

# Oversight & Governance

TVA is a wholly owned, federal corporation with the mission to provide affordable, reliable power, act as a steward of the region's natural resources, and promote the economic development of the Tennessee Valley region. TVA is able to carry out this mission partially because it remains conservative in its business practices and in the way it allocates capital to meet the needs of the Valley.

TVA is committed to conducting its business in an open and forthright manner that instills confidence in its investors, in Congress, in the Executive Branch, and in its customers. Investors in TVA can be assured of adequate oversight, auditor independence, corporate responsibility, and a commitment to timely, accurate, and comprehensive financial disclosure.



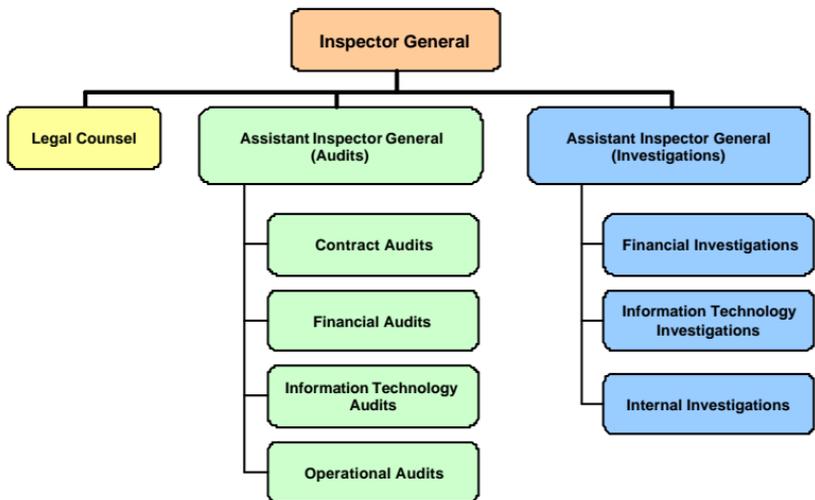
## ***TVA Oversight – A Different Mission with Different Oversight***

TVA is a government-owned corporation, and its mission is fundamentally different than that of publicly traded companies. The difference in TVA's structure and mission account for the differences in the oversight of TVA. For investor-owned utilities, the Securities and Exchange Commission (SEC) maintains the primary financial regulatory or oversight role. However, TVA has several different forms of oversight.

**A Full-Time Board of Directors** – TVA management is governed by a three-member Board of Directors, who are appointed by the President of the United States and confirmed by the Senate, and serve nine-year, staggered terms. TVA's Board members serve full-time, unlike traditional board members, who typically serve in a part-time capacity.

**An Independent Auditor** – TVA's independent auditor, PricewaterhouseCoopers (PwC), audits TVA's financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, and provides an opinion on whether those statements are presented in conformity with generally accepted accounting principles (GAAP).

**An Independent Inspector General** – TVA has an independent Inspector General (IG) who conducts ongoing audits of TVA's operational and financial matters in accordance with *Government Auditing Standards*, which incorporate the American Institute of Certified Public Accountants (AICPA) generally accepted auditing standards. The IG's staff includes about 90 employees, including more than 30 auditors. TVA's IG, with both audit and investigative authority, has broader powers than those of an audit committee. TVA's IG was previously appointed by the TVA Board of Directors, but pursuant to recent legislation, will be appointed by the President of the United States. The IG's office provides semiannual reports to Congress on the results of its audit and investigative work.



**Congressional Oversight** – Congress provides formal oversight of TVA through two committees, including the U.S. House of Representatives' Transportation & Infrastructure Committee and the U.S. Senate's Environment & Public Works Committee. The audit arm of Congress, the General Accounting Office (GAO), also conducts audits of various TVA activities and programs, generally at the request of members of Congress.

**Executive Branch** – TVA routinely submits budget information to the Office of Management & Budget (OMB), and TVA's budget is included in the consolidated budget of the U.S. government. Additionally, TVA's financial results are included in the federal government's financial statements, which are coordinated with the U.S. Treasury and are audited by the GAO.

**The TVA Act** – TVA's congressional charter, the TVA Act of 1933, bounds the range of TVA's business activities. TVA is also subject to the Government Performance & Results Act (GPRA), which requires that a strategic plan and annual performance reports be submitted to Congress.

## The TVA Corporate Accountability & Disclosure Plan

In the wake of the financial collapse of several large companies, the Sarbanes-Oxley Act of 2002 was passed, requiring greater corporate accountability, auditor independence, and financial disclosure by all publicly traded companies. Even though TVA is not covered by the terms of the Sarbanes-Oxley Act, TVA is taking actions consistent with key provisions of that act, which is consistent with its commitment to conducting its business in an open and transparent manner.

TVA's Corporate Accountability & Disclosure Plan is designed to help assure the holders of TVA securities, Congress and the Administration, potential investors, and the public that TVA's financial and non-financial disclosure provides an accurate description of TVA and its financial condition. The plan will do so by:

1. Establishing a certification process for TVA's disclosure and financial reporting documents, including the financial portion of TVA's Annual Report, TVA's Power Quarterly Reports, and the Information Statement. These documents will be certified by the TVA Board members and the Chief Financial Officer (CFO),
2. Establishing procedures to further the independence of TVA's outside auditor, currently PricewaterhouseCoopers,
3. Establishing a code of disclosure and financial ethics,
4. Creating a Disclosure Control Committee that will develop and implement disclosure policies, controls and procedures, review all material information about TVA, and determine how best to disclose appropriate information, and,
5. Creating a program to train the appropriate people within TVA about these matters.

TVA is undertaking several specific actions to continue the commitment to ethics and integrity from all of its employees.

## **Auditor Independence – *Providing Assurance to Stakeholders***

TVA is committed to conducting its business in a way that provides further assurance to its investors, its customers, and its “owner,” the U.S. government, that it deserves their continued confidence and support.

TVA’s Office of the Inspector General (OIG) conducts an annual audit of the work of TVA’s independent auditor to ensure compliance with generally accepted government auditing standards. The OIG also audits TVA’s financial systems, business decisions, operations, and contracts. To ensure that the OIG performs its audits in accordance with generally accepted government auditing standards, a peer review audit of the OIG is conducted every three years by another federal Inspector General’s office.

To provide even more assurance to its stakeholders, on October 1, 2002, TVA began limiting the types of services provided by its external auditor, PricewaterhouseCoopers (PwC), in accordance with guidance from the SEC. TVA has clearly defined the roles of all parties with responsibilities related to PwC’s financial statement audit:

- TVA’s procurement group serves as the active commercial contract manager responsible for executing the contract and processing payments,
- TVA’s IG is responsible for technical contract management to ensure that audit quality standards are met,
- TVA’s CFO facilitates the audit, but will have no contract management function, and
- The TVA Board ensures an appropriate review of its external auditor’s audit through increased reliance on the OIG, to be accomplished through quarterly meetings with the inspector general and the external auditor and an annual report by the OIG to the TVA Board on the results of the OIG’s audits.

## **Corporate Accountability – *Ethics & Integrity from All TVA Employees***

TVA’s Board members and the Chief Financial Officer will certify TVA’s financial statements and related disclosures in its annual reports, information statements, and quarterly reports. All officers and managers who prepare or are involved in the preparation of TVA’s financial reports and statements will receive training on financial and non-financial disclosure.

All TVA employees are required to adhere to Federal Ethics Standards. As part of this requirement, all TVA officers must take ethics training annually and must file financial disclosure statements on an annual basis. In addition, all officers and managers involved in the preparation or review of financial information or other information for public disclosure in connection with TVA securities must now agree to a Financial Code of Ethics, which amplifies existing ethical standards.

Personal loans from TVA funds to TVA directors and officers are not permitted and TVA directors and officers do not receive stock options (TVA is wholly owned by the federal government and cannot issue stock).

## **Financial Disclosure – A Commitment to Timely, Accurate, Comprehensive Information**

TVA is committed to providing a steady flow of timely, comprehensive, and accurate information to its investors, its owner, the U.S. government, and its customers. TVA voluntarily meets common disclosure requirements by providing business and financial information in a timely, accurate and complete manner.

TVA publishes an annual report that includes a Management's Discussion & Analysis section and audited financial statements prepared in accordance with GAAP. TVA also issues quarterly financial reports and provides information statements and offering circulars (similar to a prospectus) to investors and to the bankers and brokers who sell TVA bonds. TVA's financial statements are certified by the TVA Board members and the CFO. TVA issues news releases for significant events.

TVA files an "Annual Report of Public Electric Utilities" each year with the Energy Information Administration of the U.S. Department of Energy. In addition to its regular financial filing, TVA submits information to the Office of Management & Budget on a regular basis, and TVA Board meetings are open to the public.

## **Going Forward**

TVA is committed to conducting its business in an open and forthright manner that instills confidence in its investors, in Congress, in the Executive Branch, and in its customers. Investors in TVA can be assured of adequate oversight, auditor independence, corporate responsibility, and a commitment to timely, accurate, and comprehensive financial disclosure.