



Memorandum from the Office of the Inspector General

May 6, 2026

Melanie E. Farrell
Robert Bryan Williams

**REQUEST FOR FINAL ACTION – EVALUATION 2025-17578 – CONTRACTOR
REWORK – MAJOR PROJECTS**

To meet the Tennessee Valley region's growing demand for power, the Tennessee Valley Authority (TVA) is investing in existing assets and new generation. In fiscal year 2025, TVA invested more than \$4.6 billion in capital investments and plans to invest \$4.2 billion in fiscal year 2026. Due to potential risks to cost and schedule from rework in TVA projects, we performed an evaluation of contractor rework for Major Projects at TVA. The objectives were to evaluate TVA's oversight of contractor rework and determine if rework was being handled in accordance with contract terms and conditions. Our scope included active projects in the implementation phase for TVA's Major Projects organization.

We reviewed nine contracts associated with our sample of projects and identified rework was required for two. We determined the rework was handled in accordance with contract terms and conditions. Specifically, where defects were discovered, contractors took corrective actions to remedy the defects at its expense. However, we also identified a lack of guidance for oversight of rework because TVA's project management Standard Programs and Processes (SPP) do not define rework or provide any information on how rework should be documented and tracked.

We made a recommendation to the Senior Vice President, Generation Projects and Fleet Services, to update the project management procedure to define rework and provide guidance for documenting and tracking rework. In response to our draft report, TVA management agreed with our recommendation and provided planned actions to address the recommendation. See the Appendix for TVA's complete response.

BACKGROUND

According to industry best practices, rework in construction can impact a project in terms of productivity, profitability, and timeliness. Three potential causes of rework are construction errors, design changes, and design errors. Some data suggests that the total mean rework can be as much as 10 percent of the construction cost. In considering the impact of rework on projects, the delay costs resulting from rework must also be taken into consideration. TVA uses general contract language to require discovered defects (rework) to be promptly remedied by the contractor at its expense.

TVA maintains procedural guidance for managing contracts and projects, including:

- TVA-SPP-25.006, *Contract Governance*, establishes enterprise-wide processes and methodology that govern contracts and related actions. Among other purposes, this SPP (1) clarifies contracting roles, responsibilities, and obligations among TVA business units; (2) aids in achieving adequate contract consistency and standardization across TVA; and (3) is intended to mitigate enterprise risks inherent in TVA's contracting actions.
- TVA-SPP-34.000, *Project Management*, provides a disciplined approach of initiating, planning, executing, controlling, and closing the agreed-upon project objectives. The project management process provides the minimum requirements and guidance to enhance the probability of project success, which is measured by safely completing projects on budget and on schedule.
- TVA-SPP-34.001, *Project Management Governance, Oversight, Execution, and Support*, defines the framework that is in place to implement project management processes.

Due to the potential risks to cost and schedule from rework in TVA projects, we performed an evaluation of contractor rework for major projects at TVA.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of our evaluation were to evaluate TVA's oversight of contractor rework and determine if rework was being handled in accordance with contract terms and conditions. Our scope included active projects in the implementation phase for TVA's Major Projects. To achieve our objective, we:

- Reviewed the following to gain an understanding of the TVA's processes and how they relate to rework:
 - TVA-SPP-25.006, *Contract Governance*
 - TVA-SPP-34.000, *Project Management*
 - TVA-SPP-34.001, *Project Management Governance, Oversight, Execution, and Support*
- Reviewed condition reports¹ to identify projects with quality and performance issues to determine if rework was identified.
- Randomly selected 2 projects and judgmentally selected 1 project² from 117 projects to:
 - Review their associated contracts and amendments for terms and conditions related to rework.

¹ Condition reports are the documents used within the TVA Corrective Action Program that documents how a problem was found, how it was analyzed, and how it was corrected.

² The judgmental selection was made based on information obtained during a separate evaluation, 2025-17564, *Hydro Life Extension*, December 22, 2025.

- Identify any rework completed and obtain supporting documentation to determine if it was handled in accordance with the contract terms and conditions.
 - Interview project managers and site construction managers to determine how rework was being identified, managed, and billed.
 - Verify change orders were not submitted for corrective action work on a fixed-fee contract and verify that TVA was paid liquidated damages for project delays related to required rework.
- Conducted a site visit to one site to observe the project and its associated rework.

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

FINDINGS

We reviewed nine TVA contracts associated with our sample of projects and determined that all included requirements related to rework or defects. Specifically, all³ contracts required that if any work was found to have a defect or be noncompliant with the contract requirements, the contractor shall take corrective action to remedy at its expense. Of the nine contracts reviewed, we identified rework was required for two. We determined the required rework was handled in accordance with contract terms and conditions. Specifically, where defects were discovered, contractors took corrective actions to remedy the defects at its expense. However, we also identified a lack of guidance for oversight of rework.

TVA PROJECT GOVERNANCE PROCEDURES LACK GUIDANCE FOR OVERSIGHT OF REWORK

As previously mentioned, all contracts we reviewed included requirements related to rework. Specifically, they stated when work provided is rejected due to defects or being noncompliant with contract specifications, TVA is to notify the contractor in writing and take corrective action. However, we determined that the way rework is defined, documented, and tracked varies from project to project, with no specific guidance provided in TVA procedures.

We reviewed three TVA procedures related to contract governance and project management governance and oversight and none of the three contained a clear definition of rework or guidance for documenting or tracking rework. Of the three SPPs reviewed, only TVA-SPP-34.000, *Project Management*, mentions "rework" once in the following context: "Contract requirements shall consider, at a minimum, the following contract areas: Contractor oversight (Craft-to-staff ratio, Project Maintenance and Modification Agreement (PMMA) compliance, performance criteria, rework, etc.)."

³ One contract did not state specifically "at its expense." However, the statement was within the same context as the other contracts.

Without clearly defining rework and including proper guidance for documenting and tracking rework, it could be more difficult for project managers to ensure that TVA does not pay for rework that contractors are responsible for completing.

RECOMMENDATION

We recommend the Senior Vice President, Generation Projects and Fleet Services, to update the project management procedure to define rework and provide guidance for documenting and tracking rework.

TVA Management’s Comments – TVA management agreed with the recommendation and plans to update the project management procedures to define rework and provide guidance for documenting and tracking rework. See the Appendix for TVA management’s complete response.

Auditor’s Response – We agree with TVA management’s planned action.

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Attached is the subject final report for your review and final action. Your written comments, which addressed your management decision and actions planned, 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 evaluations that remain unresolved after 6 months from the date of report issuance.

If you have any questions or wish to discuss our observations, please contact Lindsay J. Denny, Director, Evaluations – Operations at (865) 633-7349. We appreciate the courtesy and cooperation received from your staff during the evaluation.



Greg Stinson
Assistant Inspector General
(Audits and Evaluations)

SLR:FAJ

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OIG File No. 2025-17578

April 27, 2026

Greg Stinson, WT 2C-K

RESPONSE TO REQUEST FOR COMMENTS - DRAFT EVALUATION 2025-17578 –
CONTRACTOR REWORK - MAJOR PROJECTS

This letter is in response to the Draft Evaluation 2025-17578 Contractor Rework - Major
Projects.

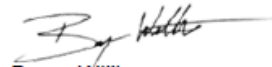
TVA Generation Projects & Fleet Services appreciates Samuel Ruble, Lindsay Denny
and the Office of Inspector General's thorough evaluation of Contractor Rework - Major
Projects.

Recommendations:

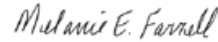
**We recommend the Senior Vice President, Generation Projects and Fleet
Services, to update the project management procedure to define rework and
provide guidance for documenting and tracking rework.**

Response: Agree

Generation Projects and Fleet Services will update the 34 Series Project Management
SPPs to define rework and provide guidance for documenting and tracking rework.



Byran Williams
Senior Vice President
Generation Projects & Fleet Services
LP 5D-C



Melanie E. Farrell
Vice President and Chief Contracts Officer
Supply Chain
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RRS:LEY

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