



Memorandum from the Office of the Inspector General

July 18, 2018

John J. Bradley, OCP 6D-NST

REQUEST FOR FINAL ACTION – AUDIT 2017-15488 – TVA ECONOMIC DEVELOPMENT GRANTS

Attached is the subject final report for your review and final action. Your written comments, which addressed your management decision and actions planned or taken, have been included in the report. Please notify us when final action is complete. In accordance with the Inspector General Act of 1978, as amended, the Office of the Inspector General is required to report to Congress semiannually regarding audits that remain unresolved after 6 months from the date of report issuance.

If you have any questions or wish to discuss our findings, please contact Michael A. Driver, Audit Manager, at (423) 785-4813 or Rick C. Underwood, Director, Financial and Operational Audits, at (423) 785-4824. We appreciate the courtesy and cooperation received from your staff during the audit.

David P. Wheeler
Assistant Inspector General
(Audits and Evaluations)
WT 2C-K

MAD:FAJ
Attachment
cc (Attachment):

TVA Board of Directors
Janet J. Brewer, WT 7C-K
Robertson D. Dickens, WT 9C-K
William D. Johnson, WT 7B-K
Holly B. Jordan, OCP 6D-NST
Dwain K. Lanier, MR 6D-C

Justin C. Maierhofer, WT 7B-K
Jill M. Matthews, WT 2C-K
Alan L. Raymond, OCP 6D-NST
Van M. Wardlaw, BR 5D-C
OIG File No. 2017-15488



Office of the Inspector General

Audit Report

To the Senior Vice President,
Economic Development

TVA ECONOMIC DEVELOPMENT GRANTS

Audit Team
Michael A. Driver
Michael C. Cook

Audit 2017-15488
July 18, 2018

ABBREVIATIONS

| | |
|-----|---------------------------------|
| ED | Economic Development |
| PG | Performance Grant |
| SPP | Standard Programs and Processes |
| TVA | Tennessee Valley Authority |

TABLE OF CONTENTS

EXECUTIVE SUMMARY i

BACKGROUND..... 1

OBJECTIVES, SCOPE, AND METHODOLOGY 2

FINDINGS 3

 TVA ED'S PROCESSES AND PROCEDURES FOR AWARDING
 GRANTS 3

 NO SPECIFIC PERFORMANCE METRICS TO DETERMINE IF
 GRANT PROGRAM OBJECTIVES ARE MET 5

RECOMMENDATIONS 6

APPENDIX

MEMORANDUM DATED JULY 13, 2018, FROM JOHN J. BRADLEY TO
DAVID P. WHEELER



Audit 2017-15488 – TVA Economic Development Grants

EXECUTIVE SUMMARY

Why the OIG Did This Audit

The Tennessee Valley Authority Act of 1933 states that one of the purposes of the Tennessee Valley Authority (TVA) is “to provide for the agricultural and industrial development” of the Valley. TVA Economic Development (ED) has developed various means to assist the Valley in support of this mission and part of this has included issuance of grants to participating entities. Currently, there are two main grant programs utilized—Performance Grant (PG) Program and InvestPrep Program.

We included an audit of the TVA ED grants in our annual audit plan based on findings from our 2013 audit of TVA’s Valley Investment Initiative,ⁱ where we found TVA’s oversight of that program could be improved. Our audit objectives were to determine if TVA has (1) adequate processes and procedures in place for awarding ED grants and (2) established performance metrics to determine if grant program objectives are met. The scope of the audit included ED grants activeⁱⁱ between June 1, 2015, and May 31, 2017.

What the OIG Found

In summary, we found:

- TVA has adequate processes in place for awarding ED grants but does not have a Standard Program and Process for InvestPrep grants.
- ED utilizes a third-party vendor to complete compliance reviews (on a sample basis) of customers participating in another ED program. Beginning in October 2017, ED included PGs in these reviews to help ED independently verify compliance with grant requirements reported in the customer’s annual self-certification. However, ED has not included InvestPrep grants in any compliance review program.
- The ED organization has not established specific performance metrics to determine if grant program objectives are met.

ⁱ Audit 2013-14993, TVA’s Valley Investment Initiative, September 18, 2013.

ⁱⁱ For the purposes of this audit, “active” grants mean those which have had payments made or have been executed. A contract is considered executed after the organization (Grantee) and TVA ED have signed.



Audit 2017-15488 – TVA Economic Development Grants

EXECUTIVE SUMMARY

What the OIG Recommends

We recommend the Senior Vice President, ED, take the following actions:

1. Update TVA Standard Programs and Processes for the InvestPrep Program to reflect the current procedures.
2. Consider including InvestPrep in ED's third-party compliance reviews or develop procedures for TVA to independently verify work has been completed.
3. Develop specific objectives and performance measures for the PG and InvestPrep grant programs.
4. Perform regular evaluation studies to determine program effectiveness and identify strategies for meeting unmet goals.

TVA Management's Comments

TVA management stated they were pleased with the overall results of the audit and provided actions they plan to take to address each of our recommendations. See the Appendix for TVA management's response.

BACKGROUND

The Tennessee Valley Act of 1933 states that one of the purposes of the Tennessee Valley Authority (TVA) is “to provide for the agricultural and industrial development” of the Valley. According to TVA’s Economic Development (ED) organization, ED works in partnership with customers, regions, states and communities to serve as a catalyst for sustainable economic growth in the Valley. The majority of this work is focused in three main areas:

- Attract new companies and investments to the Valley.
- Engage existing businesses and industries to grow.
- Serve and support communities to be competitively prepared for economic growth.

ED has developed various means to assist the Valley in support of this mission and part of this has included issuance of grants to participating entities. Currently, there are two main grant programs utilized.

The first is the Performance Grant (PG) Program (previously known as Valley Advantage). Through this program, TVA makes direct investment in economic development projects and large scale regional and Valley-wide initiatives. The project investment cap is \$5 million per project and customers are given a 5-year contractual period to meet PG contract requirements. However, if a company meets all of its grant requirements by the end of year 3 or 4, the reporting obligations and clawback provisions will cease. Clawback provisions in the grant agreement give TVA the option to require a company to pay back all or some of the grant funds, depending on grant compliance. According to ED personnel, these clawback provisions have been used five times since the beginning of our audit period and TVA has recouped funds that had been paid out through the PG in accordance with the grant agreement. Funding goes directly to the company that executes the agreement unless otherwise specified in the grant agreement.

The second is the InvestPrep Program. It provides grants of up to \$500,000 to eligible applicants. The grants are given to organizations to assist with costs incurred, or to be incurred, for the purpose of advancing potential business sites. The organization (Grantee) will apply for a grant based on a specific project site and location. InvestPrep is a matching grant program and TVA will fund no more than 70 percent of a project’s total cost in communities within Special Opportunity Counties¹ and up to 50 percent for all other projects. The Grantee must prove that it has the means to fund the remaining portion of the project. Each project is expected to be completed within 18 months of the effective date of TVA’s Notice to Proceed.

¹ Special Opportunity Counties are counties in the Valley with the lowest per capita personal income, the highest percentage of residents below the poverty level, and the highest average annual unemployment rates. The list of counties is updated annually.

We included an audit of TVA's ED grants in our annual audit plan based on findings from our 2013 audit of TVA's Valley Investment Initiative,² where we found TVA's oversight of that program could be improved. Our audit scope included ED grants active³ between June 1, 2015, and May 31, 2017. A summary of grants active during the period is shown in Table 1.

| Summary of Active Grants June 1, 2015 – May 31, 2017 | | | |
|---|--------------------|--------------------|--------------------------------------|
| Grant Type | # of Grants | Total Award | Total Paid as of May 31, 2017 |
| Performance Grant | 192 | \$42,707,250 | \$31,155,106 |
| InvestPrep Grant | 41 | 9,787,148 | 4,816,493 |

Table 1

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine if TVA has (1) adequate processes and procedures in place for awarding ED grants and (2) established performance metrics to determine if grant program objectives are met. To achieve our audit objectives, we:

- Reviewed the following TVA policies and procedures to identify requirements for awarding grants:
 - TVA Standard Programs and Processes (SPP) 24.008, Economic Development Industrial Product Readiness Program Grants
 - TVA-SPP-24.012, The Performance Grant Program
- Interviewed TVA ED personnel in order to understand the process for awarding ED grants.
- Obtained a list of TVA ED PGs and InvestPrep grants active between June 1, 2015, and May 31, 2017.
- Selected a statistical random sample of 39 PGs and 18 InvestPrep grants (using random sampling with a 90 percent confidence level) shown in Table 2 on the following page and performed a detailed review to determine if ED grant processes/procedures for awarding grants were adequate. Our review included analyzing ED processes, where applicable, for (1) issuing contracts, (2) calculating grant award amounts, (3) verifying the authenticity of the customer, (4) performing environmental reviews, (5) approving payments, and (6) receiving periodic reports of grant agreement milestones. Since this was a statistical sample, the results of the sample can be projected to the population.

² Audit 2013-14993, TVA's Valley Investment Initiative, September 18, 2013.

³ For the purposes of this audit, "active" grants mean those which have had payments made or have been executed. A contract is considered executed after the Grantee and TVA ED have signed.

| Grant Type | Population | | Sample | |
|-------------------|-------------|--------------|-------------|-------------|
| | # of Grants | Total Award | # of Grants | Total Award |
| Performance Grant | 192 | \$42,707,250 | 39 | \$8,674,500 |
| InvestPrep Grant | 41 | 9,787,148 | 18 | 4,142,519 |

Table 2

- Interviewed TVA ED personnel to determine if ED has established performance metrics to determine if grant program objectives are met.

The objective of this audit was not related to TVA's system of internal controls; therefore, internal controls were not tested as part of this audit. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS

We found TVA has adequate processes in place for awarding ED grants; however, SPPs should be updated to reflect current procedures for InvestPrep grants. Additionally, TVA ED has not established specific performance metrics to determine if grant program objectives are met. The following provides a detailed discussion of each finding.

TVA ED'S PROCESSES AND PROCEDURES FOR AWARDING GRANTS

We found TVA has adequate processes in place for awarding ED grants but does not have an SPP governing the InvestPrep Program.

PG Program

We found TVA's processes and procedures for awarding grants for the PG program were adequate. In addition, we reviewed documentation for our sample of 39 PGs and found TVA ED followed the policies and procedures.

Through the PG Program, TVA makes direct investment in ED projects and large-scale regional and Valley-wide initiatives. According to TVA-SPP-24.012, The Performance Grant Program, PG customers submit a preliminary application with performance metrics that include average, full-time employees, annual capital investment, and annual average customer wage. Using these metrics, ED personnel utilize an internal scoring matrix to determine the grant award amount. Additional procedures include:

- Verifying the customer's authenticity with the appropriate secretary of state.

- Executing an environmental form and if necessary, a more detailed environmental review.
- Executing a final contract.
- Reviewing and authorizing requested payments.
- Receiving customer self-certifications that show whether contractual performance metrics are being met. We noted that ED utilizes a third-party vendor to complete a compliance review (on a sample basis) of customers participating in another ED program. Beginning in October 2017, ED included PGs in these reviews that help ED independently verify the compliance with grant requirements reported in the customer's annual self-certification.

InvestPrep Grant Program

The InvestPrep Program is designed to bring to market new/improved sites and facilities within the TVA territory and position communities to compete successfully for new jobs and investment. TVA seeks to partner with communities to leverage local, regional, state, federal, and/or private participation to improve the competitiveness of the Valley. According to Appendix A of the InvestPrep 2017 Program Guidelines, "Through a competitive application process, qualified projects will be selected that most clearly show the ability to meet those goals." Applications are submitted to a consulting firm for analysis of program applications and funding recommendations. The consulting firm prepares a funding document that is reviewed with TVA ED personnel who determines the participants for the current year grants. Additional procedures include:

- Performing an environmental review.
- Executing a final contract.
- Reviewing and authorizing requested payments.
- Receiving quarterly customer updates showing work to date and amounts spent.
- Receiving final customer updates showing amount spent along with outside interest in the subject property.

We reviewed documentation for our sample of 18 InvestPrep grants and did not find any instances where TVA ED did not follow the above processes and procedures for the issuance of ED grants. Subsequent to issuance of the draft report, TVA management advised us they may have miscommunicated information regarding the InvestPrep grant and the Economic Development Industrial Product Readiness Program Grants. During field work, TVA management provided TVA-SPP-24.008 regarding the ED Industrial Product Readiness Program as guidance on how the InvestPrep grant program was handled. However, after issuance of the draft report, they advised us TVA-SPP-24.008 was not related to the InvestPrep grant program and that currently, there is no SPP governing the InvestPrep Program. Accordingly, we revised our report related to this issue.

As discussed above, we noted that ED utilizes a third-party vendor to complete a compliance review (on a sample basis) of customers participating in another ED program. Beginning in October 2017, ED included PGs in these reviews to help ED independently verify compliance with grant requirements reported in the customer's annual self-certification. However, ED has not included InvestPrep grants in a compliance review program which would help verify compliance with grant requirements.

NO SPECIFIC PERFORMANCE METRICS TO DETERMINE IF GRANT PROGRAM OBJECTIVES ARE MET

The ED organization has an overall performance metric of jobs created and retained that are approved by the TVA Board of Directors and are part of TVA's Winning Performance metrics. All of the ED programs, including PGs and InvestPrep grants, are included in arriving at that measure. We found (1) TVA has developed metrics for awarding grants under both the Performance and InvestPrep grant programs, and (2) individual PG agreements include requirements for each grantee to meet in order to obtain grant awards. However, TVA has not established specific performance metrics for either grant program.

We reported in Audit 2013-14993, TVA's Valley Investment Initiative, September 18, 2013:

The U.S. Government Accountability Office stated in order to effectively evaluate and oversee services provided, agencies need meaningful performance information, such as evaluation studies and performance measures. Program evaluations are systematic ways to assess a broader range of information on program performance. As a result, evaluation studies can help identify which programs are effective or not, explain why goals were not met and identify strategies for meeting unmet goals, and estimate what would have occurred in the absence of the program.

TVA has not developed any performance measures or performed evaluation studies to develop objective, systematic methods for determining grant program performance. While both of these grant programs aid in achieving the ED organization's overall goals of adding or retaining jobs, TVA ED has no specific defined program objectives or measures to determine either grant program's success.

RECOMMENDATIONS

We recommend the Senior Vice President, ED, take the following actions:

1. Update TVA SPPs for the InvestPrep Program to reflect the current procedures.

TVA Management's Comments – TVA management stated they have begun updating SPPs related to ED Programs and they anticipate this effort will be completed by December 31, 2018. See the Appendix for TVA management's complete response.

2. Consider including InvestPrep in ED's third-party compliance reviews or develop procedures for TVA to independently verify work has been completed.

TVA Management's Comments – TVA management stated ED personnel informally visit project sites and obtain photographic evidence of project completion before projects are considered complete for the InvestPrep Program. TVA management stated ED will formalize this effort for all InvestPrep projects completed subsequent to October 1, 2018. See the Appendix for TVA management's complete response.

3. Develop specific objectives and performance measures for the PG and InvestPrep grant programs.

TVA Management's Comments – TVA management stated ED will develop specific objectives for both the PG and InvestPrep Programs, and these objectives will be monitored beginning October 1, 2018. See the Appendix for TVA management's complete response.

4. Perform regular evaluation studies to determine program effectiveness and identify strategies for meeting unmet goals.

TVA Management's Comments – TVA management stated that ED will (1) include the specific objectives developed in accordance with the above recommendation in the department's strategy for fiscal year 2019 and (2) set performance goals for these objectives at the beginning of each year and monitor actual performance compared to the goals on a quarterly basis. See the Appendix for TVA management's complete response.



Tennessee Valley Authority, 26 Century Boulevard, Nashville, Tennessee 37214

July 13, 2018

Office of the Inspector General
David P. Wheeler, WT 2C-K

RE: REQUEST FOR COMMENTS – DRAFT AUDIT 2017-15488 – TVA ECONOMIC DEVELOPMENT GRANTS

Dear Mr. Wheeler:

The Office of the Inspector General (OIG) performed an audit of Tennessee Valley Authority (TVA) Economic Development (ED) grants in fiscal year 2018 to determine if TVA has (1) adequate processes and procedures in place for awarding ED grants and (2) established performance metrics to determine if grant program objectives are met. Thank you for the opportunity to review and respond to this audit.

The OIG presented four recommendations in its draft audit report provided June 14, 2018. Pursuant to the instructions included in the letter, below are the actions initiated and planned by Economic Development on the recommendations in the report.

1. Update TVA Standard Programs and Processes for the InvestPrep Program to reflect the current procedures.

ED has begun updating TVA Standard Programs and Processes related to ED Programs in FY 2018. This effort will be completed by December 31, 2018.

2. Consider including InvestPrep in ED's third-party compliance reviews or develop procedures for TVA to independently verify work has been completed.

Currently, ED personnel informally visit project sites and obtain photographic evidence of project completion before projects are considered complete for the InvestPrep Program. ED will formalize this effort and will include on-site verification of project completion, including photographs taken by ED personnel, copies of subject reports, or other independent documentation for all InvestPrep projects completed subsequent to October 1, 2018.

3. Develop specific objectives and performance measures for the PG and InvestPrep grant programs.

TVA ED provides frequent program reporting to internal TVA organizations and the TVA Board on ED metrics, including capital investment and of jobs created or retained. ED will develop specific objectives for both the Performance Grant (PG) and InvestPrep Programs, and these objectives will be monitored beginning October 1, 2018.

4. Perform regular evaluation studies to determine program effectiveness and identify strategies for meeting unmet goals.

David P. Wheeler
Page 2
July 13, 2018

ED will include the specific objectives developed in accordance with the above recommendation in the department's strategy for fiscal year 2019 and subsequent fiscal years. ED will set performance goals for these objectives at the beginning of each year and monitor actual performance compared to the goals on a quarterly basis. The Senior Vice President of ED will report the objectives, as well as the goals and performance compared to the goals, to the department during regularly scheduled staff meetings and to Executives as requested.

TVA ED is pleased with the overall results of the audit. Thank you for the opportunity to respond to the audit report, and thank you for the professionalism of your staff throughout the process.

Sincerely,



John J. Bradley
Senior Vice President, Economic Development
OCP 6D-NST

JJB:BSB

cc:
Robertson D. Dickens, WT 9C-K
Holly B. Jordan, OCP 6D-NST
Dwain K. Lanier, MR 6D-C
Alan L. Raymond, OCP 6D-NST
Van M. Wardlaw, BR 5D-C
OIG File No. 2017-15488