

2

OFFICE OF THE INSPECTOR GENERAL

0

SEMIANNUAL REPORT

0

APRIL 1, 2000 ~ SEPTEMBER 30, 2000

0



The Office of the Inspector General (OIG) is an independent organization charged with reporting to the Tennessee Valley Authority (TVA) Board of Directors and Congress on the overall efficiency, effectiveness, and economy of TVA programs and operations. The OIG meets this responsibility by conducting audits, investigations, and other reviews.

The OIG focuses on the prevention, identification, and elimination of (1) waste, fraud, and abuse; (2) violations of laws, rules, or regulations; and (3) inefficiencies in TVA programs and operations.

If you want to report any matter involving TVA programs, operations, or employees, you should call the OIG Hotline or write the Inspector General's office.

**TVA
INSPECTOR
GENERAL**

Hotline

Call toll free:
1-800-323-3835
865-632-3550 (Knoxville)

Tennessee Valley Authority
400 West Summit Hill Drive ET 4C
Knoxville, Tennessee 37902-1401



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401

Richard F. Chambers
Inspector General

October 31, 2000

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

As the newly appointed Inspector General for TVA, I am pleased to submit this semiannual report on the accomplishments of the OIG for the six-month period ending September 30, 2000.

This reporting period has been one of significant change for the OIG. In July 2000, George Prosser, who served as the TVA Inspector General for six years, announced his decision to retire. The TVA Board of Directors appointed me as the new Inspector General, and I transferred in August from the U.S. Postal Service where I served as Deputy Inspector General. Mr. Prosser will serve as an advisor until his formal retirement in December 2000.

My initial impressions of the OIG have been extremely positive. The staff is a highly motivated group of seasoned professionals as reflected in the quality of their work. During this reporting period, OIG audits, investigations, and special projects continued to identify opportunities for TVA to save or recover money or to make process improvements, and TVA continued to respond favorably to OIG recommendations.

We are allocating OIG resources for the coming year based on an assessment of business and operating risks faced by TVA. During the next six months, we will undertake extensive reviews of OIG internal processes, and we also will review and revise our strategic plan as necessary to ensure we are aligned with needs of our key stakeholders.

I am proud to be a part of TVA's OIG and to be associated with so many qualified and dedicated professionals. I look forward to a positive and productive working relationship with TVA management, the Board, and the Congress.

Sincerely,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive style with a large initial "R".

Richard F. Chambers

1	Executive Summary	8	Audits	OFFICE OF THE INSPECTOR GENERAL
2	TVA Profile	14	Investigations	SEMIANNUAL REPORT
3	Office of the Inspector General	20	Special Projects	APRIL 1 THROUGH SEPTEMBER 30, 2000
5	Special Feature	21	Legislation and Regulations	

Appendices

1. OIG Audit Reports Issued During the Six-Month Period Ending September 30, 2000
2. OIG's Report on Management Decisions for the Six-Month Period Ending September 30, 2000
3. Investigative Referrals and Prosecutive Results
4. Audit Reports With Corrective Actions Pending
5. OIG Reporting Requirements

■ EXECUTIVE SUMMARY

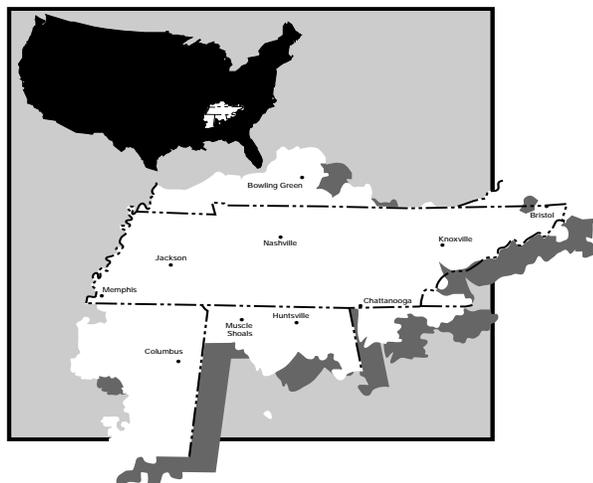
This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending September 30, 2000.

We continued our efforts to support TVA by providing quality audits, investigations, and special projects. During this reporting period, we identified over \$15 million in recoveries, potential savings, questioned costs, or funds which could be put to better use. Management took numerous actions in response to our recommendations.

We completed 35 audits and 8 special project reviews. We identified \$1.8 million in questioned costs and about \$12.9 million in funds that could be used more effectively. Representative audits included the following areas: (1) preaward and postaward contract audits, (2) reviews of material management practices at two TVA fossil plants, (3) TVA performance measures under the Government Performance and Results Act, (4) a review of controls on the use of cash subvouchers, and (5) reviews of material management practices at a TVA

fossil plant. Representative special projects included review of: (1) hospitality and entertainment policies, (2) TVA's development of new procedures in the bulk power trading program, (3) a contractor's claim of unbilled labor totaling over \$230,000, and (4) TVA's implementation of a new prescription drug plan.

We closed 99 investigations, which led to over \$700,000 in savings and recoveries, administrative or disciplinary action taken against 11 individuals, and other corrective action in 6 cases. Matters we investigated included workers' compensation fraud, environmental crimes, contractors' fraudulent claims for temporary living expenses, health care fraud, alleged falsifications in background investigations performed by a TVA contractor, and employee conduct issues. Our investigations also led to five subjects being indicted and five convicted.



TVA is a federal corporation, the nation's largest wholesale producer of electric power, a regional economic development agency, and a national center for environmental research. TVA's statutory responsibilities include management of the nation's fifth largest river system.

TVA's mission, as stated in its Annual Performance Plan, is "to develop and operate the Tennessee River system to minimize flood damage and improve navigation, and to provide energy and related products and services safely, reliably, and at the lowest feasible cost to residents and businesses in the multi-state Tennessee Valley Region."

TVA's programs fall into two separate but interrelated activities—the power program and the resource management programs. TVA's power system consists of 11 coal-fired plants, 3 nuclear plants,

29 hydroelectric dams, 4 combustion turbine plants, and a pumped storage plant. These plants provide over 28,000 megawatts of net dependable generating capacity. TVA's electric power business is entirely self-funding.

TVA's major functions include (1) multiple purpose management of the Tennessee River system; (2) generation, sale, and transmission of electricity to wholesale and large industrial customers; (3) investment in economic development activities that generate a higher standard of living for citizens of the Tennessee Valley; (4) stewardship of TVA assets and provision of recreation opportunities on federal lands entrusted to TVA; and (5) research and technology development that addresses environmental problems related to TVA's statutory responsibilities for river and land management and power generation.

TVA is governed by a three-member Board of Directors appointed by the President and confirmed by the Senate. Craven Crowell is the Chairman, and Skila Harris and Glenn L. McCullough, Jr., are Directors.

TVA's 13,145 employees serve an 80,000-square-mile region spanning seven states.



Richard F. Chambers

The OIG's New Leadership

Effective August 14, 2000, Richard F. Chambers became TVA's Inspector General. Mr. Chambers came from the U.S. Postal Service where he served as the Assistant Inspector General for Audits and then Deputy Inspector General. Prior to that position, Mr. Chambers worked for over 20 years in positions of increasing audit and management responsibility, primarily with the U.S. Army, including 5 years as Director, U.S. Army Internal Review, and 5 years as Chief, Internal Review and Audit Compliance, U.S. Forces Command.

Mr. Chambers replaced George T. Prosser, who announced he would retire at the end of December. Mr. Prosser will remain in an advisory role to Mr. Chambers until that time.

Office Authority

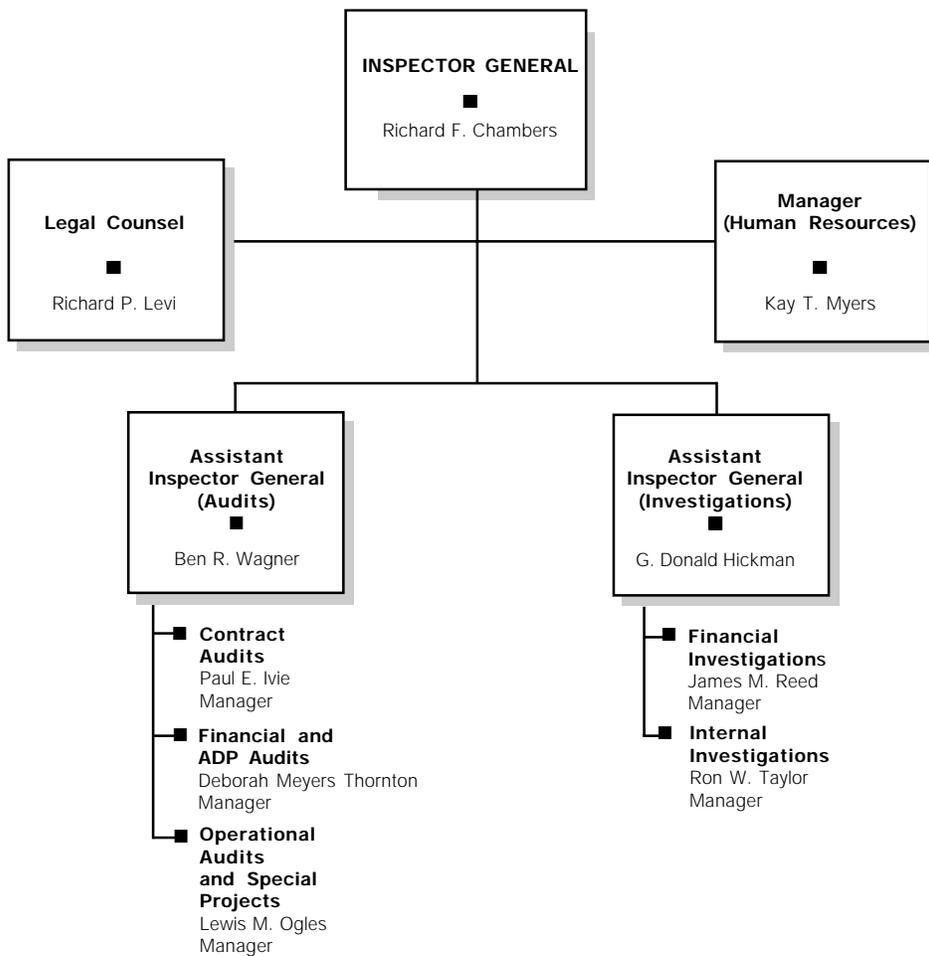
The TVA Board of Directors administratively established the OIG during October 1985. When the Inspector General Act Amendments of 1988 were enacted, TVA's OIG became one of the statutory offices whose Inspector General is appointed by the agency head. TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors.

Staffing and Budget

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee. The OIG also has an investigative satellite office in Chattanooga, Tennessee.

The OIG's fiscal year 2000 budget was about \$7.2 million with a budgeted headcount of 82 employees.

OFFICE OF THE INSPECTOR GENERAL 9/30/00



TVA OIG EMPLOYEES AND TEAMS RECEIVE AWARDS

On September 14, 2000, the Executive Council on Integrity and Efficiency (ECIE) honored George T. Prosser, former Inspector General, for outstanding contributions to the Inspectors General community. Several employees in the TVA OIG also were recently recognized for their outstanding accomplishments.

On September 29, 2000, the President's Council on Integrity and Efficiency (PCIE) and the ECIE presented annual awards for outstanding achievements within the Inspector General community in promoting economy and efficiency in government and fighting fraud, waste, and abuse in federal operations.



George T. Prosser

TVA OIG employees and teams recognized for their contributions were:

- G. Donald Hickman, Assistant Inspector General, Investigations, received an ECIE Award of Excellence for his leadership and sustained contributions to the law enforcement community. Mr. Hickman's contributions included his (1) support for the OIG's participation in interagency task forces, (2) work in the development of the Inspector General Academy, (3) efforts towards initiating audit and investigation automated tracking systems, and (4) ongoing leadership contributing to the significant results of OIG investigations.



From left to right, George T. Prosser, G. Donald Hickman, and Richard F. Chambers

- Special Agent James F. Farr and Senior Auditor Jerry D. Stover were recognized with an ECIE Award of Excellence for their outstanding teamwork and efforts in a complex audit/investigation of fraud related to TVA's Tool Management Program, which was administered by a private contractor. Their efforts revealed a conspiracy to steal over \$1 million in TVA-owned tools, resulting in the criminal convictions of three individuals.



From left to right, George T. Prosser, James F. Farr, Paul E. Ivie (accepting the award for Jerry D. Stover), and Richard F. Chambers



From left to right, Harriet A. Miller, George T. Prosser, Richard F. Chambers, and Michael G. Duncan

- Senior Special Agent Michael G. Duncan and Harriet A. Miller, former OIG Senior Auditor who is now a Team Leader with Financial Standards, River System Operations and Environment, received an ECIE Award of Excellence for their work in resolving a complex product substitution case, which included reconstructing destroyed records and obtaining a major fraud conviction. Mr. Duncan and Ms. Miller worked together to uncover a scheme under which a coal company provided TVA with 147,000 tons of coal blended with petroleum coke, an oil refinery product. TVA paid more than \$3 million for the blended coal.

- The OIG's Workers' Compensation Team, composed of Special Agents James E. Hunter and Craig A. Yates, and Financial Investigations Manager James M. Reed, received an ECIE Award of Excellence in Investigations for their achievements in identifying and eliminating fraud in TVA's workers' compensation program. Their work from July 1, 1999 to June 30, 2000, led to (1) the suspension, reduction, or termination of benefits for six individuals and a projected savings to TVA of over \$2.5 million and (2) three convictions for making fraudulent statements to receive federal workers' compensation benefits.



From left to right, George T. Prosser, Joseph P. Boehr, and Richard F. Chambers



From left to right, George T. Prosser, James M. Reed, Craig A. Yates, and Richard F. Chambers (not pictured James E. Hunter).

- A joint PCIE/ECIE Award of Excellence in Investigations was awarded to the Environmental Crimes Joint Task Force for outstanding work in fighting environmental crimes. Representatives from several agencies serve on the task force, including the U.S. Attorney's Office of the Eastern District of Tennessee, the Federal Bureau of Investigation (FBI), the Environmental Protection Agency (EPA), the Department of Energy (DOE), and the Tennessee Highway Patrol. Joseph P. Boehr, an OIG Senior Special Agent, and Arthur A. Schettini, Lieutenant, TVA Police, serve on the task force. From July 1, 1999 to June 30, 2000, the task force's efforts contributed to six convictions and savings, fines, penalties, and restitution totaling over \$2.7 million.

Audits are initiated from (1) the OIG annual workplan, (2) issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, or (4) concerns raised by TVA management or others. During this reporting period, we issued 35 audit reports which identified \$1.8 million in questioned costs and about \$12.9 million in funds which could be put to better use (see Appendix 1).

Summary of Representative Audits

Our audits included preaward and postaward audits of TVA contractors as well as computer security reviews and performance reviews of TVA programs.

RECOMMENDATIONS FOR POTENTIAL COST SAVINGS IN CONTRACT NEGOTIATIONS

We conducted six preaward audits to assist TVA management in negotiation of procurement actions. These audits identified opportunities for TVA management to negotiate savings totaling about \$12.9 million. Our preaward findings included suggestions for using cost-

reimbursable contract terms and reducing or eliminating certain indirect costs. Highlights of the more significant preaward audits follow.

- We reviewed proposed non-manual labor and indirect cost rates for a planned \$135 million contract extension related to TVA's clean air initiative. We found TVA could save about \$8.6 million by negotiating cost-reimbursable contract terms and reducing or eliminating certain indirect cost markups.
- We reviewed proposed labor billing rates included under a subcontract arrangement worth about \$28 million for a portion of the engineering services related to TVA's clean air initiative. We found TVA could save about \$4.2 million by negotiating a reduction in the subcontractor's billing rates from market-based rates to actual costs plus a reasonable profit.

During this reporting period, TVA management successfully negotiated total savings of over \$17 million as a result of audits issued during this and previous reporting periods.

CONTRACT COMPLIANCE AUDITS

We completed 18 contract compliance audits and questioned \$1.8 million in overbillings and excessive costs to TVA. Our audit findings included questioned costs related to:

- Overhead and payroll tax rates applied to inappropriate labor rates.
- Overrecovery of payroll taxes, insurance, and fringe benefit costs.
- Unsupported and overbilled labor costs.
- Overstated material costs.
- Overstated and ineligible per diem costs.
- Overbilled other direct costs.
- Failure of contractor to provide contractually agreed volume discounts.

Highlights of the more significant contract compliance audits follow.

- We reviewed costs billed by a transmission steel pole vendor under its \$45 million contract with TVA. The contract provided for price adjustments based on a published index. However, we found the contractor adjusted its prices based on its claimed raw material costs rather than the published index stipulated in the contract. Accordingly, of the \$22.6 million TVA had paid the vendor, we estimated TVA overpaid more than \$900,000 for the poles.
- We reviewed costs billed for security services provided by a security personnel contractor under its \$33 million contract with TVA. The contract provided for the contractor to bill for estimated payroll taxes, fringe benefits, and paid time off costs subject to periodic adjustment to actual costs. Of the \$10.4 million billed during the audit period, we found the contractor’s estimated costs were about \$470,000 greater than the contractor’s actual costs.

- We reviewed labor and other costs billed by a nuclear plant modification and supplemental maintenance services contractor under its \$383.7 million contract with TVA. We found of the \$149 million audited, the contractor's billings were generally in accordance with the contract except that the contractor did not reduce its general and administrative cost markup after exceeding certain labor-hour thresholds. Accordingly, we found TVA was owed about \$243,000 due to overrecovery of the markup.

Management generally agreed with our findings and has taken or plans to take action to recover questioned costs where appropriate.

CONTROLS OVER SYSTEMS MANAGEMENT SERVER REMOTE TOOL USAGE

In January 2000, TVA began implementing the System Management Server (SMS) remote control tools to assist in managing TVA's desktop computer resources. These tools allow TVA to deliver software and repair computers by remotely accessing another computer. While remote control tools allow TVA to better manage its computing resources, the misuse of these tools presents a risk to the security of TVA's sensitive information.

We reviewed the adequacy of the internal controls for the SMS remote control tools. We found TVA's data collection was incomplete and insufficient to allow for proper monitoring of the remote control usage. We made specific recommendations to TVA management to improve the data collection and ensure all necessary information is collected to allow for monitoring. TVA management agreed with the findings and is taking action to implement the recommendations.

**ACCESS CONTROLS OVER
EMPLOYEE SelfService SOLUTIONS**

TVA implemented an intranet-based application—Employee Self Service Solutions (ESSS)—to enable employees to access personal and TVA information. The ESSS allows TVA’s approximately 13,000 employees access to payroll, benefits, training, and travel information. We reviewed the access controls to determine if ESSS information was protected from unauthorized access. We reviewed such access controls as (1) the process for changing pin numbers, (2) UNIX permissions and Oracle privilege controls pertaining to ESSS files, and (3) Oracle privileges of Data Base Administrators granted to the ESSS system files. We found the access controls to the ESSS could be improved by (1) changing the process for revising pin numbers and (2) removing Oracle privileges granted to a certain user identification. TVA management took immediate action to correct the problems identified.

**GOVERNMENT PERFORMANCE AND
RESULTS ACT OF 1993**

TVA developed 24 performance indicators as part of the Annual Performance Plan submitted to Congress in response to the Government Performance and Results Act of 1993 (GPRA). During this semiannual period, we completed five audits pertaining to GPRA performance indicators. The five indicators audited were (1) Reportable Environmental Event (REE), (2) Wholesale Customers With Continuing Contracts (WCCC), (3) Aeration System Availability (ASA), (4) Minimum Flow Achievement (MFA), and (5) Summer Lake Level Attainment (SLLA). The objective of each audit was to determine if the (1) information systems that provide source data for the indicator are reasonably accurate and reliable and (2) indicator is reported correctly. We found the information used to support the REE, WCCC, and SLLA indicators was accurate and reliable, and the indicators were reported correctly. However, we could not assess the

adequacy of the data and information systems supporting the remaining two indicators because the:

- MFA indicator was not measured in accordance with the criteria given in the Annual Performance Plan.
- ASA was not calculated as defined in the Annual Performance Plan, and TVA did not maintain sufficient documentation to verify the indicator.

TVA management has agreed to take action to correct the deficiencies found and ensure that adequate documentation is maintained.

REVIEW OF CASH SUBVOUCHERS

Cash subvouchers are an alternative procurement procedure used when negotiation of a contract is not practical and the vendor will not accept TVA Procurement VISA cards. TVA uses subvouchers for small dollar (typically under \$5,000) or infrequent transactions. For the period June 1 through December 28, 1999 (7 months), TVA paid

1,285 subvouchers totaling about \$1.6 million for advertising, hospitality, corporate membership dues, materials, and services.

We found that subvouchers were properly prepared and authorized by TVA organizations and were reviewed by Accounts Payable prior to payment. However, we found that Accounts Payable internal controls to prevent duplicate payments could be improved. Accounts Payable immediately took appropriate action to improve detection of duplications.

MATERIALS MANAGEMENT AT BULL RUN FOSSIL PLANT

We reviewed the materials management process at Bull Run Fossil Plant (BRF) and noted several conditions that increase the risk of (1) plant personnel not having material when needed or (2) material being needlessly purchased. In summary, we found:

- Inventory shortages totaling \$184,580 and inventory overages totaling \$166,765. The absolute dollar difference of \$351,345 was 5.7 percent of the inventory's \$6.2 million value.
- A significant amount of material stored at BRF was not recorded in any BRF inventory account. Although we did not estimate the value of this non-inventory material, several items appeared to have considerable value.
- Virtually all BRF employees had card key access to the BRF storeroom. In addition, 25 TVA Procurement employees, 29 other TVA employees, and 4 individuals not employed by TVA had access.
- Succession planning had not been initiated even though the two BRF storeroom employees are expected to retire within the next two years.

A team of BRF and Procurement personnel, along with an OIG representative, has been established to address the conditions.

During the last six months, we substantiated allegations in 19 of the 99 investigations we closed—almost 20 percent. Our investigations resulted in over \$700,000 in savings and recoveries, 5 subjects indicted, and 5 convicted. In addition to investigations discussed previously in the special feature, other representative investigations are highlighted below.

Summary of Representative Investigations

FALSE CLAIMS—TEMPORARY LIVING EXPENSES

We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible temporary living expenses (TLE) paid to TVA contractor employees.

To receive TLE, generally a contractor employee must incur duplicate expenses for a temporary residence near the TVA worksite and a permanent residence more than 100 miles from the worksite.

During this reporting period, our TLE investigations led to recoveries or questioned costs of over \$100,000. Highlights of these investigations follow.

- During the previous reporting period, a former contractor employee pled guilty to three counts of submitting false

claims for living expenses. The individual worked for two contract firms at TVA sites in southeastern Tennessee. Although his permanent residence was within commuting distance of his TVA worksites, he claimed it was in Ohio. The individual produced false property tax documentation and a fraudulent rental agreement to support his TLE claims.

(During this reporting period, the former contractor employee was sentenced to three years' probation and ordered to pay TVA \$36,199 restitution for the TLE reimbursement he fraudulently received.)

- Our investigation revealed two employees of a TVA contractor were not entitled to TLE reimbursement totaling over \$70,000.

To receive reimbursement for TLE, one of the contractor employees claimed his permanent residence was a home in a neighboring state, which he purchased from his parents. However, evidence showed the parents, not the contractor employee, were the permanent residents of the home, and the contractor employee had a permanent residence in commuting distance of his TVA workstation.

The second contractor employee claimed an out-of-state residence to receive TLE reimbursement. Evidence revealed the individual no longer possessed that home but maintained a permanent residence within commuting distance of the TVA site at which he worked.

TVA has agreed to seek recovery of these claims.

FALSE CLAIMS—OFFICE OF WORKERS’ COMPENSATION PROGRAMS

To receive benefits through the Federal Employees’ Compensation Act (FECA), recipients must periodically submit forms to the Office of Workers’ Compensation Programs (OWCP) that require the recipient to report all employment activities (including self-employment). OWCP uses the forms to determine a recipient’s continuing eligibility for FECA benefits. Failure to disclose employment information to OWCP violates state and federal laws.

During this reporting period, our FECA fraud investigations led to current and long-term savings and recoveries of over \$500,000, one subject indicted, and two convicted. Highlights of investigative results follow.

- A former TVA pipefitter was sentenced in federal court on two counts of mail fraud and two counts of making a false statement to obtain federal workers’ compensation. The former TVA employee was sentenced to one month in federal prison, three years’ supervised release, and was ordered to pay \$8,839 in restitution to TVA.

(During a previous period, our investigation found the individual was employed by three different businesses performing welding, fabricating, mechanic work, and general labor—including operating mowers and tractors—but did not report this employment while he was receiving total temporary disability benefits.)

- As a result of our investigation of a former TVA painter, TVA saved over \$300,000. Our investigation found the former employee was jailed in a Tennessee county facility after pleading guilty to three felony offenses. Under FECA, no benefits can be provided to any individual confined to a correctional facility following felony conviction(s). As a result of our finding, workers’ compensation benefits were stopped during the individual’s incarceration, saving TVA over \$40,000.

Further, we found he was not paying court-ordered child support, even though (when not incarcerated) he received a higher rate of benefits because he claimed dependent children. The individual's benefits were reduced following his release, creating an estimated long-term cost avoided to TVA of over \$290,000.

- An OIG employee pled guilty to a misdemeanor charge of workers' compensation fraud. The employee, who resigned from TVA, admitted engaging in a pattern of falsifications in connection with her medical visits. More specifically, she requested reimbursement for more hours of lost time from OWCP than she claimed as leave without pay on her TVA leave forms, resulting in her receiving pay for certain hours from both TVA and OWCP. She was placed on probation for one year and fined. Based on this conviction, OWCP terminated her workers' compensation benefits. In addition, the former OIG employee reimbursed TVA for the lost time payments and other questioned travel claims.

CONTRACTOR EMPLOYEE SECURITY ISSUE

An OIG investigation found an employee of a TVA contractor falsified information provided to TVA concerning background

investigations conducted by the contractor. The contractor provided trained, experienced nuclear employees to TVA, and the employee was responsible for processing contractor employees. These responsibilities included conducting background investigations and documenting the results.

We reviewed several background investigations performed by the individual and found references who contradicted documentation provided to TVA by the contractor. We also found evidence indicating some information provided to TVA was fabricated.

Based on our investigation, TVA Nuclear (TVAN) management took action, which included the following.

- Suspended clearances and badge cards for current workers affected by the issue, then re-screened the employees.
- Placed a TVAN internal alert to notify responsible personnel should currently inactive workers affected by this issue request access to TVAN facilities in the future.
- Informed Nuclear Regulatory Commission inspectors of the situation and requested the Nuclear Energy Institute issue a bulletin regarding the issue.

- Issued a letter to all current approved contractor security screening companies reemphasizing the importance of providing factual information in background investigations.

ASSISTANCE TO TVA MANAGEMENT

To assist TVA and at the request of TVA management, we continued to perform background investigations for sensitive positions and for national security clearances. These investigations ensure individuals being hired for sensitive positions meet applicable requirements. By using the OIG to perform these inquiries, rather than the U.S. Office of Personnel Management, TVA saved over \$2,000 per investigation.

HEALTH CARE FRAUD TASK FORCE

We continued to support health care fraud task forces and working groups sponsored by the U.S. Attorney's offices in Tennessee's Eastern, Middle, and Western federal districts.

In the Eastern federal district, a physician was indicted on 57 counts of mail fraud, 15 counts of health care fraud, and 6 counts of making false statements relating to health care matters.

The indictment alleged the physician defrauded Blue Cross Blue Shield of Tennessee's (BCBST) private insurance

plans and TVA's medical plan (administered by BCBST) of over \$123,000 during an approximate three-year period.

The investigation found evidence the physician mailed claim forms containing false information to obtain payment for services not rendered and supplies not used.

The investigation was conducted by OIG special agents from TVA, the U.S. Department of Defense (Defense Criminal Investigative Services), U.S. Department of Labor, and investigators from BCBST's Special Investigations Unit.

The physician is awaiting trial.

ENVIRONMENTAL CRIMES JOINT TASK FORCE

We continued our participation in the Environmental Crimes Joint Task Force (ECJTF), which is comprised of members from numerous state and federal agencies, including the FBI, EPA, Department of Justice, and TVA's OIG.

ECJTF focuses enhanced law enforcement resources against individuals and companies involved in environmental crimes and prosecutes those individuals and companies by applying the most

effective federal and state criminal and civil statutes. Highlights of the task force's work include the following.

Fish Kill - Guilty Plea

A Kentucky coal company and one of its officers pled guilty (one count each) to violating the Clean Water Act.

The company violated the terms of a permit covering a mining and reclamation operation in Campbell County, Tennessee. Investigation revealed the company improperly pumped mine wastewater into a nearby creek, adversely altering its pH levels and reducing the oxygen in the creek. A significant number of dead and dying fish were found 200-300 feet downstream from the discharge point. (The mining company officer admitted responsibility for the discharge, and the pumping was immediately stopped.)

The company and its officer are awaiting sentencing.

Illegal Transport of Hazardous Material - Sentencing

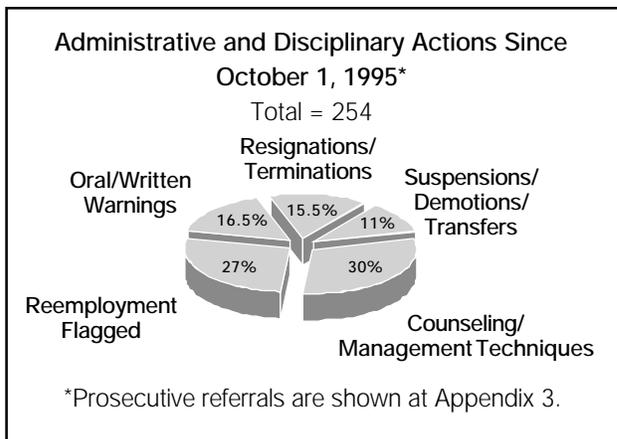
We previously reported an environmental services business (licensed hazardous waste transporter) and its president pled

guilty (one count each) to violating the Resource Conservation and Recovery Act.

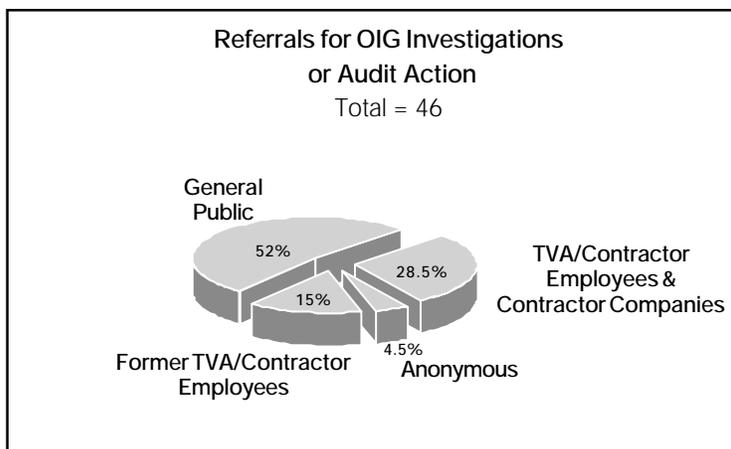
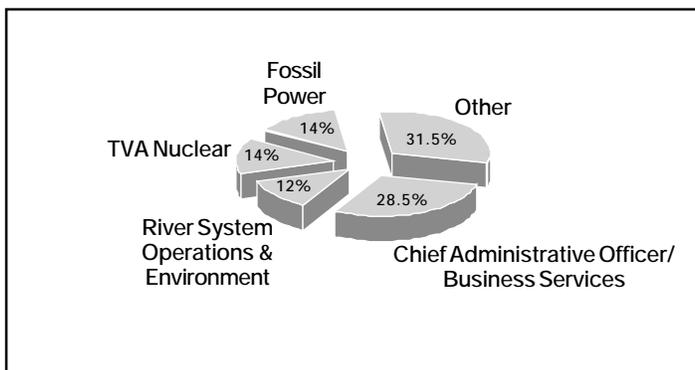
Our investigation revealed the company picked up used carburetor cleaner without an appropriate EPA waste manifest and did not properly dispose of or recycle the waste. Additionally, the company's president misled investigators by stating the material had been shipped to a reclamation site when it had not.

A federal judge ordered the company placed on probation for three years and ordered it to create, maintain, and effect an environmental protection safety policy and plan for its management and employees. The company's president was sentenced to 1 year probation and 150 hours of community service.

DOE subsequently debarred the company from government contracting and government-approved subcontracting for a period of three years.



The breakdown of the 99 closed investigations involving TVA organizations are shown below.



In addition to conducting audits and investigations, our office continues to perform special projects upon request by our customers, primarily the Board of Directors, TVA management, and Congress. During this reporting period, we conducted eight special projects. The most significant projects are summarized below.

HOSPITALITY AND ENTERTAINMENT

We compared TVA's hospitality policy, which includes entertainment, with the hospitality and entertainment policies of 14 other agencies created by the federal government that receive a substantial portion of their revenues through nonappropriated sources. We found that other agencies' entertainment and hospitality policies were generally more restrictive than TVA's policy. In addition, TVA appeared to spend significantly more on entertainment and hospitality than the surveyed agencies that provided cost data.

BULK POWER TRADING IMPLEMENTATION OF NEW POWER PRODUCTS

At the request of the Vice President, Bulk Power Trading (BPT), we worked with BPT staff to review draft procedures for implementing several new power products, including Firm/Fixed Price Buybacks, Market Days Variable Price Interruptible Power, and the Wholesale

Energy to Market Program. We developed flowcharts in an iterative process based on draft procedures and discussions with responsible program managers, which resulted in refinements to the BPT procedures.

CONTRACTOR'S CLAIM FOR UNBILLED LABOR

We reviewed a \$233,000 claim for unbilled labor submitted by a former TVA contractor. We found none of the contractor's claim was properly supported, and in fact, the contractor had actually billed TVA for more total hours than they could support. TVA and the contractor have agreed to settle the matter through arbitration.

TVA PRESCRIPTION DRUG PLAN—PHARMACEUTICAL BENEFITS MANAGER IMPLEMENTATION

At the request of TVA's Compensation and Benefits staff, we served as an advisor to the Pharmaceutical Benefits Manager (PBM) Implementation Team. Effective September 1, 2000, a different company became TVA's PBM. Our input focused on (1) TVA's and PBM's processes and responsibilities and (2) the adequacy of billing, eligibility, and claims data. Specifically, we provided input regarding the internal control processes and data fields necessary to ensure billing, eligibility verification, claims adjudication, and reporting accuracy.

■ LEGISLATION AND REGULATIONS

During this reporting period, we continued to follow several bills relevant to the OIG community, including the Government Information Security Act and a bill to make the TVA Inspector General presidentially appointed.

■ APPENDICES

Appendix 1

**OIG AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 2000**

The following table summarizes final audit reports issued by the OIG from April 1 through September 30, 2000.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
4/4/2000	2000-029C-04	Scientific Sales, Inc.			
4/7/2000	2000-033F	Reportable Environmental Event Performance Indicator			
4/7/2000	2000-036F	Review of Subvouchers			
4/7/2000	2000-040C	Arclar Company LLC - Contract 97P01-199325			
4/10/2000	2000-051C	American Aquatics - Overhead Review			
4/14/2000	1999-037P-01	Review of the Effect of Automation on TVA Dam Security			
4/18/2000	2000-007C	Cataract - Contract TV-95293V	\$32,322		
4/18/2000	2000-018C	Canus - Contract TV-95292V	4,945		
4/18/2000	2000-052C	Fish & Wildlife Associates - Overhead Review			
4/20/2000	1999-037P-02	Review of TVA Police Incident Data for Hiwassee Plant Group Dams			
4/20/2000	1999-068C	Alcan Cable - Contract 98P8D-220675	759		
5/9/2000	2000-056F	Wholesale Customers With Continuing Contracts			
5/15/2000	2000-029C-01	Ecolchem, Inc. - Source One			
5/16/2000	1999-078C	McDaniel Fire Systems - Limited Cost Compliance Review	74,101	\$29,002	
5/25/2000	2000-025C	Stone & Webster Construction Company Contracts 96N5B-161365-02 & 96NNX-161365-03	243,023	243,023	
5/25/2000	2000-029C-05	Betz Dearborn, Inc.	4,693		
6/2/2000	2000-050F	Access Controls Over Employee SelfService Solutions			
6/5/2000	2000-029C-03	PB&S Chemical Company, Inc.	5,515		
6/7/2000	2000-047C	Electrical Supply Alliance			

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
6/16/2000	2000-004C	Valmont Industries	\$929,000		
6/22/2000	2000-057C	Chem-Nuclear Price Increase			
6/22/2000	2000-062C	Primacy Relocation			
6/22/2000	2000-069C	Chem-Nuclear Systems, Inc. - Review of Amounts Billed			
7/12/2000	2000-072F	Review of Summer Lake Level Indicator			
7/14/2000	2000-009C	Pressures On, Inc. - Contract 97PA1-185965-06	25,000*		
8/2/2000	2000-006C	Alstom Power, Inc. - Environmental Systems Division - SCR Alliance Project			\$8,624,582
8/7/2000	1999-080C	Allied Welding and Safety LLC			
8/10/2000	2000-060F	Aeration System Availability Indicator			
8/11/2000	2000-064C	Burns International Security Services	480,712	\$480,712	
9/11/2000	2000-008C	Siskin Steel and Supply Co. - Contract 96XBL-165618-00			
9/11/2000	2000-055C	Neill & Gunter - Preaward Audit			4,224,822
9/11/2000	2000-073P	Materials Management at Bull Run Fossil Plant			
9/28/2000	2000-075C	Conoco			12,500
9/29/2000	2000-061F	Controls Over Systems Management Server Remote Tool Usage			
9/29/2000	2000-071F	Review of Minimum Flow Achievement Indicator			
TOTAL	35		\$1,800,070	\$752,737	\$12,861,904

* Questioned costs include \$25,000 for unreasonable or unnecessary expenditures not recoverable.

OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 2000

The following Tables I and II summarize management decisions made by TVA management on OIG recommendations contained in final audit reports. The tables reflect amounts which were questioned and recommended to be put to better use and track the disposition of these amounts through management decision.

**TABLE I
TOTAL QUESTIONED AND UNSUPPORTED COSTS**

AUDIT REPORTS	NUMBER OF REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the period	1	\$13,100	\$0
B. Which were issued during the reporting period	10	1,800,070	752,737
Subtotal (A + B)	11	\$1,813,170	\$752,737
C. For which a management decision was made during the reporting period	9*	403,458	272,025
1. Dollar value of disallowed costs	7	378,591	272,025
2. Dollar value of costs not disallowed	3	24,867	0
D. For which no management decision has been made by the end of the reporting period	2	1,409,712	480,712
E. For which no management decision was made within six months of issuance	0	0	0

* The total number of reports differs from the sum of C.1 and C.2 when the same reports contain both costs disallowed and not disallowed by management.

TABLE II
FUNDS TO BE PUT TO BETTER USE

AUDIT REPORTS	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE
A. For which no management decision has been made by the commencement of the period	2	\$227,000
B. Which were issued during the reporting period	3	12,861,904
Subtotal (A + B)	5	\$13,088,904
C. For which a management decision was made during the reporting period	5*	13,088,904
1. Dollar value of disallowed costs	4	12,498,677
2. Dollar value of costs not disallowed	4	590,227
D. For which no management decision has been made by the end of the reporting period	0	0
E. For which no management decision was made within six months of issuance	0	0

* The total number of reports differs from the sum of C.1 and C.2 when the same reports contain both costs disallowed and not disallowed by management.

INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	32	5 Indicted 5 Convicted 22 Referrals Declined
Subjects referred to other agencies for investigative or administrative action	9	OWCP terminated and/or suspended benefits of three individuals, creating current and long-term savings totaling \$505,057.
TOTAL	41	

AUDIT REPORTS WITH CORRECTIVE ACTIONS PENDING

Final corrective actions of recommendations in two contract compliance reports, five operational audits, and three financial-related audits have not yet been fully implemented; however, all are being implemented in accordance with currently established milestones.

Report 1996-037C-01 issued August 11, 1998

The report contained one recommendation regarding the contractor's ability to produce adequate documentation for billed costs. TVA is assessing what action is needed.

Report 1996-037C-02 issued September 3, 1998

The report contained two recommendations—one regarding overpayments and one regarding the contractor providing supporting documentation for billed costs. TVA is pursuing recovery of overpayments and resolution of unsupported costs.

Report 1999-031P issued October 15, 1999

The report contained two recommendations regarding overpayment of direct billed hotel charges. TVA is currently implementing its planned actions.

Report 1999-001C-01 issued October 18, 1999

The report contained nine recommendations to improve the internal controls over the VISA Purchasing Card Program. TVA has resolved six of the recommendations and is in the process of improving program controls.

Report 1999-001C-02 issued December 9, 1999

The report contained 11 recommendations to improve the internal controls over the VISA Gold Card Program. TVA has resolved five of the recommendations and is in the process of revising and communicating guidelines to more clearly define program requirements and organizational roles and responsibilities.

Report 2000-005F issued December 16, 1999

The report contained four recommendations to improve the internal controls over the VISA Purchasing Card Pilot Program. TVA has resolved three of the recommendations and is currently implementing their planned action on the other recommendation.

Report 1999-028P issued January 28, 2000

The report contained two recommendations regarding TVA's Environmental Executive authorizing Environmental Auditing to (1) perform environmental management system reviews and (2) follow up on corrective actions and assess closure decisions. TVA is currently implementing their planned actions.

Report 1999-081F issued March 10, 2000

The report contained two recommendations regarding the internal controls associated with J-type contracts. TVA has resolved one of the recommendations and is implementing their planned actions for the other recommendation.

Report 2000-021F issued March 17, 2000

The report contained two recommendations regarding the internal controls associated with Material Safety Data Sheets. TVA has resolved one of the recommendations and is implementing their planned actions for the other recommendation.

Report 2000-037F issued March 21, 2000

The report contained one recommendation regarding retention of documentation to support calculations. TVA is currently implementing their planned actions.

OIG REPORTING REQUIREMENTS

Information required by the Inspector General Act of 1978, as amended, is included in this semiannual report as indicated below.

Section 4(a)(2) — Review of Legislation and Regulations	Page 21
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 5-20
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 5-20
Section 5(a)(3) — Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4) — Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 3
Sections 5(a)(5) — Summary of Instances Where Information and 6(b)(2) Was Refused	None
Section 5(a)(6) — Listing of Audit Reports	Appendix 1
Section 5(a)(7) — Summary of Particularly Significant Reports	Pages 8-20
Section 5(a)(8) — Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 2
Section 5(a)(9) — Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 2
Section 5(a)(10) — Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period	None
Section 5(a)(11) — Significant Revised Management Decisions	None
Section 5(a)(12) — Significant Management Decisions With Which the Inspector General Disagreed	None

H I G H L I G H T S

FOR SEMIANNUAL REPORTING PERIODS

	SEPT 30, 2000	MAR 31, 2000	SEPT 30, 1999	MAR 31, 1999	SEPT 30, 1998
ANNUAL BUDGET (In Millions of Dollars)	7.2	7.2	7.3	7.3	7.3
CURRENT STAFFING	77	79	78	81	83
AUDITS & SPECIAL PROJECTS					
AUDITS IN PROGRESS					
Carried Forward	48	36	34*	40	46
Started	38	59	41	42	34
Canceled	(8)	(2)	(3)	(11)	(13)
Completed	(35)	(45)	(36)	(38)	(27)
In Progress at End of Reporting Period	43	48	36	33	40
AUDIT RESULTS (Thousands)					
Questioned Costs	\$1,800	\$952	\$1,678	\$1,137	\$1,769
Disallowed by TVA	379	820	673	946	1,656
Recovered by TVA	390	1,333	580	607	110
Funds to Be Put to Better Use	\$12,862	\$5,296	\$9,861	\$1,402	\$220
Agreed to by TVA	12,499	5,509	7,612	980	5,169
Realized by TVA	17,340	5,775	1,834	389	136
SPECIAL PROJECT RESULTS (Thousands)					
Completed	8	12	11	18	11
Cost Savings Identified/Realized	\$233	\$345	0	0	\$14,704
INVESTIGATIONS					
INVESTIGATION CASELOAD					
Opened	132	107	88	59	78
Closed	99	111	81	66	81
In Progress at End of Reporting Period	170	137*	140	133	140
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$179	\$3,758	\$1,772	\$1,145	\$284
Savings	521	988	1,422	1,912	3,388
Fines/Penalties	11	25	5	27**	
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	13	21	21	19	20
Actions Taken (# of Subjects)	11	13	17	11	22
Counseling/Management Techniques (# of Cases)	6	5	3	4	8**
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred	32	7	8	4	12
Indicted	5	6	7	6	5
Convicted	5	9	5	9	9

* Adjusted from previous semiannual reports.

** Category added to Highlights during reporting period indicated.

