Memorandum from the Office of the Inspector General

November 23, 2026

Heidi T. Smith

REQUEST FOR FINAL ACTION – AUDIT 2026-17623 – TVA'S EVALUATION AND APPROVAL OF ECONOMIC DEVELOPMENT PROJECTS AND INCENTIVES

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 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 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.

Greg Stinson
Assistant Inspector General
(Audits and Evaluations)

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Attachment
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OIG File No. 2026-17623

Office of the Inspector General

Audit Report

To the Vice President,
Economic Development

TVA'S EVALUATION AND APPROVAL OF ECONOMIC DEVELOPMENT PROJECTS AND INCENTIVES

Audit Team
Michael C. Cook
Robert L. Dixon

Audit 2026-17623
November 23, 2026

ABBREVIATIONS

CEO	Chief Executive Officer
EDB	Economic Development Board
MW	Megawatt
SPP	Standard Programs and Processes
SVP	Senior Vice President
TVA	Tennessee Valley Authority

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MEMORANDUM DATED OCTOBER 27, 2026, FROM HEIDI SMITH TO GREG STINSON

Audit 2026-17623 – TVA's Evaluation and Approval of Economic Development Projects and Incentives

EXECUTIVE SUMMARY

Why the OIG Did This Audit

The Tennessee Valley Authority (TVA) administers economic development programs and contracts to fulfill its responsibility to advance economic development in the Tennessee Valley, in accordance with the TVA Act of 1933. TVA Standard Programs and Processes (SPP) 24.007, *Investment Credit,*[i] establishes guidance for administering the investment credit program, including defining responsibilities and processes for screening applicants and evaluating potential projects. TVA's Economic Development organization uses a proprietary award formula to calculate award amounts based on financial statements and metrics such as capital investments, full-time equivalent employees, wages, and energy demand.

According to TVA-SPP-24.000, *Delegation of Authority for Economic Development Programs and Contracts*, the Economic Development Board (EDB) is responsible for reviewing and approving programs and financial commitments associated with economic development projects. According to the EDB charter, Economic Development must submit proposals for new or expanding projects with investment credit contracts totaling or exceeding $50 million to the EDB for review, prior to elevating to the Chief Executive Officer (CEO) for approval. In addition, TVA-SPP-24.000 and a related delegation-of-authority memorandum approved by TVA's CEO in 2024 assign authority to designated positions for the approval and execution of economic development contracts. Specifically, approval is required by the Senior Vice President of Economic Development for contracts between $1 million and $50 million and the Director of Economic Development Incentive Programs for contracts $1 million or less.

We performed an audit of economic development projects and incentives due to the impact economic development activities have on TVA's mission to serve the Tennessee Valley region. Our audit objective was to determine if economic development projects and corresponding incentives were evaluated and approved in accordance with established guidelines. Our audit scope included 650 investment credit projects executed in calendar years 2022 to 2025 with cumulative contract award amounts totaling over $1.9 billion.

[i] On July 1, 2026, TVA revised the SPP title from *Valley Investment Initiative* to *Investment Credit.*

EXECUTIVE SUMMARY

What the OIG Found

We reviewed a sample of 35 investment credit projects and determined that all 35 were evaluated in accordance with established guidelines; however, not all projects were approved as required. We determined all 8 of the projects that exceeded $50 million were properly reviewed and approved by the EDB and the CEO, but the 27 projects that were less than $50 million were not approved at the appropriate delegation level. Specifically, projects with a contract value less than $50 million were not approved by the Senior Vice President or Director of Economic Development; instead, they relied on their staff to ensure the projects were approved and managed properly. In addition, we determined investment credit program guidance and documentation could be improved. Specifically, TVA-SPP-24.000 did not align with the EDB charter or approval delegation guidance and was outdated.

What the OIG Recommends

We made three recommendations to TVA management to (1) approve contracts in accordance with requirements and (2) update and align program guidance and SPP as necessary.

TVA Management's Comments

In response to our draft report, TVA management agreed with our recommendations and provided planned actions to address the recommendations. See the Appendix for TVA management's complete response.

Auditor's Response

We agree with TVA management's planned actions.

BACKGROUND

According to the Tennessee Valley Authority (TVA) Standard Programs and Processes (SPP) 24.000, *Delegation of Authority for Economic Development Programs and Contracts*, TVA administers economic development programs and contracts to fulfill its responsibility to advance economic development in the Tennessee Valley Region, in accordance with the TVA Act of 1933. For calendar years 2022 to 2025 TVA executed 650 contracts with award amounts totaling over $1.9 billion.

Investment Credit

TVA-SPP-24.007, *Investment Credit,*[1] describes the program as an economic development incentive program, which offers credits to the monthly power bill of qualifying power customers who (1) contribute to the economic development of the Tennessee Valley region and (2) complement TVA's power system resources. TVA-SPP-24.007 also establishes guidance for administering the investment credit program, including defining responsibilities and processes for screening applicants and evaluating potential projects. The SPP describes the process of identifying and enrolling eligible customers in the program, delivering the award, and ensuring the projection-based award is adjusted over time to account for performance.

When applying for an investment credit, potential customers submit an award application, which includes projected metrics such as capital investments, full-time equivalent employees, wages, and energy demand. Economic Development uses a proprietary formula to calculate an initial award amount based on the information in the application as part of their evaluation process. Each subsequent year, participating customers complete and submit a certification with supporting documentation, including updated financial statements and metrics. Economic Development uses the same formula to recalculate the award amount based on the updated information included in the annual certification.[2] As a result, credit amounts can change from year to year based on the customer's performance.

TVA Economic Development Board

TVA-SPP-24.000 gives oversight responsibility to the Economic Development Board (EDB) for TVA's economic development programs and financial commitments. According to the EDB charter, its purpose is to ensure alignment of the integrated economic development plan to TVA's strategic objectives. The EDB is also responsible for reviewing and approving programs and financial commitments associated with economic development projects. According to the charter, Economic Development must submit proposals for new or expanding projects with investment credit contracts totaling or exceeding $50 million to the EDB for review, prior to elevating to the Chief Executive Officer (CEO) for

[1] On July 1, 2026, TVA revised the SPP title from *Valley Investment Initiative* to *Investment Credit.*

[2] Some customers' submissions are selected for third-party audits. Audit findings are incorporated into TVA's calculation of the customers' annual award.

approval. In addition, the charter requires that the formulas used to calculate incentive awards be submitted to the EDB for annual review.

Economic Development Approval of Investment Credits
TVA-SPP-24.000 assigns authority to designated positions for the approval and execution of economic development contracts. According to the SPP, the Senior Vice President (SVP) of Economic Development[3] has the authority to approve and execute economic development contracts up to $10 million, and the Director of Economic Development Incentive Programs has authority for up to $1 million. A subsequent delegation of authority memorandum, approved by TVA's CEO on March 6, 2024, revised the limit for the SVP to approve and administer contracts related to economic development contracts of up to $50 million.

We performed an audit of economic development projects and incentives due to the impact economic development activities have on TVA's mission to serve the Tennessee Valley region.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine if economic development projects and corresponding incentives were evaluated and approved in accordance with established guidelines. Our audit scope included investment credit projects executed in calendar years 2022 to 2025. To achieve our objective, we:

- Interviewed personnel in TVA's Economic Development organization to obtain information related to the investment credit program.
- Reviewed the following SPPs to identify key requirements applicable to the administration of the investment credit program:
  - TVA-SPP-24.000, *Delegation of Authority for Economic Development Programs and Contracts*
  - TVA-SPP-24.007, *Investment Credit*
- Reviewed *Request for Chief Executive Officer (CEO) Approval – Delegation of Authority for Economic Development Programs and Contracts*, approved by TVA's CEO on March 6, 2024, to identify approval requirements applicable to the investment program.
- Reviewed the EDB charter to identify review requirements applicable to the investment credit program.
- Interviewed TVA executive management personnel who served on the EDB during the audit period and were still employed at TVA at the time of our fieldwork.
- Determined the significance of internal control to our audit objective and documented our understanding of the internal control environment relating to

[3] As of September 18, 2026, Economic Development does not have an SVP position; the organization is led by a Vice President.

the investment credit program, including identification of the controls we determined were significant to the audit objective. Our assessment included consideration of information systems controls. We identified six key internal controls significant to the audit objective.

- Economic Development calculates initial incentive awards using a proprietary formula and information included in each customer's agreement.
- Economic Development performs annual recalculation of incentive awards using information included in each customer's annual certification.
- Investment credit contracts for customer awards totaling at least $50 million are reviewed by the EDB and require CEO approval.
- Investment credit contracts for customer awards totaling less than $50 million require approval by the Director of Economic Development Incentive Programs or the SVP of Economic Development based on total contract amount.
- Economic Development personnel confirm the financial viability of new program participants by requesting a financial review from TVA's Corporate Credit organization.
- The EDB reviews the formula used to calculate incentive awards annually.

We assessed the design, implementation, and operating effectiveness of the key internal controls. Our primary methods for testing these controls included reviewing (1) investment credit incentive calculations, (2) documentation of Economic Development personnel's review and approval of customer agreements, and (3) credit checks performed for a selection of investment credit agreements. We also requested available documentation for EDB review of revisions to the investment credit formula. Results of our assessment are discussed in the findings below.

- Obtained a listing of investment credit contracts executed in calendar years 2022 to 2025 and performed procedures to assess the reliability of the data.
- Selected 35 of the 650 investment credit contracts from the population of 650 to perform detailed reviews to determine compliance with key requirements and assess the operating effectiveness of identified key internal controls. Our selection was as follows:
  - Judgmentally selected all 8 out of the 650 contracts with award amounts equal to or exceeding $50 million, which required review by the EDB and CEO approval. The contracted award for these agreements totaled $886,104,768. Since this was a judgmental selection, the results of our testing cannot be projected to the population.
  - Using a non-statistical approach, randomly selected 27 of the remaining 642 contracts with award amounts less than $50 million. The contracted award for these agreements totaled $84,842,220. Since this was a non-statistical sample, the results of our testing cannot be projected to the population.

For each of the 35, we reviewed supporting documentation to determine if:

- New customers were evaluated as required and incentives aligned with the evaluation.
- Award calculation inputs were correct and if the incentives matched the calculation.
- Credit checks for new customers were performed.
- Proper approvals were obtained based on award level.
- Annual award recalculations were accurate. If a project was selected for third-party audit, we verified the annual recalculation was performed using the audited customer inputs.

- Requested support evidencing EDB's annual review and approval of the formula used to calculate investment credits during our audit period.

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 reviewed a sample of 35 investment credit projects and determined that all 35 were evaluated in accordance with established guidelines; however, not all projects were approved as required. We determined all 8 of the projects that exceeded $50 million were properly reviewed and approved by the EDB and the CEO, but the 27 projects that were less than $50 million were not approved at the appropriate delegation level. Specifically, projects with a contract value less than $50 million were not approved by the SVP or Director of Economic Development; instead, they relied on their staff to ensure the projects were approved and managed properly. In addition, we determined investment credit program guidance and documentation could be improved. Specifically, TVA-SPP-24.000 did not align with the EDB charter or approval delegation guidance and was outdated.

INVESTMENT CREDIT CONTRACTS LESS THAN $50 MILLION WERE NOT APPROVED AT THE APPROPRIATE LEVEL

TVA-SPP-24.000, *Delegation of Authority for Economic Development Programs and Contracts*, and the 2024 delegation memorandum specified positions with the authority to approve and execute economic development contracts, including:

- the SVP of Economic Development if between $1 million and $50 million and
- the Director of Economic Development Incentive Programs if $1 million or less.

Our review of a sample of 35 contracts found all 8 of the projects that exceeded $50 million were properly reviewed and approved by the EDB and the CEO and all 27 with values less than $50 million did not receive approval at the appropriate delegation level. Discussions with Economic Development management indicated contracts were not reviewed on an individual basis; instead, the Director of Economic Development Incentive Programs and the VP of Economic Development relied on their staff to ensure the contracts were approved and managed properly.

We considered the approval of investment credit contracts at the appropriate delegation level to be a key control in the process. Therefore, we determined the control has been designed but not implemented effectively. Without proper approval, TVA may execute projects without proper executive oversight, increasing the risk of unauthorized or inconsistent incentive award decisions.

INVESTMENT CREDIT PROGRAM GUIDANCE AND DOCUMENTATION COULD BE IMPROVED

We identified several instances where TVA SPPs could be improved. Specifically, the SPPs did not reflect current processes or approval delegation guidance and were outdated. Specifics of these items are detailed below.

Alignment of Procedures
We noted instances where TVA-SPP-24.000 did not align with other program guidance. Specifically, we noted the SPP and EDB charter have conflicting thresholds for EDB review of projects over a certain number of megawatts (MWs). The SPP states the EDB is required to review and approve proposals for projects greater than $50 million or 50 MWs. However, Economic Development personnel stated their current process follows the EDB charter, which states the EDB should review projects greater than $50 million or 100 MWs. In addition to the MW differences, the SPP gives the EDB responsibility to review and approve these economic development projects; however, the charter only requires the EDB's review.

Outdated Procedure
As stated above, TVA-SPP-24.000 lists contract monetary limits for the SVP of Economic Development to approve economic development contracts up to $10 million, while the 2024 delegation memorandum raised the contract limit to $50 million. The SPP does not reflect the current approval limit, and makes reference to the SVP of Economic Development, which is no longer a position in their organization.

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The lack of documentation, outdated SPP, and misalignment among procedures and guidance increases the risk of inconsistent oversight and approval practices for investment credit projects.

RECOMMENDATIONS

We recommend the Vice President, Economic Development:

1. Ensure approvals are completed at the appropriate delegation level in accordance with the CEO delegation of authority memorandum.

   TVA Management's Comments – TVA agreed with our recommendation and committed to modify processes to ensure approvals are completed at the appropriate delegation level for all contracts. See the Appendix for TVA management's complete response.

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

2. Update TVA-SPP-24.000, *Delegation of Authority for Economic Development Programs and Contracts*, to reflect the current delegation of authority limits and organizational positions.

   TVA Management's Comments – TVA agreed with our recommendation and committed to update TVA-SPP-24.000 to align with current delegation thresholds and organizational positions. See the Appendix for TVA management's complete response.

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

3. Evaluate the differences between TVA-SPP-24.000, *Delegation of Authority for Economic Development Programs and Contracts*, and the EDB charter and align them based on intended direction.

   TVA Management's Comments – TVA agreed with our recommendation and committed to review and update TVA-SPP-24.000 and the EDB charter to align with the intended roles and responsibilities of the EDB. See the Appendix for TVA management's complete response.

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

October 27, 2026

Greg Stinson
Assistant Inspector General, Audits and Evaluations

REQUEST FOR COMMENTS - DRAFT AUDIT 2026-17623- TVA'S EVALUATION AND APPROVAL OF ECONOMIC DEVELOPMENT PROJECTS AND INCENTIVES

This is a response to the recommendations provided in your recent draft Audit Report of TVA's evaluation and approval of economic development projects and incentives. We appreciate the efforts put forth by Michael Cook, Robert Dixon, and the team to conduct this evaluation. We agree with the three recommendations to improve Economic Development's approval process for projects and incentives.

We have considered the recommendations enumerated on page 6 of the report, and our responses are below.

Recommendation 1. Ensure approvals are completed at the appropriate delegation level in accordance with the CEO delegation of authority memorandum.

Response: Agree. We will modify our processes to ensure approvals are completed at the appropriate delegation level for all contracts.

Recommendation 2. Update TVA-SPP-24.000, *Delegation of Authority for Economic Development Programs and Contracts*, to reflect the current delegation of authority limits and organizational positions.

Response: Agree. TVA-SPP-24.000 will be updated to align with current delegation thresholds and organizational positions.

Recommendation 3. Evaluate the differences between TVA-SPP-24.000, *Delegation of Authority for ED Programs and Contracts*, and the EDB charter and align them based on intended direction.

Response: Agree. TVA SPP-24.000 and the EDB charter will be reviewed and updated to align with the intended roles and responsibilities of the EDB.

Thank you for the opportunity to review and respond. If you have any questions or concerns please contact Spencer Sessions, Director, Economic Development Incentives at 901-832-2141.

Thank you,

Heidi J. Smith

Heidi Smith
Vice President
Economic Development

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