



Memorandum from the Office of the Inspector General

March 24, 2022

Aaron P. Melda
Donald A. Moul
Robert B. Williams

**REQUEST FOR MANAGEMENT DECISION – EVALUATION 2021-15789 –
ACQUISITION AND DISPOSAL OF REAL PROPERTY**

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 from the date of this report. 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 evaluations 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 John Anthony H. Jacosalem, Auditor, at (423) 785-4821 or E. David Willis, Director, Evaluations, at (865) 633-7376. We appreciate the courtesy and cooperation received from your staff during the evaluation.

David P. Wheeler
Assistant Inspector General
(Audits and Evaluations)

DDS:KDS

Attachment

cc (Attachment):

TVA Board of Directors
Allen A. Clare
Buddy Eller
Robert M. Deacy, Sr.
Samuel P. Delk
David B. Fountain
Kelie H. Hammond

Tracy E. Hightower
Jeffrey J. Lyash
Jill M. Matthews
Lisa A. McKinney
Ronald R. Sanders II
Kay W. Whittenburg
OIG File No. 2021-15789



Office of the Inspector General

Evaluation Report

To the Senior Vice President,
Generation Projects and Fleet Services;
to the Senior Vice President,
Transmission and Power Supply; and to
the Chief Operating Officer

ACQUISITION AND DISPOSAL OF REAL PROPERTY

Evaluation Team
John Anthony H. Jacosalem
Deana D. Scoggins

Evaluation 2021-15789
March 24, 2022

ABBREVIATIONS

BU	Business Unit
FY	Fiscal Year
SPP	Standard Program and Process
SREG	Strategic Real Estate and Governance
TVA	Tennessee Valley Authority
TVA Board	TVA Board of Directors
UG	User Guide

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MEMORANDUM DATED MARCH 17, 2022, FROM DON MOUL, AARON MELDA, AND BOB DEACY TO DAVID P. WHEELER



Evaluation 2021-15789 – Acquisition and Disposal of Real Property

EXECUTIVE SUMMARY

Why the OIG Did This Evaluation

Tennessee Valley Authority (TVA) Standard Program and Process (SPP) 37.000, *Real Property Management*, defines (1) acquisitions as purchases, easements, and leases for land, buildings, and/or structures and (2) disposals as conveyances of real property and real property interests, including sales, easements, and leases for land, buildings, and/or structures.ⁱ In 2017, TVA's Strategic Real Estate and Governance group developed a series of SPPs and user guides (UGs) that created a governance framework for acquisition and disposal of real property. Collectively, the SPPs and UGs outline steps real property transactions must follow, such as (1) submitting Real Property Requests;ⁱⁱ (2) obtaining relevant approvals that can include senior management, legal, as well as other concurrences; (3) executing and closure of transaction documentation; and (4) updating official records. Additionally, the SPPs and UGs identify reviews that may be required for transactions, including financial, environmental, and title reviews.

Due to the complexity and scope of real property transactions at TVA, we performed this evaluation to determine if TVA was effectively managing acquisitions and disposals of real property.

What the OIG Found

We determined TVA effectively managed the real property acquisitions and disposals for a sample of transactions. Specifically, we determined sampled acquisition and disposal decisions were generally supported by the financial, environmental, and title reviews conducted as part of TVA's real property transaction process; however, we identified noncompliance with some parts of the SPPs and UGs. We also identified opportunities for improvement related to (1) information provided to the TVA Board of Directors and (2) SPP and UG clarification. Additionally, some TVA personnel expressed concerns regarding TVA's real property survey process.

ⁱ While not an acquisition or disposal of real property rights, licenses were also included in this evaluation due to their inclusion in the SPPs.

ⁱⁱ Upon consideration of any acquisition, disposal, or license transaction and prior to any monetary or contractual discussions with external stakeholders, initiating business units must submit a Real Property Request.



Evaluation 2021-15789 – Acquisition and Disposal of Real Property

EXECUTIVE SUMMARY

What the OIG Recommends

We recommend TVA management take steps related to compliance and clarification with relevant SPPs and UGs, providing relevant information to the TVA Board of Directors, and evaluation of certain aspects of TVA's survey process.

TVA Management Comments

Prior to issuing a formal response, TVA personnel reviewed the draft report and provided informal comments that have been incorporated into the final report as appropriate. In the formal response to the draft report, TVA management agreed with the recommendations. See the Appendix for TVA's complete response.

BACKGROUND

Tennessee Valley Authority (TVA) Standard Program and Process (SPP) 37.000, *Real Property Management*, defines acquisitions as purchases, easements, and leases, for land, buildings, and/or structures. Examples of TVA acquisitions include purchases of land for future projects and leasing of warehouse space for storing items. TVA-SPP-37.000 defines disposals as conveyances of real property and real property interests, including sales, easements, and leases for land, buildings, and/or structures. Examples of disposals include the sale of surplus land and buildings, as well as easements granting land rights to individuals and companies.

The Strategic Real Estate and Governance (SREG) group has governance over TVA's real estate function and provides business units (BUs) with agency-wide strategic visions, cross-functional opportunities, and building condition assessments. Additionally, SREG is responsible for updating the real property database for buildings and structures. In addition to SREG's role, TVA has multiple groups that have responsibilities for executing and administering real estate transactions, including but not limited to, Realty Services and Natural Resources. TVA's Realty Services group is typically responsible for the execution of real property acquisitions and disposals. TVA's Natural Resources group administers licenses and land-use agreements for property on, or connected to, TVA's reservoirs or waterways that feed TVA's reservoirs.

In 2017, SREG developed a series of SPPs and user guides (UGs) that created a governance framework for acquisition and disposal of real property. TVA-SPP-37.001, *Acquisition and License of Non-TVA Real Property*, and TVA-SPP-37.002, *Disposal and License of TVA Real Property*, govern all TVA real property acquisition or disposal actions, including sales, purchases, easements, leases, and licenses. Collectively, the SPPs and UGs outline steps real property transactions must follow, such as (1) submitting Real Property Requests;¹ (2) obtaining relevant approvals that can include senior management, legal, as well as other concurrences; (3) executing and closure of transaction documentation; and (4) updating official records. Additionally, the SPPs and UGs identify reviews that may be required for transactions, including financial, environmental, and title reviews.

Due to the complexity and scope of real property transactions at TVA, we performed this evaluation of TVA's management of acquisitions and disposals of real property.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this evaluation was to determine if TVA was effectively managing acquisitions and disposals of real property. Licenses were also

¹ Upon consideration of any acquisition, disposal, or license transaction, and prior to any monetary or contractual discussions with external stakeholders, initiating BUs must submit a Real Property Request.

included in this evaluation due to their inclusion in the acquisition and disposal SPPs. The scope of the evaluation was real property transactions that occurred in fiscal years (FYs) 2018 through 2020.² To achieve our objective, we:

- Interviewed TVA personnel and reviewed the following documents to gain an understanding of TVA's process for acquiring and disposing of real property:
 - TVA-SPP-37.000, *Real Property Management*.
 - TVA-SPP-37.001, *Acquisition and License of Non-TVA Real Property*.
 - TVA-SPP-37.002, *Disposal and License of TVA Real Property*.
 - TVA-UG-37.001, *User Guide Acquisition and License of Non-TVA Real Property*.
 - TVA-UG-37.002, *User Guide Disposal and License of TVA Real Property*.
- Requested and obtained information from SREG and Realty Services to identify all acquisitions and disposals of real property during FYs 2018 through 2020. We were informed some TVA organizations may have made transactions that were completed without the involvement of SREG or Realty Services. To identify additional acquisitions, disposals, and licenses, we requested information from Natural Resources and several line organizations during our evaluation. Due to limitations in data provided, we were unable to identify a full list of all acquisition, disposal, and license transactions.
- Selected a sample of identified acquisitions and disposals to determine if (1) transactions were conducted in accordance with selected requirements in SPPs and UGs and (2) decisions made to complete the transactions were consistent with financial, environmental, and title reviews conducted as part of TVA's real property transaction process. We reviewed documentation that included deeds, leases, easements, environmental reviews, and title reviews for judgmentally selected acquisitions/disposals:
 - From a population of 214 acquisitions and disposals, we selected:
 - The top four acquisition transactions based on dollar values.
 - All nine disposals classified as corporate/commercial.
 - Five transactions classified as resource/reservoir with either a high-listed market or sold value.
 - Two transactions classified as power with the highest market and sold values.
 - One strategic conveyance³ to a local power company that consisted of multiple transactions.
 - From a population of 19 leases and licenses⁴ that started during FYs 2018 through 2020, we selected:

² We excluded acquisition transactions for transmission lines and licenses for laydown yards.

³ Strategic conveyances consist of non-bulk electric system assets that are conducive for TVA to convey to support wholesale power delivery and allow local power companies to own, operate, and maintain assets local to them allowing for more timely and efficient operation.

⁴ We were unable to determine a complete population of leases and licenses for the scope of the review because Realty Services did not begin tracking lists of revenue receipts for leases and licenses until 2020.

- Three leases and licenses that were related to transactions selected in the sample of acquisitions and disposals identified above.
 - Three transactions with the most payments for leases and licenses where TVA had acquired real property rights.
 - One transaction with one payment for a lease where TVA had acquired real property rights.
 - Three transactions with the highest revenue for leases and licenses where TVA disposed of real property rights.
- Due to the limitations⁵ in data provided, we reviewed four transactions identified by TVA Natural Resources as being material based on value.

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

FINDINGS

We determined TVA effectively managed the real property acquisitions and disposals for the sample of transactions we reviewed. Specifically, we determined sampled acquisition and disposal decisions were generally supported by the financial, environmental, and title reviews conducted as part of TVA's real property transaction process; however, we identified noncompliance with some parts of the SPPs and UGs. We also identified opportunities for improvement related to information provided to the TVA Board of Directors (TVA Board) and clarification within the SPPs and UGs. Additionally, we identified issues related to TVA's survey process.

Prior to issuing a formal response, TVA personnel reviewed the draft report and provided informal comments that have been incorporated into the final report as appropriate.

TVA DID NOT ALWAYS COMPLY WITH SOME PARTS OF THE SPPs OR UGs

We identified instances where TVA did not comply with some parts of the SPPs or UGs. TVA-SPP-37.000, *Real Property Management*, requires SREG to perform periodic reviews and communicate BU noncompliance findings to the Real Property Review Council.⁶ TVA-SPP-37.000 also requires the development of standardized templates for real property transactions. However, the periodic reviews were not being performed and the standardized templates have only been partially completed.

⁵ Limitations in data included incomplete fields and inconsistencies between provided data.

⁶ The Real Property Review Council is comprised of a three-member voting panel, which communicates expectations and generates awareness for real property processes and performance.

Additionally, multiple transactions did not comply with requirements of the SPPs or UGs. Examples of noncompliance include the following:

- Executed legal documents were not signed by the correct person.
- The Geographic Imaging System⁷ was not updated in a timely manner.
- TVA's list of buildings was not updated.
- Required land rights reviews and surveys were not completed.
- Real Property Requests were not submitted.
- Concurrences for some transactions were not obtained as required by the UGs.
- The Fixed Assets and Accounting Policy and Research departments were not consulted for transactions.

Although TVA did not comply with all aspects of the SPPs or UGs, we determined the instances of noncompliance did not have a material impact on the individual transactions.

OPPORTUNITIES FOR IMPROVEMENT

We identified opportunities for improvement related to (1) information provided to the TVA Board for decisions on real property transactions and (2) clarification within SPPs and UGs.

Relevant Information for One Transaction Was Not Provided to the TVA Board

An October 2017 presentation related to the conveyance of substation and transmission structures to a local power company indicated the transaction would have a negative net present value⁸ of approximately \$1.5 million to TVA. In December 2017, the TVA Board approved the conveyance; however, the analysis indicating the negative net present value was not provided to the TVA Board in the Board Approval Package. According to the Board Approval Package, TVA considered other factors in its decision, such as improved reliability. However, without all relevant information, there is increased risk the TVA Board may not make the best decision.

Some Areas of the SPPs or UGs Need Clarification

TVA's real property SPPs and UGs were developed to create a framework for acquisition and disposal of real property; however, they were unclear with respect to roles and responsibilities and require steps that are not always necessary.

⁷ The Geographic Information System is a computer system that analyzes and displays geographically referenced information.

⁸ Net present value is the difference between the present value of cash inflows and the present value of cash outflows over a period of time.

Examples of unclear language include the following:

- Real property SPPs and UGs state the Real Property Review Council holds final decision authority for specific real property actions not otherwise held by the TVA Board or Chief Executive Officer. However, no details about what property actions not held by the TVA Board or Chief Executive Officer are provided. SREG employees indicated this will likely be further clarified in a future SPP revision.
- Real property SPPs and/or UGs include requirements for steps that are not always needed. The SPPs and UGs stated that:
 - Fixed Assets and Accounting Policy and Research must be consulted for each transaction.
 - BUs are required to comply with TVA-SPP-13.038, *TVA Corporate Credit Policy*, by engaging with Treasury/Corporate Credit and Insurance.
 - Acquisitions and disposals must have a land rights review.
 - The TVA Survey group performs or approves surveys for all disposals and acquisitions.

As noted in the noncompliance section, these steps were not always completed and according to personnel from several groups, these steps were not always needed. For example, when purchasing real property, it would not be necessary to engage Corporate Credit because there is no credit risk. In addition, a SREG employee indicated that surveys are not required for some leases. However, the UGs state surveys are performed or approved for all disposals and acquisitions. Determining when these steps should be performed could make the process more efficient and eliminate some policy noncompliance.

Lack of clarity within the SPPs and UGs could increase the risk of ineffectively managed real property transactions. Providing further clarification could not only mitigate this risk, but also assist in making compliance with the SPPs and UGs easier.

ADDITIONAL INFORMATION

During our evaluation, we identified potential issues related to TVA's survey process. Specifically, some Transmission and Power Supply personnel expressed concerns regarding TVA's survey process. A Transmission and Power Supply employee indicated there were differences between TVA's survey practices and the state of Tennessee's survey standards, including the sufficiency of TVA's title research for the purposes of boundary determination related to property lines and appurtenant easements,⁹ and lack of direct supervision and control over survey fieldwork. Additionally, a concern was expressed related to the timing of when surveys are performed during a real

⁹ Appurtenant easements are easements where the right of use is attached to the land itself.

property transaction. As a result, some surveyors indicated an unwillingness to stamp¹⁰ survey documents. Survey issues could have a negative impact on the professional licenses of TVA's surveyors and be a liability to TVA.

RECOMMENDATIONS

1. We recommend the Senior Vice President, Generation Projects and Fleet Services, in coordination with applicable organizations, review and revise the SPPs and UGs to provide clarification where needed.
2. We recommend the Chief Operating Officer, in coordination with other senior management:
 - Reinforce compliance with the real property SPPs and UGs across TVA.
 - Communicate the importance of including all relevant data in TVA Board approval packages.
3. We recommend the Senior Vice President, Transmission and Power Supply, evaluate TVA's survey process and address identified concerns.

TVA Management's Comment – TVA management agreed with the recommendations. See the Appendix for TVA's complete response.

¹⁰ According to the Tennessee State Board of Examiners for Land Surveyors, the land surveyor whose stamp or seal, and/or signature appear on the map, plat, or other newly original survey documents, has direct responsibility for the proper execution of land surveying, mapping procedures, and all other details of a land survey.

March 17, 2022

David P. Wheeler, WT 2C-K

RESPONSE: DRAFT EVALUATION 2021-15789 – Acquisition and Disposal of Real Property

Reference: OIG Memorandum dated February 17, 2022

Thank you for the opportunity to address recommendations from DRAFT Evaluation 2021-15789 – Acquisition and Disposal of Real Property. After reviewing the report, we agree with the provided recommendations.

We would like to thank Deana Scoggins and John Anthony Jacosalem for their professionalism and cooperation during this audit.

Recommendation 1:

We recommend the Senior Vice President, Generation Projects and Fleet Services, in coordination with applicable organizations, review and revise the SPPs and UGs to provide clarification where needed.

Response: We agree with this recommendation

Recommendation 2:

We recommend the Chief Operating Officer, in coordination with other senior management:

- Reinforce compliance with the real property SPPs and UGs across TVA.
- Communicate the importance of including all relevant data in TVA Board approval package.

Response: We agree with this recommendation

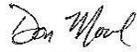
Recommendation 3:

We recommend the Senior Vice President, Transmission and Power Supply, evaluate TVA's survey process and address identified concerns.

Response: We agree with this recommendation.

David P. Wheeler
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This memorandum provides acceptance of the noted recommendations. If you have further questions, please contact Don Moul, Executive Vice President & Chief Operating Officer.



Don Moul
Executive Vice President & Chief Operating Officer
WT 7B-K



Aaron Melda
Senior Vice President, Transmission & Power Supply
MR 3H-C



Bob Deacy
Senior Vice President, Generation Projects & Fleet Services
LP 5D-C

RRS:EMB

cc: Allen A. Clare, LP 2K-C
Bob Dalrymple, BR 4D-C
Samuel P. Delk, BR 5A-C
David B. Fountain, WT 6A-K
Kelie Hammond, WT 10C-K
Tracy E. Hightower, LP 5D-C
Lisa A. McKinney, BR 1C-C
Ronald R. Sanders II, MR 5E-C
Kay W. Whittenburg, MR 3A-C
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