Memorandum from the Office of the Inspector General

August 7, 2026

Brian D. Keeling
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REQUEST FOR FINAL ACTION – EVALUATION 2026-17605 – POWER SERVICE SHOP COST RECOVERY

The Tennessee Valley Authority's (TVA) Power Service Shop (PSS) performs work for internal and external customers, including mechanical, electrical and civil work. PSS invoiced approximately $128 million for 161 projects for external customers that were closed in fiscal years (FY) 2024 or 2025. According to PSS, approximately 99 percent of the external revenue is received from federal customers. TVA Standard Programs and Processes (SPP) 13.007, *Other Revenue (External Business),* requires TVA to recover all costs for providing products/services to external customers, including organizational direct and indirect costs[1] and TVA corporate overhead. Due to the importance of recovering expenses for external projects, we performed an evaluation to determine if PSS was recovering costs for work performed for external customers.

We determined TVA recovered most costs for work performed by the PSS for external customers; however, some project costs were not recovered. Specifically, TVA did not recover approximately $159,000, primarily due to incorrectly applying overhead rates and not recovering costs that exceeded the original purchase order/request. We identified an additional $111,000 in estimated overhead costs that were not recovered because TVA did not have a calculated overhead rate for the organizations where the employees work.

We made recommendations to TVA management regarding cost recovery and labor overheads. In response to our draft report, TVA management provided planned actions to address the recommendations. See the Appendix for TVA's management's complete response.

BACKGROUND

TVA-SPP-13.007, *Other Revenue (External Business),* notes that the external business process begins when a TVA organization receives a request for a quote or an order for a product and/or service from an external entity (customer). The process includes developing billing rates for the product/service; negotiating and documenting the billing terms; negotiating and documenting other nonpricing terms and conditions; authorizing customer credit; executing the contract/agreement; establishing the appropriate accounting structure to capture product/service costs; setting up the project to calculate the

[1] The SPP defines organization indirect cost as a cost of conducting business that must be considered in determining total costs of providing services or products.

appropriate charges per the billing terms; invoicing the customer; and receiving and resolving customer inquiries.

TVA-SPP-13.007 also states TVA should recover all costs for providing products/services to external customers. It further states that all costs for external customers include TVA organization direct and indirect costs, TVA corporate overhead, and fringe benefits for direct and indirect labor. Labor overheads are applied to base labor costs to arrive at burdened costs. A corporate general and administrative (G&A) rate is then applied to the burdened labor costs to determine the amount the customer is to be billed. G&A rates are also applied to nonlabor costs billed to the customer.

Due to the importance of recovering expenses for external projects, we performed an evaluation to determine if PSS was recovering costs for work performed for external customers.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our evaluation was to determine if TVA's PSS was recovering costs for work performed for external customers. The scope of our evaluation included projects closed in FYs 2024 and 2025. To achieve our objective, we:

- Compared invoiced costs to project costs for all 161 projects to determine if TVA recovered all costs.
- Determined if overhead and corporate G&A rates were applied correctly to project costs for all 161 projects.
- Tested a random, nonstatistical selection of 65 of 25,380 charges for TVA services, materials and equipment, outside services, and travel to determine if they were charged to the correct project.

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 determined TVA recovered most costs for work performed by the PSS for external customers; however, some project costs were not recovered. Specifically, TVA did not recover approximately $159,000, primarily due to incorrectly applying overhead rates and not recovering costs that exceeded the original purchase order/request. We identified an additional $111,000 in estimated overhead costs that were not recovered because TVA did not have a calculated overhead rate for the organizations where the employees work.

SOME EXTERNAL PROJECT COSTS WERE NOT RECOVERED

TVA-SPP-13.007 states that external business revenues recover expenses associated with providing products and/or services to outside entities. However, TVA did not recover approximately $159,000 in costs for work performed for external customers, including:

- The wrong labor overhead schedule was applied for two projects. As a result, approximately $107,000 in costs were not recovered. This included approximately $94,000 in overhead costs as well as approximately $13,000 in associated corporate G&A allocations.
- Overhead was not applied to labor rates for employees from certain organizations on twenty-two projects resulting in approximately $45,500 in costs not being recovered. TVA indicated that some groups were inadvertently removed from overhead schedules during a reorganization, which caused overhead not to be applied to labor rates for individuals from these organizations for approximately 11 months. This resulted in approximately $42,000 in overhead costs not being recovered as well as approximately $3,500 in associated corporate G&A allocations. These organizations were later added back to the labor overhead schedules.
- TVA's costs exceeded the initial purchase order/request with external customers and TVA did not invoice the customer for the unrecovered costs for four projects. This resulted in approximately $6,500 in costs not being recovered.

Additionally, we identified approximately $382,000 in labor costs with no labor overheads applied. For FY 2026, TVA calculated labor overhead rates for only four organizations. When an employee from an organization that does not have an overhead rate calculated works on a project, TVA does not recover labor overhead costs for those employees. To estimate the unrecovered overhead costs, we applied an average of the four rates TVA calculated for FY 2026 (29 percent), which ranged from 16 percent to 34 percent, to the $382,000 in labor costs. This resulted in approximately $111,000 in labor overhead costs not recovered. According to a Financial Operations and Performance manager, costs to calculate labor overhead rates for each of the organizations may be higher than what TVA would recover.

RECOMMENDATIONS

We recommend the Vice President and Controller, Corporate Accounting, in conjunction with PSS, take steps to:

- Confirm the correct overhead rate schedules are applied to projects.

  TVA Management's Comments – TVA management plans to confirm the correct overhead rate schedules are applied on existing projects and review monthly going forward. See the Appendix for TVA's complete response.

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

- Verify all costs are recovered for projects completed for external customers.

  TVA Management's Comments – TVA management plans to verify all costs are recovered for projects completed for external customers. See the Appendix for TVA's complete response.

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

We recommend the Vice President and Controller, Corporate Accounting:

- Take steps to establish labor overhead rates for organizations performing work for external customers.

  TVA Management's Comments – TVA management will establish and program labor overhead rates for organizations performing work for external customers. See the Appendix for TVA's complete response.

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

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This report is 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)

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cc: TVA Board of Directors
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OIG File No. 2026-17605

August 3, 2026

Greg Stinson
Assistant Inspector General
(Audits and Evaluations)

RESPONSE TO REQUEST FOR COMMENTS - DRAFT AUDIT 2026-17605 - POWER SERVICE SHOPS COST RECOVERY

This letter is in response to your request for comments regarding the subject draft report. Please let us know if your staff has any concerns with TVA's comments.

In the spirit of continuous improvement, TVA intends to take the following actions related to the Power Service Shops Cost Recovery audit:

- Confirm the correct overhead rate schedules are applied on existing projects and review monthly going forward
- In conjunction with Power Service Shops and Finance, verify all costs are recovered for projects completed for external customers
- Finance will establish and program labor overhead rates for organizations performing work for external customers

If you have any questions, please contact Diane Wear at dtwear@tva.gov or Doug Keeling at bdkeeling@tva.gov.

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