an effort to ensure timely payments to suppliers who provide necessary goods and services to the Federal Government. Contributors to late payments are receipts for goods and services or invoice approvals not processed timely. A payment is considered late when it is made after the terms of the contract/purchase order have passed.

[12] According to TVA, any payments made incorrectly are reported to the OIG, Office of Management and Budget, Congress, and the United States President, in compliance with the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010. An annual report or letter, depending upon the threshold of improper payments, is submitted to the OIG and is signed by TVA's President and CEO.

Not Formally Soliciting Customer Feedback

One of TVA's leadership competencies, Business Acumen, entails understanding customer needs to institute systems, processes, and procedures to ensure customer satisfaction. While Corporate Accounting's Revenue Department receives formal feedback as part of the Voice of the Customer Survey, no other department receives formal feedback from its customers. Managers reported having informal conversations about performance with other TVA organizations that are their customers. In the 2014 TES, some employees expressed they did not get and use customer feedback to make improvements in delivering value.

When we spoke with customers as part of our customer service questionnaire, customers suggested several improvements including e-mailing copies of payroll stubs, providing direct phone numbers for contacting accounting departments on specific issues, and improvement of response times in Payroll Operations. Several improvements were suggested specifically for AP&R including implementing a standard form for submitting questions, getting more information on the front end with regard to customer expectations and depth needed, and reduction of information received.

By not formally soliciting and integrating customer feedback, Corporate Accounting could be missing opportunities for creating value for its customers. A formalized process would encourage customer input.

Differing Management and Employee Perspectives Around Adequacy of Staffing Resources

During interviews with managers and employees, we observed communication gaps between managers and employees around adequacy and support of current staffing that could negatively impact the effectiveness of Corporate Accounting. During interviews, managers indicated that they had support, tools, and resources to do their jobs. Some managers also indicated that certain unfilled positions would be held vacant to reduce Operations and Maintenance expenses. According to employee interviews, workload from these unfilled positions (and from overall reductions after Detailed Design restructuring)[13] has been distributed among current work staff. However, some employees had concerns associated with this approach.

- *Increased and Potentially Excessive Workloads* – Some employees-shared workload has increased and they work greater than 40-hour weeks, including nights and weekends, to meet deadlines. Longer hours are typical in the accounting industry at certain times of the year, such as at the end of the FY and tax season. Some employees felt their workloads were currently excessive. In addition, employees shared that Corporate Accounting is relying on interns and contractors to fill in gaps created by Detailed Design. Some employees suggested managers are not familiar with the details of their

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[13] Detailed Design is TVA's current reorganization process to structure TVA for long-term sustainability and financial health. TVA's goal is to determine a design structure and staffing level that enables TVA to collectively reduce Operations and Maintenance by $500 million by FY2015 and live within its means going forward.

work and may not always be aware of the pressures they face in getting the job done.

- *Lack of Trained Substitutes* – Also, while many groups within Corporate Accounting have trained substitutes in case of employee absence or illness, one group consistently shared concerns regarding the lack of trained substitutes to fill their roles during key times. Fuel Accounting work is specialized to a commodity or process. Peers have not cross trained to fill in for one another; however, it could be unrealistic to use peers as substitutes during closing periods because it is the busiest time of the month.[14] Fuel Accounting employees expressed concern about not having someone who could fill their role in case they needed to be out during key times. While the manager is aware of the issue and shares the concern, a solution has not yet been identified.

It appears there is an opportunity to improve communication with employees regarding staffing. In addition, there is a potential gap in understanding between employees and managers about what it takes to perform the work. Increasing pressure to reduce Operations and Maintenance spending may widen differing perspectives and potentially impact the quality of Corporate Accounting's service delivery.

CULTURAL OPPORTUNITIES FOR IMPROVEMENT

Minimal Actions to Address Prior Cultural Survey Results
Corporate Accounting's employees were most recently surveyed as part of a TVA-wide OHI effort in 2012[15] and in an isolated survey for Corporate Accounting (the TES) in November 2014. We reviewed management's response to these surveys and found minimal efforts taken to address concerns raised. Many issues raised in this report were previously brought forward by employees in the surveys.

As a result of the 2012 OHI scores, an employee committee was formed to review results and make recommendations to management that could resolve employee concerns. The committee made several recommendations to management as shown in Figure 3 on the following page.

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[14] The accounting cycle is a set of processes performed in a defined sequence. In TVA's case, that cycle is monthly, in order to properly account for the financial data of a business. Closing the books is a critical step in the accounting cycle, locking the reconciled data by disallowing any changes or additional postings to that accounting period and allows for timely/accurate financial reporting. The closing process occurs within the first four business days of the month.

[15] TVA completed another organization-wide employee survey at the end of June 2015. The OIG had not received a copy of the results at the time of writing this report.

**Figure 3: Employee-Developed Recommendations to
Address 2012 OHI Results**

Subject Area	Employee Recommendations
Operating measures are clearly defined in each area of the organization.	• Identify metrics for each group. • Centralize/streamline metrics reporting and identify sources for best practices among each group. • Improve management reporting (e.g., develop a management dashboard).
Talent development is an integral part of attracting and retaining talented individuals.	• Set minimum two-week intervals for one-on-one meetings between managers and employees. • Provide consistent and clear communication (e.g., timely communication of management updates and of TVA decisions impacting Corporate Accounting). • Increase awareness of internal training, ensure descriptions are easy to locate, and encourage rotational opportunities.
Leadership development enables current leaders to develop and demonstrate necessary leadership traits and behaviors.	• Annual 360 feedback program for managers and higher. • Measurement precedes control. • Deploy management assessments. • Require at least monthly staff meetings. • Understand what motivates/demotivates and makes you happy in your job.

Source: Presentation Slides from OHI Team.

We reviewed Controller initiatives resulting from the OHI study, and we noted limited actions taken related to the above recommendations. The Controller identified having weekly leadership team meetings (with the expectation that information is passed to employees via managers) and regularly scheduled face-to-face meetings with staff. However, the employee recommended timing of meetings was not made mandatory.

In November 2014, Corporate Accounting volunteered to participate in a TES. Results of the survey and a process to encourage actions based on the results were presented at an All Hands Meeting that month. It appears there were no actions taken to address the concerns raised from the TES.

Our interviews with employees in Corporate Accounting indicated they felt prior cultural surveys were ineffective in improving their organization. When asked whether they have seen direct changes from the cultural initiatives they participated in, the answer from most was "no." Cultural initiatives cannot be effective when actions are not taken to address employee concerns that are raised when solicited. Asking for input from individuals and not showing diligence in remediating issues emerging from the feedback can be counterproductive, resulting in the perception that management does not care about employees or their concerns.

Perceived Unfairness in Hiring and Promotion Practices

TVA's Leadership Competency of "Building Organizational Talent" encourages managers to use knowledge of current and future business needs and challenges to actively select, develop, engage, and retain talented individuals. Managers identify high potential individuals and deliberately develop them to reach full potential. Some employees perceived hiring and promotion practices as unfair within Corporate Accounting.

Concerns around promotion and hiring were shared by employees in the two prior cultural surveys we reviewed. In the 2012 OHI study, some employees responded unfavorably to questions about promotion opportunities for high performers. When asked if TVA promotes employees based on their merit rather than their seniority or tenure and offers top performers the most attractive career opportunities within the organization, the majority of employees replied "seldom/never" or "sometimes." Comments to the survey reflected employee concerns about favoritism. While the 2014 TES did not directly ask employees about advancement opportunities, some employees reported they did not feel they could make contributions to their team that distinguish them as an individual. In addition, the TES identified a theme regarding lack of a career path within comments around what employees dislike about being part of this team.

In our conversations with employees, we found some employees did not feel that everyone is given the same opportunity for advancement in Corporate Accounting. Concerns were shared by employees about methods of advancing positions including (1) limited duration of job postings, (2) limited awareness of postings, and (3) prevalent use of direct selection.

- *Limited Duration of Job Postings* – In our interviews, some employees expressed concern about lack of knowledge of job postings and reported limited duration of postings in some cases. We reviewed information on Corporate Accounting's hires, transfers, and promotions between January 2014 and June 2015. TVA Human Resources provided us information on internal posting dates for positions filled within Corporate Accounting over that period. According to TVA Standard Programs and Processes (SPP) 11.2.0, Filling Vacant Positions, typically Management and Specialists (M&S) and Excluded positions are internally posted for a minimum of 7 days.[16] Since January 2014, 6 positions were posted internally and one met the typical minimum of 7 days. Five positions were posted for 5 calendar days. Some employees expressed frustration around jobs being posted over weekend days. The SPP does not specify whether days include weekends. Of the 6 positions posted internally, 3 were posted over weekends (1 posted for

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[16] M&S are positions which manage a function or are individual contributor roles in a profession where actions taken as a result of decisions or recommendations made by the incumbent are significant and/or of a highly confidential nature to employees or the agency. M&S positions are executive, managerial, and professional individual contributor positions not represented by a bargaining unit. Excluded positions are nonmanagement employees who are not included in a bargaining unit and are not subject to the provisions of the negotiated agreements due to the sensitive and confidential nature of their work.

4 business days, 1 posted for 3 business days, and 1 posted for 5 business days).

- *Limited Awareness of Postings* – Some employees shared with us that they were often unaware when jobs were posted internally. Managers are told of the opportunities and are encouraged to have employees who are well suited for the position to apply. A former Corporate Accounting practice was to notify employees of available internal positions through e-mail. However, according to managers, these e-mail notices are no longer sent. Job postings are available for viewing in PLUS, but the PLUS system currently does not provide an avenue for employees to have relevant postings e-mailed to them.

- *Prevalent Use of Management Discretion in Filling Vacant Positions* – Some employees were aware of situations where jobs were not posted and were either filled directly or recruited externally. When asked if everyone is given the same opportunity for advancement, some employees felt there was unfairness and reduced competition among internal candidates who may be qualified (favoritism). In addition, certain employees expressed confusion about how to get a promotion, and did not feel they understood the succession planning process.

  According to TVA-SPP-11.2.0, Filling Vacant Positions, positions are generally posted internally. However, certain manager positions in higher pay bands[17] are posted at the discretion of vice presidents of the hiring organization. The posting requirements for remaining M&S pay bands may be waived upon request when the position is filled by an employee (1) with a targeted disability; (2) in order to resolve a concern, complaint, or appeal; (3) who is a Ready Now succession planning candidate;[18] (4) who is a current or former intern; or (5) who is a surplus or directed transfer.

  We reviewed hires, transfers, and promotions within Corporate Accounting between January 2014 and June 2015 and identified 15 positions filled during that time. Of those, we identified 9 that were not posted due to management discretion, 4 that were posted internally then externally, and 2 that were filled based on internal postings.

  Persistent perception of unfairness in hiring and promotion practices may impact Corporate Accounting's ability to retain high performing employees and diminish engagement and morale among all employees.

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[17] The decision whether to post positions in the Career Management/Senior Professional, Senior Management/Senior Professional, and Officer/Executive pay bands is at the discretion of the Senior Vice President or Vice President of the hiring organization.

[18] Ready Now candidates are employees who currently possess the necessary qualifications and credentials to assume the responsibilities of the succession planning position immediately. Candidates are identified by management during talent reviews.

Lack of Cohesion Among Corporate Accounting Departments
When asked, some employees were not able to identify overall strengths at the Corporate Accounting level citing a lack of knowledge about the BU as a whole. According to some employees, employees and groups perform specialized work that does not always require interaction with other departments within the BU. Most Corporate Accounting employees are split between Chattanooga and Knoxville. Chattanooga employees often indicated they felt disconnected from the BU. According to management, Corporate Accounting holds an All Hands Meeting annually.

Investing in broadening an employee's concept of their team to the Corporate Accounting level could enhance morale.

Employee Relationship Issues With Two Managers
While most employees indicated supervisors/managers in Corporate Accounting are trusted and respected, our interviews identified two supervisors/managers with whom employees have unresolved conflict and relationship issues. We discussed these relationship concerns with the Controller.

Perceived Negative Impacts of Reorganizations and Recent Cost-Cutting Measures
According to the Controller, Corporate Accounting has been affected by reorganizations 4 of the last 5 years. While some employees shared with us their discontent related to the reorganizations, dissatisfaction with impacts of reorganizations was also reflected in employee comments within the 2012 OHI survey. In 2012, employees reported reorganizations affected employee's ability to do their work, contributed to employee fear and distrust, and led to an inability to feel settled at work. In our interviews, many employees felt TVA Executive Management did not understand the work they do or the pressures they face. We noted some employee morale and trust issues with the highest levels in TVA. Some employees feel that TVA is becoming less employee friendly and cited loss of employee benefits as one indicator (e.g., LiveWell, the decline in physical space cleanliness, trash removal). Some employees also reported increased workload and stress. Perception of uncertainty about the future can impact morale.

In addition, negative impacts from reorganizations had the potential to contribute to operational and cultural areas of improvement we identified. For example, some employees felt that managers did not always understand the work their employees do or the pressures they face in their roles. Continual change in management was cited as a potential reason the manager may not understand what employees do. Limited knowledge about employees could impact advancement for some because manager perception of employees is critical in succession planning and communication of other opportunities.

<u>OUR ANALYSIS</u>

Organizational effectiveness, as we have defined it in this review, is the ability of an organization to achieve its mission and goals. As previously reported, Corporate Accounting is effectively providing business support to TVA; however, we noted opportunities to improve alignment of measures to core services and gather feedback from Corporate Accounting customers.

At the cornerstone of organizational effectiveness are the people and their behaviors. An organization that has enthusiastic and willing employees is more likely to achieve the organization's goals and mission over time. Also as reported above, Corporate Accounting has opportunities to address some employee frustrations, management issues, and communication issues. By leveraging its strengths in trusted and respected leadership and engaged employees who enjoy working in teams, Corporate Accounting is well positioned to address some of these issues and build a more sustainable way to handle the inevitable frustrations, miscommunications, and conflicts that will arise in the future. To maintain and improve organizational effectiveness, Corporate Accounting will need to focus on (1) addressing outstanding issues and (2) instituting an effective resolution process.

ADDRESSING OUTSTANDING ISSUES

Throughout the report, we noted instances where issues were previously expressed by employees in cultural surveys and were not adequately addressed. These types of outstanding issues can undermine trust in an organization and management, employee engagement, and ultimately, the effectiveness of the organization. This also can lead to employees being less likely to participate in future surveys because they become disenchanted with the feedback process and disengage from it.

One way to resolve longstanding issues is to start with dialogue to understand the intent of the parties and the different perspectives on the issues, which could ultimately lead to a resolution based on mutual purpose and mutual respect. Most members of the Corporate Accounting management team exhibit behaviors that promote trust and respect from their employees. This has positioned them well to lead the effort to address the issues at the Corporate Accounting level. In addition, the engagement and motivations of employees could indicate their willingness to work with the management team to address both current and future concerns.

INSTITUTING AN EFFECTIVE RESOLUTION PROCESS

It is a natural state of organizational life that frustrations, miscommunications, and conflict arise. Resolving these issues quickly and collaboratively helps an organization maximize its effectiveness and reduce its risks. Creating the right process going forward to timely resolve issues and avoid the accumulation of

such issues will help prevent frustrations from building and increase trust and engagement.

Organizations may use many different methods or combinations of methods for collecting feedback (i.e., surveys, focus groups, employee councils). As noted in our report, employees felt that they are given opportunities to provide input for process improvements to management. Management in Corporate Accounting is expected to hold one-on-one meetings with each of their direct reports. In addition, the Controller has offered employees opportunities to express concerns directly to her via monthly luncheons. Each month, a small, cross section of her employees are invited, with everyone having an opportunity to attend within the year. These avenues for feedback supplement those available to all TVA employees, such as TVA cultural surveys, the Non-Nuclear Employee Concerns program, and the OIG Empowerline. Given the feedback options available to Corporate Accounting employees, it was not surprising that the Controller was already aware of the majority of the issues identified in this report.

However, as stated previously, several issues noted in our report were present in prior cultural surveys, indicating persistence of certain employee perceptions and concerns. In our judgement, an effective resolution process could mitigate the risk of employees perceiving their opinions do not matter or that issues will not be addressed. An appropriate resolution process can help build trust between management and employees because it tends to demonstrate that management listens to and cares about its employees.

When resolving issues, organizations may choose to make final decisions or collaborate with employees to find resolutions. In either case, the rationale for selecting a particular option should be discussed with employees in a timely manner. We believe important aspects to consider when instituting such a process include:

- Empowerment of employees to identify potential solutions, where possible, and collaborate with management to determine the optimal solution.

- Transparent communication, where possible, in tracking the concern, issue or question, and the associated resolution, and in understanding the rationale for selection of a particular solution.

Importantly, a continuous process where management and employees collaborate to determine optimal solutions to issues can increase trust and teamwork, which are essential to enhancing organizational effectiveness. For example, if a new Controller were placed in Corporate Accounting and was not respected or regarded as trustworthy by employees, there would be the risk that his/her actions could create a negative environment and diminish the positive attributes that currently exist within the department. The resolution process should become a habit and part of the way Corporate Accounting conducts its everyday business. While any change has the potential to disrupt or destroy a positive cultural environment, the trust and teamwork resulting from an effective

and collaborative resolution process could help Corporate Accounting meet its operational goals.

Determining the best process specifically for Corporate Accounting and to work through the initial issues may require an investment of time and effort by managers and employees. By working together to implement an effective resolution process and making it a priority, Corporate Accounting management and employees may build a stronger team and ultimately position themselves to better achieve their mission.

RECOMMENDATIONS

We recommend that the Controller:

1. Leverage the existing trust and respect of the management team from employees to take actions that address and resolve the issues identified in connection with this evaluation, which are capable of resolution at the Corporate Accounting level.

2. Continue to utilize existing methods for obtaining employee feedback and develop an ongoing effective resolution process with employee and management involvement that includes (a) methods to resolve issues, (b) transparency in tracking and reporting on feedback and resolutions, and (c) transparency to employees of rationales for selecting a particular solution.

MANAGEMENT'S COMMENTS AND OUR EVALUATION

In response to our draft report, TVA management stated Corporate Accounting agreed with the recommendations and that Management will consider the opportunities for improvement identified. Corporate Accounting management is currently working on a plan to address the recommendations. To address recommendation 1, TVA stated it had recently administered an employee engagement survey to TVA employees. Currently, TVA leaders are in the process of sharing these survey results and providing feedback to employees. Corporate Accounting plans to utilize the contents of this report in conjunction with TVA survey results to focus on continuous improvement. With regard to recommendation 2, TVA management believes that instituting another TVA-wide formal process is not necessary. According to TVA management, TVA's emphasis will be on improving the informal methods of communication by establishing and reinforcing communication channels through organization-wide scheduled meetings. See Appendix C for TVA management's complete response.

We agree with management's planned approach to utilize our report in conjunction with the actions taken to address survey responses. We also agree that a TVA-wide formal resolution process may not be necessary; however, we encourage Corporate Accounting management to consider implementation of an ongoing resolution process tailored to Corporate Accounting management and employee needs. We believe this action could increase trust and collaboration among Corporate Accounting personnel.

OVERVIEW OF ORGANIZATIONAL EFFECTIVENESS

Research has shown that an organization's overall effectiveness is optimized when high levels of operational and behavioral/cultural excellence exist hand-in-hand. To achieve and sustain organizational effectiveness, there should be alignment between strategy, operational performance, and team engagement. Specifically, values and behaviors that drive good performance should be embedded throughout the organization's business processes and exemplified by the individuals that manage and work in the organization. Commitment from both management and employees helps to achieve organizational effectiveness.

Employee engagement is critical for primarily two reasons: engaged employees (1) boost productivity and (2) identify risks to management that might otherwise not be addressed. We are unaware if the Tennessee Valley Authority (TVA) has ever consistently analyzed the correlation of TVA employee engagement to either productivity or to risk identification. While this report is specifically about one Business Unit (BU) within TVA, no analysis would be complete without providing the context for TVA employees. This overview is given to put into proper context the Office of the Inspector General (OIG) findings and recommendations for Corporate Accounting.

THE CORRELATION BETWEEN ENGAGEMENT AND BUSINESS RESULTS

Over the years, research has confirmed that an engaged workforce translates into business success. The higher the employee engagement, the more likely the company will be successful. Companies depend on employees' giving their best and, at times, what is sometimes referred to as "discretionary effort." In other words, employees have a choice to do the minimal required to keep their jobs or they can choose to initiate additional effort to help the company succeed. Engaged employees give discretionary effort that can be "money in the bank" for any company.

Employee engagement increases the chance of organizational success. According to Gallup, Inc.'s[1] "State of the American Workplace,"[2] businesses with engaged workforces have been correlated to higher earnings per share and have exhibited faster recovery from recessions. Employee engagement has also been linked to increased customer satisfaction and a reduction in safety incidents. A recent Gallup, Inc., study[3] compared top and bottom quartile engagement scores of 125 companies (that included approximately 23,900 BUs). The results of the

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[1] Gallup Inc., originally founded in 1935 as the American Institute of Public Opinion, is primarily a research-based, performance management consulting company. In the 1990s, it developed a tool for measuring and managing employees, the Gallup Q12, which includes 12 actionable workplace elements linked to vital performance outcomes.

[2] "State of the American Workplace," Gallup, Inc., http://employeeengagement.com/wp-content/uploads/2013/06/Gallup-2013-State-of-the-American-Workplace-Report.pdf.

[3] *Q12 Meta Analysis*, The Relationship Between Engagement at Work and Organizational Outcomes Gallup, Inc., http://www.gallup.com/services/177047/q12-meta-analysis.aspx.

study reflected that for the 27 companies that had available health and safety data, the related BUs in the bottom quartile averaged 62 percent more safety incidents.[4]

Gallup's "State of the American Workplace" (2010 – 2012),[5] defines "'engaged' employees as those who are involved in, enthusiastic about, and committed to their work and contribute to their organization in a positive manner." Engagement should not be confused with employees simply being happy. Engagement at the employee level includes being personally accountable and motivated to carry out assigned tasks as well as to identify problems and find appropriate solutions so that efficiency and effectiveness of the organization is increased. *Employee Engagement: Tools for Analysis, Practice, and Competitive Advantage*, coauthored by William H. Macey,[6] states that employee engagement ". . . is an individual's sense of purpose and focused energy, evident to others in the display of personal initiative, adaptability, effort, and persistence directed toward organizational goals." According to Gallup,[7] these employees ". . . go the extra mile, work with passion, and feel a profound connection to their company." These individuals, if allowed, will become more productive and drive improvements to move the organization toward becoming more effective.

Whether managers themselves are engaged is equally important. A major determinant of whether a company has engaged employees is whether the managers are engaged themselves. In the "State of the American Manager: Analytics and Advice for Leaders,"[8] Gallup, Inc., estimates that only 30 percent of employees in the United States are engaged at work while only 35 percent of managers in the United States are engaged. Further, employees whose managers are open and approachable are more engaged. Management's role is pivotal to the successful engagement of a company's employees. Management's role in an ideal organization is one of support whereby employees are trusted to create a work environment that meets the mission through cost-effective and efficient methods. Fundamental elements of basic engagement include communication of management and job expectations. This includes the creation of an environment where employees (1) feel safe to bring forth issues and ideas even if those issues or ideas differ from management's opinions and (2) are enabled to assist or are responsible for problem identification and problem resolution. If these requirements are not met, employees may not be engaged to meet the mission regardless of how inspiring the mission is.

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[4] To our knowledge, TVA has not compared engagement scores with accident rates to know whether the same correlation applies at TVA.

[5] "State of the American Workplace," Gallup, Inc., http://www.gallup.com/services/178514/state-american-workplace.aspx.

[6] William H. Macey, et al., *Employee Engagement: Tools for Analysis, Practice, and Competitive Advantage*, Valtela Corp., 2009.

[7] "Five Ways to Improve Employee Engagement Now," Gallup, Inc., http://www.gallup.com/businessjournal/166667/five-ways-improve-employee-engagement.aspx.

[8] "State of the American Manager: Analytics and Advice for Leaders," Gallup, Inc., http://www.aseonline.org/images/marketing/StateOfAmericanManager_Gallup.pdf.

THE CORRELATION BETWEEN RISK IDENTIFICATION BY EMPLOYEES AND ENGAGEMENT

Employee engagement not only boosts productivity for a company, but creates an "early warning system" when employees point out risks that are lurking beyond the radar of management. An inherent component of employee engagement is the degree to which employees feel comfortable voicing problems or risks to his or her supervisor(s). Specifically, "[If] an employee is comfortable addressing a workplace issue with management with the confidence and knowledge that [the]: (1) situation will be properly addressed in accordance with company policy; and (2) reporting employee will not be retaliated against, the open communication will foster confidence, boost morale, and will likely improve the workplace overall by increasing employees' engagement levels."[9]

Risk identification has been the subject of international focus particularly since the financial crash of 2007-2008. In the United Kingdom, "culture reviews" are conducted by some financial institutions as a result of the global financial crisis of 2007-2008. The Institute of Internal Finance (IIF) noted that failures in the area of risk management were contributing factors of this financial crisis. Specifically, it stated that ". . . weak risk culture, failures in risk governance, and lack of a comprehensive approach to firm-wide risk management resulted in poor risk identification and management."[10] The IIF further stated that risk culture failings typically fall into one of several predictable categories. One of these, known as "sweeping problems under the carpet," is described as:

> …people do not challenge one another's assumptions, attitudes, or actions; this may be the result of forceful leadership at one or another level, of power accreting to a successful desk, or simply of a perception that challenge or questioning will only cause problems for the questioner and thus not contribute constructively to the firm's direction…[In addition,] Fear of bad news or a "shoot-the messenger" mentality can be powerful cultural attributes preventing people from raising issues forcefully.[11]

Importantly, without robust and informal communication channels, "management risks missing … rapidly developing issues ... [In] in firms that have had serious problems, there often has been a 'bad news doesn't travel' phenomenon. This is

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9   Katherine Cooper Franklin, Marissa Dragoo, and Marissa Mendenhall, "Building an Effective 'Speak-Up' Culture, *Human Resource Executive Online, September 2014,* http://www.hreonline.com/HRE/view/story.jhtml?id=534357555.

10   "Reform in the Financial Services Industry: Strengthening Practices for a More Stable System, The Report of the IIF Steering Committee on Implementation (SCI)," *IIF of International Finance,* December 9, 2009, p.21., https://www.iif.com/publication/regulatory-report/iif-releases-report-reforms-financial-services-industry.

11   "Reform in the Financial Services Industry: Strengthening Practices for a More Stable System, The Report of the IIF Steering Committee on Implementation (SCI)," *IIF of International Finance,* December 9, 2009, p. AIII.4., https://www.iif.com/publication/regulatory-report/iif-releases-report-reforms-financial-services-industry.

a serious risk in itself, and management should be very concerned if there are indications of this trait in the firm's culture."[12]

The OIG has documented the "shoot the messenger mentality" at TVA. In the OIG's Inspection[13] 2010-13088 – Watts Bar Nuclear Plant Unit 2 Project Set-Up and Management Issues Affected Cost and Schedule, May 18, 2012, some elements of a culture that discouraged "raising your hand" were present, caused TVA reputational harm, and cost millions of dollars. Employees working on the construction of Watts Bar Unit 2 raised concerns about the budget and schedule projections. Employees "raised their hands" as they should have but were met with opposition from management and some of those employees believed that they were retaliated against because they were giving bad news. The OIG work not only revealed that the Watts Bar Unit 2 construction project would be over budget and years off the projected schedule but also that there was a culture that discouraged identifying certain risks at TVA.

TVA's response to the OIG report was appropriate and ultimately the managers overseeing the project were replaced by new managers. Unfortunately, it may be difficult to overcome the history of perceived or actual practices of retaliation without a concerted effort by management. Having an ongoing feedback and resolution mechanism that promotes "raising your hand" and rewarding employees who deliver bad news requires structural support and consistent messaging by TVA leadership. In our judgement, a key for TVA going forward is the ability to assess how risky employees perceive it to be to challenge management.

Given the obvious benefits of high employee engagement (higher productivity and greater risk identification) investing in building the necessary trust with employees to increase employee engagement is a prudent investment.

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[12] "Reform in the Financial Services Industry: Strengthening Practices for a More Stable System, The Report of the IIF Steering Committee on Implementation (SCI)," *IIF of International Finance,* December 9, 2009, p. A.III.8., https://www.iif.com/publication/regulatory-report/iif-releases-report-reforms-financial-services-industry.

[13] OIG Inspections is now referred to as OIG Evaluations.

TVA'S HISTORICAL ORGANIZATIONAL EFFECTIVENESS EFFORTS

Creating as many engaged employees as possible should be a high priority for any government agency that holds the public's trust. While TVA's primary focus has been on the achievement of its three-part mission (energy, environment, and economic development) through the years, TVA has also recognized the importance of culture including employee engagement and has attempted to improve those areas. Specifically, TVA has gone through three major organizational health initiatives: the total quality (TQ) movement, the Strategic Teamwork for Action and Results (STAR 7), and the Organizational Effectiveness Initiative (OEI).

Total Quality (TQ)
In January 1988, Marvin T. Runyon became the ninth chairman of the TVA Board of Directors and inherited an agency with fossil plants in disrepair and equipment and maintenance failures in its nuclear program, primarily due to personnel management and organizational issues. To be able to continue as a viable organization, TVA needed to fundamentally change the way it conducted its business. Soon after beginning at TVA, Mr. Runyon reached the conclusion that organizations were not aligned and began efforts to restructure TVA, including the elimination of certain programs and jobs. These efforts, coupled with the significant number of turnovers occurring within senior management, negatively affected employee morale and trust in management.

In the 1990s, TVA began placing an emphasis on strategic planning that stressed the "consumer first" philosophy and adopted TQ to achieve Mr. Runyon's central objective of increasing the "competitiveness" of TVA's electricity program.[14] The objective of TQ at TVA was to integrate quality improvement concepts and principles into the way TVA did business. This initiative included four strategic focus areas, including (1) employee involvement (providing a means for employees to become more involved in solving TVA's business problems and managing its processes), (2) customer focus, (3) quality leadership, and (4) process improvements. As part of its TQ efforts, TVA made organizational changes. Even though some remnants of the TQ initiative remain today, TQ faded away due to the departure of its "champions" and the ushering in of STAR 7, "a new approach to the same problem."

Strategic Teamwork for Action and Results (STAR 7)
In 1993, Craven Crowell was appointed to the three-member TVA Board of Directors and designated as Chairman. Recognizing the threat of deregulation and the need for a more competitive TVA business model, Mr. Crowell introduced the STAR 7 initiative, the goals of which were (1) a common understanding about TVA's mission, goals, and values; (2) strengthening of the TVA workforce as a team; and (3) enabling the workforce to adapt to rapid change. In addition, the STAR 7 initiative introduced seven values. During the STAR 7 initiative, TVA also developed the Cultural Health Index survey. The

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[14] Erwin C. Hargrove, *Prisoners of Myth: The Leadership of the Tennessee Valley Authority 1933-1990*, University of Tennessee Press, Knoxville, 1994, p. 276.

Cultural Health Index was designed as a support tool for measuring effectiveness and targeting improvements in the STAR 7 initiative.

As with TQ, focus on the STAR 7 program decreased over time. This was primarily due to lack of buy-in across all TVA organizations and the conclusion of formal STAR 7 training in 2007. While vestiges of STAR 7 continued to exist after the program's decline, these remnants would not be enough to overcome the building storm. In 2008, TVA was confronted with one of the most significant events in its history—the Kingston ash spill—and TVA's organizational health was about to come to the forefront of attention again.

Organizational Effectiveness Initiative (OEI)
In 2009, TVA implemented the OEI, led by McKinsey & Company (McKinsey) consultants, which attempted to remediate the issues identified after the Kingston ash spill in December 2008. TVA's efforts focused on five key improvement areas, or workstreams: (1) organizational structure, (2) governance and accountability, (3) operating policies and procedures, (4) skills sets, and (5) rewards and recognition. These workstreams majored on compliance and structure and did not focus on changing behaviors as STAR 7 had done. This was despite the conclusion that cultural elements at TVA had as least contributed to the problems with coal ash disposal.

In addition to the five workstreams listed above, two OEI pilots were initiated: the Paradise Plant Effectiveness (Paradise) effort and the Supply Chain Category Management effort.

- *Paradise* – The Paradise effort, an intensive plant change effort driven by plant leadership, was intended to demonstrate examples of successful change and help employees and management identify ways to improve the most significant gaps in the plant's operational and organizational performance. During the OEI Paradise pilot, employees at that location were encouraged to provide input related to opportunities to close gaps in the plant's operations and organization. According to McKinsey, the pilot resulted in an increase of 80 megawatts and gains in organizational engagement and energy. However, after identifying nearly $62 million in annual run-rate improvement opportunities, TVA executive management decided they were not willing to spend the necessary money to fully fund all of the proposed improvements.

- *Supply Chain* – The Supply Chain Category Management effort involved an accelerated effort to transform the way TVA manages its "spend" on materials and services and improve the health of the Supply Chain organization. According to McKinsey, the initial wave identified expected savings of $45 to $75 million.

During OEI, the Organizational Health Index employee survey tool, owned by McKinsey, was used to assess TVA's overall organizational health at particular points in time. By early calendar year 2012, TVA had already started implementation of a new business strategy called "Diet and Exercise." This new

strategy was implemented by the former Chief Executive Officer (CEO) and was designed to keep rates competitive by lowering spending and did not appear to be a culture change program. TVA conducted its last full Organizational Health Index survey in July 2012.

THE SUSTAINABILITY CHALLENGE AT TVA

Understanding the OIG findings and recommendations for Corporate Accounting requires an understanding of why prior efforts to increase employee engagement have not been successful. The primary reason that TVA's efforts have not been successful is that sustainability was not "baked into" the process by fundamentally changing the hearts and minds of management and employees. In addition, TVA is an organization with many strategic and supporting business units made up of individuals from varied backgrounds located across the Tennessee Valley. A natural result of this is that TVA is comprised of many different subcultures. The perception exists that TVA, in past initiatives, attempted to treat all groups within TVA as one culture or otherwise homogenous. Several TVA divisions have managed to create healthy cultures through implementation of their own organizational health practices especially crafted to take into account the various subcultures within the company. This should guide future efforts to avoid, for example, endeavors similar to OEI which was perceived by some not to recognize the need for making distinctions between TVA subcultures. A "built to last" culture change at TVA that is sustainable must include an approach that is tailored to fit diverse subcultures and work environments across TVA.

The Tension Between Economic Strategies and Culture
Organizational effectiveness is driven by two components, business performance and organizational culture. While these two components should, and can, be mutually supportive, there is an inherent tension between these two components that has been best described in the Harvard Business Review article, "Cracking the Code of Change."[15] The authors describe the economic drivers in an organization as "Theory E" and the people-oriented or culture drivers as "Theory O." Theory E (economics), usually involves economic incentives, drastic layoffs, downsizing, and restructuring. Theory O (organizational culture), on the other hand, is focused on strengthening employee behaviors, attitudes, capabilities, and commitment. The tension in the theories stems from their effects.

Focusing on only one theory will not bring about the desired result of sustained organizational effectiveness. For example, from an employee's perspective, it may be difficult to trust those in management who implement cost-cutting measures. At the same time, managers who concentrate their efforts on employee trust and collaboration, for example, may find it difficult to make tough, but necessary, business decisions because of their loyalty and commitment to employees. Many companies, attempt to cost cut and downsize while

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[15] Michael Beer and Nitin Nohria, "Cracking the Code of Change," Harvard Business Review, May-June 2000, https://hbr.org/2000/05/cracking-the-code-of-change/ar/1.

simultaneously working on trust building/culture work, without recognizing the inherent tensions that occur.

As stated above, TVA's efforts have swung between Theory E and Theory O concepts. The TQ, STAR 7, and OEI approaches used by TVA in the past have been either primarily structural/process oriented (Theory E) or behavior focused (Theory O). The emphasis of TQ was on process improvements and problem solving to improve customer relations and facilitation of teamwork. STAR 7, on the other hand, was primarily focused on teaching employees TVA values and behavior concepts.

With OEI, the pendulum swung back to nonbehavior-type structural changes, such as the reorganization of the company and revision of policies and procedures. For example, the main goal of the operating policies and procedures workstream was to provide for more consistency of policies and procedures across all TVA. Similarly, the goal of the organizational structure workstream was to better align leadership and business functions around TVA's core mission.

While these goals were generally helpful in terms of supporting a healthy culture, OEI, at its core, was not about making deep and positive changes in individuals. Indeed, even when a focus on employee engagement was attempted, as with the Paradise Pilot in 2011, TVA's actions may have caused more harm than good. Specifically, employees who had been asked to come up with process improvements and did so, may have felt demoralized and discouraged after management decided not to fund those proposals. As a result, employees may have believed that management was not being sincere in wanting employee input and engagement.

Although Theory E and Theory O have inherent tensions, both drive the same goal (organizational effectiveness). In fact, this natural tension and the difficulty in reconciling the two theories may have been the reason why TVA's three previous efforts were focused primarily on only one of the two theories at a time. According to the authors of *Cracking the Code of Change*, both components are necessary to achieve organizational effectiveness but they suggest that a "sequenced" approach is an option that can be considered. For example, a company may decide to implement Theory E concepts, and after the "dust has settled," move forward with actions consistent with Theory O. However, the authors warn that reaching the goal under a "sequenced" approach may take decades to achieve presumably because of the employee "healing time" needed when going from one theory to the other.

TVA'S CURRENT EFFORTS

In analyzing TVA's current efforts, TVA leadership took a "sequenced" approach by beginning substantial Theory E type cost cutting measures before implementing new values due to extensive financial and operational challenges. In April of 2015, TVA's CEO explained to Congress the significant challenges that TVA has faced in his 2 years as CEO, including record weather events, a stagnant economy, aging infrastructure, increased regulation, and low load growth. Due to these internal and external economic pressures, TVA has taken cost cutting measures in an attempt to keep rates low, keep reliability high, and continue to fulfill its broader mission of environmental stewardship and economic development. For example, as of May 19, 2015, jobs have been cut through restructuring of various TVA BUs (called the Detailed Design Initiative), including specific cuts within Power Operations, in order to help meet TVA's goal of reducing operation and maintenance expenses by $500 million by the end of fiscal year (FY) 2015. According to TVA, by the end of 2014, more than $300 million in sustainable cost reductions had been realized, representing a 20 percent reduction to non-fuel Operations and Maintenance spending. In addition, TVA has experienced increased sales and reduced its outstanding debt.

While addressing TVA's financial challenges, TVA leadership's focus shifted to Theory O type work. TVA developed new corporate values and individual contributor and leadership competencies, which are being rolled out to management and specialist-level employees. According to TVA communications on its internal Web site:

> TVA values are the fundamental beliefs that guide our actions, our behaviors and our decisions as a company. Collectively, they define how we achieve our mission—the way we do business, treat others, and reward performance. Our values are modeled by our leaders and practiced by our employees. Living our values means that we are actively committed to demonstrating them in our day-to-day behaviors.

These values include:

- *Safety* – We share a professional and personal commitment to protect the safety of our employees, our contractors, our customers, and those in the communities that we serve.

- *Service* – We are privileged to be able to make life better for the people of the Valley by creating value for our customers, employees and other stakeholders. We do this by being a good steward of the resources that have been entrusted to us, and a good neighbor in the communities in which we operate.

- *Integrity* – We conduct our business according to the highest ethical standards and seek to earn the trust of others through words and actions that are open, honest and respectful.

- *Accountability* – We take personal responsibility for our actions, our decisions and the effectiveness of our results, which must be achieved in alignment with our company values.

- *Collaboration* – We're committed to fostering teamwork, developing effective partnerships and valuing diversity as we work together to achieve results.

TVA's Theory E work (cost cutting) is on-going as of August 2015, while the Theory O work began officially in the first quarter of FY2015. While the chronology of Theory E and Theory O work at TVA currently might loosely be called "sequencing" as opposed to being done simultaneously, from the perspective of employees it is likely that the "dust has not settled" and there has not been a hard break between the reductions of 2014 and the roll out of the new TVA values. Ordinarily, those conditions make buy-in by employees more difficult and require a greater focus on restoring trust with them.

HOW BIG IS THE RISK?

TVA's current efforts to build employee engagement may be inspired, in part, by TVA management's growing recognition that employee morale is a risk to achieving TVA's business goals. Assessing the extent of that risk continues to be a challenge for TVA. In FY2009, TVA's Enterprise Risk Management began recognizing corporate culture as a key enterprise risk with a "medium" risk rating. As of April 2015, TVA's Enterprise Risk Management's 3-year Strategic Risk Profile recognized one of TVA's key risks as "organizational refinement—ongoing organizational refinement and optimization may negatively effect [*sic*] performance environment." In other words, continued restructuring efforts as well as cost and employee reductions could lead to poor productivity results, which would be consistent with the research that we cite above.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this evaluation was to identify operational and cultural strengths and areas for improvement that could impact Corporate Accounting's organizational effectiveness. We assessed operations and culture from July 2012 to June 2015. To complete the evaluation, we:

- Reviewed the Corporate Accounting fiscal year (FY) 2015-2017 business plan to (1) gain an understanding of Corporate Accounting goals for alignment to its mission, services, and to the Tennessee Valley Authority's (TVA) mission and imperatives and (2) categorize those goals into operational factors, based on the their descriptions. We grouped goals into the following operational factors: Customer Service, Reporting, and Systems.

- Reviewed TVA values, behaviors, and competencies for understanding of cultural factors deemed as important to TVA. These factors included Communication, Trust, Accountability, Collaboration/Teamwork, Continuous Improvement, and Integrity.

- Modified a questionnaire developed in our Organizational Effectiveness Review of Cumberland Fossil Plant,[1] containing questions validated by the Psychology department of The University of Tennessee, Chattanooga, to account for (1) the difference between plant and corporate environments and (2) the operational focus of Corporate Accounting. The questionnaire was administered to Corporate Accounting personnel and results were assessed in order to identify themes related to strengths and areas for improvement.

- Held informational sessions, in conjunction with administration of the questionnaire, where the Office of the Inspector General personnel made themselves available for questions and/or discussions with Corporate Accounting personnel.

- Interviewed the Controller and direct reports from Corporate Accounting, as well as other designated supervisory/management-level employees to obtain their perceptions related to strengths and areas for improvement of the operational and cultural factors discussed previously.

- Developed focus groups and interview questions based on the operational and cultural factors discussed previously and information compiled from the questionnaires. Questions were utilized to conduct focus groups and interviews with Corporate Accounting personnel who were randomly selected from a population of 72 employees. Individuals listed on Corporate Accounting's organizational chart as having direct reports, including supervisors and managers, were excluded from the focus groups and interviews.

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[1] Evaluation 2015-15296 – Cumberland Organizational Effectiveness Review.

- Analyzed focus group and interview results to identify themes related to the operational and cultural factors discussed previously. Themes were determined as issues brought up multiple times in relation to an operational or cultural factor.

- Identified Corporate Accounting's customers and existing customer feedback mechanisms in cooperation with Corporate Accounting personnel. We excluded external customers (e.g., TVA vendors, Office of Management and Budget, U.S. Treasury) for multiple reasons, including difficulty in obtaining population information for sampling, lack of incentive for certain customers to respond, and presence of compliance related activities. For Payroll Operations, whose customer is all TVA employees, we identified recent users of their services based on a manual log of calls received from February to May 2015.

- Developed a customer service questionnaire to ask internal customers about key aspects of Corporate Accounting's performance, including accuracy of information, responsiveness to request, provided information meeting customer needs, handling of issues, and overall service experience.

- Administered the customer service questionnaire to a sample of the following customer groups: Financial Operations and Performance controllers and managers, individuals who called in with a payroll question, individuals who called in with an expense reimbursement question, SOX control owners, and individuals within TVA operations who regularly interact with Fuel Accountants and Revenue in performance of their duties.

- Analyzed customer service questionnaire results to corroborate themes and fill in information gaps related to the operational and cultural factors discussed previously. In addition, we compiled a list of process improvement ideas shared for each department's customers and shared the information with management.

- Obtained and reviewed the following Corporate Accounting operational and cultural data to utilize in our assessment of themes related to strengths and areas for improvement:
  - Business Plan for FY2015-2017
  - FY2016 Enterprise Risks
  - FY2015 Scorecard
  - FY2014 Voice of the Customer Results
  - FY2015 Sarbanes-Oxley Open Deficiencies
  - External SEC Filings for January 2014 through June 2015
  - 2012 Organizational Health Indicators results and related comments
  - 2014 Team Effectiveness Survey results and related comments
  - Hires, Transfers, Selections, and Reclassifications between January 2014 through June 2015

- Obtained and reviewed the following TVA Standard Programs and Processes (SPP) and guidelines to gain an understanding of the process and controls:
  - TVA-SPP-11.2.0, Filling Vacant Positions
  - TVA-SPP-11.2.5, Onboarding
  - TVA-SPP-11.301, Succession Planning
  - TVA-SPP-11.302, Integrated Performance Management for Managers, Specialists, and Excluded Schedule Employees
  - TVA-SPP-11.304, Performance Management for TVA Employees
  - TVA-SPP-02.0 TVA, Performance Analysis and Productivity
  - TVA-SPP-02.1 TVA, Performance Analysis and Productivity
  - TVA-SPP-19.100, TVA Integrated Planning Process
  - TVA Goal Setting Guidelines

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

November 3, 2015

Richard W. Moore, ET 4C-K

RESPONSE TO REQUEST FOR COMMENTS – DRAFT EVALUATION 2015-15313 – CORPORATE ACCOUNTING ORGANIZATIONAL EFFECTIVENESS

Reference: OIG Memorandum to Diane Wear, VP & Controller, Corporate Accounting

This is in response to the recommendations provided in your August 29, 2015, draft evaluation of organizational effectiveness within TVA's Corporate Accounting business unit. Corporate Accounting agrees with the recommendations. Management will give consideration to the opportunities for improvement identified and will inform you of our decisions.

TVA management recognizes the importance of organizational effectiveness as we work together to fulfill our mission of service for the people of the Tennessee Valley. We agree that strong, healthy employee engagement is critical to our organization's overall effectiveness. During the 2014 and 2015 Business Plan rollout meetings and other forums, we reinforce TVA's Business Operating Model (see attachment) which emphasizes the importance of business alignment, engagement, and execution. Our TVA values are a key component of creating alignment in that model, with competencies and behaviors as a foundation. Over the past year, we have given considerable focus to educating employees on those values and competencies, and incorporating them into our HR and Leadership programs.

We are currently pursuing a comprehensive approach to bolster engagement at all levels of the organization. In June, recognizing the opportunity for additional data to better inform decision-making, we conducted an Employee Engagement Survey. Seventy-six percent of TVA employees provided feedback on the survey and the resulting engagement index exceeded the national norm. TVA leaders are in the process of sharing survey results with their employees, discussing contributing factors to the results, and providing feedback. The open sharing of results, contributing factors, and general discussion helps address the opportunities for improvement identified in your report. TVA business units will use the survey data; Corporate Accounting will also use the IG organizational effectiveness report as feedback to enlighten actions focused on continuous improvement.
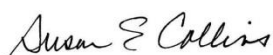
We recognize the flavor-of-the-month effect and sustainability challenges of broad TVA organizational effectiveness efforts described in Appendix A of the subject evaluation. It is important that we not implement an initiative for every finding – whether from a TVA survey, an audit, an evaluation, or a consultant – as such an approach is unsustainable and would cause us to miss the forest for the trees. Further, our general approach to improvement actions is incorporation into day-to-day management and regular business planning process, which improves long-term sustainability and accountability for results.

Regarding recommendation 2(b), TVA employees already have a wide variety of formal and transparent methods for resolving issues, such as the grievance process (for represented employees), Non-Nuclear Employee Concerns, Equal Opportunity Compliance, OIG Empowerline, and Human Resources, so our emphasis will be on improving the informal methods of communication by establishing and reinforcing communication channels through organization-wide scheduled meetings. Importantly, we will not be providing another formal avenue for resolution or issue tracking which circumvents a direct conversation with a supervisor or an upper level manager because doing so would unintentionally deprive the
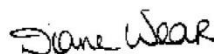
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employee and the supervisor of an opportunity to build trust, risk delaying resolution, and at worst send the message that direct conversations with management are not the primary means of resolving issues and expressing concerns.

If you have further questions related to organizational effectiveness, please contact Sue Collins at 423-751-8584.

Susan E. Collins
Vice President
Human Resources
LP 3A-C

Diane Wear
Vice President & Controller
Corporate Accounting
WT 4B-K

SEC:DKM
cc (Attachment):
    K. J. Black, LP 6A-C
    W. D. Johnson, WT 7B-K
    D. K. Lanier, MR 3K-C
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    J. M. Thomas, MR 6D-C

ATTACHMENT

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TVA Business Operating Model