

*S e m i a n n u a l R e p o r t*

# Office of the Inspector General



**October 1, 2003 ~ March 31, 2004**



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 at the address or number listed on the back cover.



# Tennessee Valley Authority Office of the Inspector General

## Message From the Inspector General

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As we continue to mark the 25th Anniversary of the Inspector General Act, we devote a portion of this report to note the TVA OIG accomplishments over the last 18 years. Reflecting on the contributions we have added to TVA over these many years demonstrates the value of independent reviews of TVA programs and personnel. On our contract audit efforts alone (including preaward audits), our office has identified on average about \$30 million annually in savings and potential avoided costs since 1986. While the work of the OIG has contributed to TVA's "bottom line," that is only part of the story. Much of our work focuses on strengthening controls at TVA in significant ways which cannot always be measured in dollars and cents. This is particularly critical given widely reported corporate failures in recent years.

As reflected in this semiannual report, we continue to both add to TVA's "bottom line" and to encourage implementing and maintaining proper internal controls over TVA programs, practices, and systems. Our preaward contract audits identified \$12 million in potential savings, contract compliance audits identified nearly \$5 million in questioned costs, and we found that TVA had miscalculated and misapplied indirect cost recovery rates that resulted in underrecovery of \$9.4 million of TVA's indirect costs from the Department of Energy in connection with the tritium program. On the control side, we examined TVA's 2003 financial statements and found no material problems, recommended enhancement of the enterprise-wide risk management program, and completed five audits that concluded that TVA's information technology security system has improved due in part to an increased emphasis on incorporating security best practices.

This semiannual report comes with a new feature, "Highlights," which is designed to summarize the report and provide a helpful key to matters of interest to our stakeholders. We are dispensing with the hard copy of the report in favor of the e-government format of a compact disc and access on our website, [www.oig.tva.gov](http://www.oig.tva.gov), from which the entire report can be printed if desired. We are interested in feedback on this new feature.

I am gratified by the support for our work from the TVA Board, TVA management, and Congress. We appreciate this support and are committed to continuing the OIG tradition of adding value to the work of TVA as we have for all these many years.

Richard W. Moore  
Inspector General  
April 30, 2004

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## Executive Summary

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During this reporting period, we continued to support TVA by conducting objective audits, investigations, and other projects. In accordance with our mission, our reviews are designed to promote economy, effectiveness, and efficiency while detecting and preventing fraud, waste, and abuse. In total, we identified over \$30 million in recoveries, fines/penalties, potential savings, questioned costs, or funds which could be put to better use, as outlined in the chart below.

<b>Statistical Highlights</b>	
<b>October 1, 2003 ~ March 31, 2004</b>	
Audit Reports Issued	39
Questioned Costs	\$14,127,000
Funds Put to Better Use	\$11,904,000
Funds Recovered/Disallowed	\$11,150,000
Investigations Opened	162
Investigations Closed	76
Fines/Recoveries/Restitution/Savings	\$4,285,000
Criminal Actions	6
Administrative Actions (No. of Subjects)	75

Our 39 audits and 30 other audit-related projects during this reporting period resulted in significant questioned costs and identification of areas for improvement. Highlights for this semiannual period included identification of (1) about \$4.7 million in questioned costs and \$12 million in funds which could be put to better use from our contract audits, (2) needed improvements in TVA's calculation and application of indirect cost recovery rates, (3) about \$9.4 million in underrecovered costs from the Department of Energy (DOE) for the tritium program, and (4) needed improvements in the areas of information technology (IT) security and TVA's enterprise-wide risk management program. We also noted many positives in TVA activities. For example, our review of TVA's external audit for fiscal year (FY) 2003 identified no material problems with the external auditor's performance of the audit, and we noted TVA has made improvements in its network monitoring process and increased the emphasis on incorporating security best practices when implementing new IT equipment.



During this reporting period, our special agents were commissioned with full law enforcement authority under the Homeland Security Act of 2002 and the Attorney General Guidelines for Inspectors General with Statutory Law Enforcement. We also increased our focus on identifying and seeking prosecution of fraud. Investigative highlights included sentencing of an individual who submitted falsified documents to obtain a \$100,000 economic development loan, estimated avoided future workers' compensation costs exceeding \$857,000, and termination of a TVA employee whose credit card misuse exceeded \$25,000. We also continued our participation on three interagency task forces—Terrorism, Environmental Crimes, and Health Care Fraud. These task force arrangements allow individual agencies to pool resources to more effectively combat crime.

### Definitions

**Questioned Costs** - A cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc.

**Unsupported Costs** - A questioned cost that is not supported by adequate documentation.

**Funds Put to Better Use** - Funds that could be used more efficiently by implementing recommended actions.

**Disallowed Costs** - A cost that management agrees should not be charged to TVA.



## TVA Profile

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TVA was created during 1933. President Franklin Roosevelt asked Congress to create “a corporation clothed with the power of government but possessed of the flexibility



and initiative of a private enterprise.” On May 18, 1933, Congress passed the TVA Act, creating TVA as a federal corporation whose primary purposes are to provide flood control, navigation, and electric power in the Tennessee Valley region.

Today TVA is the nation’s largest public power company. TVA’s power facilities include 11 fossil plants, 29 hydroelectric dams, 3 nuclear plants, 6 combustion turbine plants, a pumped-storage facility, and 17,000 miles of transmission lines. TVA also produces energy from three renewable sources—sun, wind, and methane gas from waste. The TVA service area covers 80,000 square miles in the Southeastern United States, including almost all of Tennessee and parts of Mississippi, Kentucky, Alabama, Georgia, North Carolina, and Virginia. By providing wholesale power to 158 municipal and cooperative power distributors, and by directly serving 62 large industries and government installations in the Valley, TVA supplies the energy needs of 8.5 million people.

As a regional development agency, TVA not only supplies affordable, reliable power, but also supports a thriving river system and stimulates sustainable economic development in the public interest. TVA manages the nation’s fifth largest river system. TVA dams are part of a totally integrated resource management system where each dam operates in relationship to the others for multiple purposes and public benefits, including minimizing flooding, maintaining navigation, providing recreational opportunities, and protecting water quality in the 41,000-square-mile watershed.

TVA contributes to the Valley economy chiefly by keeping power rates competitive, which helps attract and retain industries that provide quality jobs in the region. TVA also helps communities promote sustainable economic development by providing assistance in job creation and retention and productivity improvements via capital investment, support of business incubators, specialized technical services and advice, and recruitment for new and existing industries.



## Office Authority

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Created by the TVA Board of Directors during 1985, the TVA OIG became statutory under the Inspector General (IG) Act Amendments of 1988. The authority to appoint the TVA IG was transferred to the President in November 2000 by Public Law No. 106-422.

The IG is responsible for conducting audits and investigations relating to TVA programs and operations while keeping the TVA Board and Congress fully and currently informed about problems and deficiencies. The TVA IG is independent of TVA management and subject only to the general supervision of the TVA Board. The IG's authority includes conducting audits or investigations the IG deems necessary or desirable, issuing subpoenas, administering oaths, and granting confidentiality to individuals who provide information to the OIG.

## Organization

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The OIG's primary location is in the TVA headquarters in Knoxville, Tennessee. The OIG also has a 12-person Inspections unit located in Chattanooga, Tennessee, and a 1-person office at the Browns Ferry Nuclear Plant in Alabama. During this reporting period, the OIG consisted of three primary components: Audits, Investigations, and Inspections. In addition, the OIG has separate offices for Human Resources and Legal Counsel.

### **AUDIT OPERATIONS**

Audit Operations (AO) conducts and/or supervises comprehensive financial and performance audits of TVA programs and operations and makes recommendations to ensure that program objectives and operational functions are achieved effectively and efficiently. AO develops an annual audit plan to enable effective allocations of audit resources to issues, programs, operations, and activities that expose TVA to significant risks and/or vulnerabilities.





## Office of the Inspector General

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AO consists of three departments—Contract Audits, Financial/Operational Audits, and Information Technology Audits.

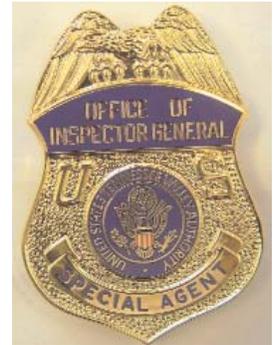
- Contract Audits has lead responsibility for contract compliance and preaward audits. In addition, this group performs reviews of TVA contracting processes and provides claims assistance and litigation support.
- Financial/Operational Audits has lead responsibility for (1) oversight of TVA's financial statement audits performed by TVA's external auditor; (2) reviews of TVA's internal controls related to financial reporting, operational efficiency, and compliance with laws and regulations; and (3) operational reviews to assess the results and economy and efficiency of TVA programs.
- Information Technology Audits has lead responsibility for audits relating to the security of TVA's IT infrastructure, application controls, and general controls associated with TVA systems. This group also performs operational reviews of the effectiveness of IT-related functions. In addition to its audit mission, IT Audits is responsible for developing and supporting an independent OIG computer network.

AO refers possible fraud or other wrongdoing by contractors, employees, or others identified during its audits to Investigative Operations for further review. As needed, AO also provides data mining and other assistance to or performs joint projects with the Inspections and Investigations units.



## INVESTIGATIVE OPERATIONS

Investigative Operations (IO) conducts and coordinates investigative activity related to fraud, waste, and abuse in TVA programs and operations. The activities investigated include possible wrongdoing by contractors, employees, loan recipients, and others. IO maintains liaisons with federal and state prosecutors, and reports to the Department of Justice whenever the OIG has reasonable grounds to believe there has been a violation of federal criminal law. IO works with other investigative agencies and organizations on special projects and assignments, including interagency law enforcement task forces on terrorism, the environment, and health care.



During this reporting period, IO employees received full law enforcement authority pursuant to Section 812 of the Homeland Security Act of 2002 and the Attorney General Guidelines for Inspectors General with Statutory Law Enforcement issued on December 8, 2003. During a commissioning ceremony in January 2004, United States District Court Judge Thomas W. Phillips administered the oath to our law enforcement agents. That ceremony recognized two milestones in the TVA OIG: (1) the receipt of full statutory law enforcement authority and (2) a new investigative initiative to identify and eradicate fraud against and within TVA.



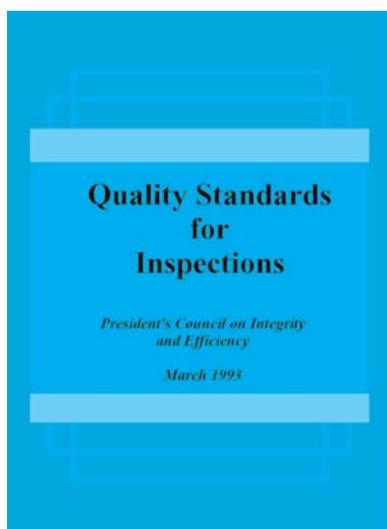
January 2004 Commissioning Ceremony

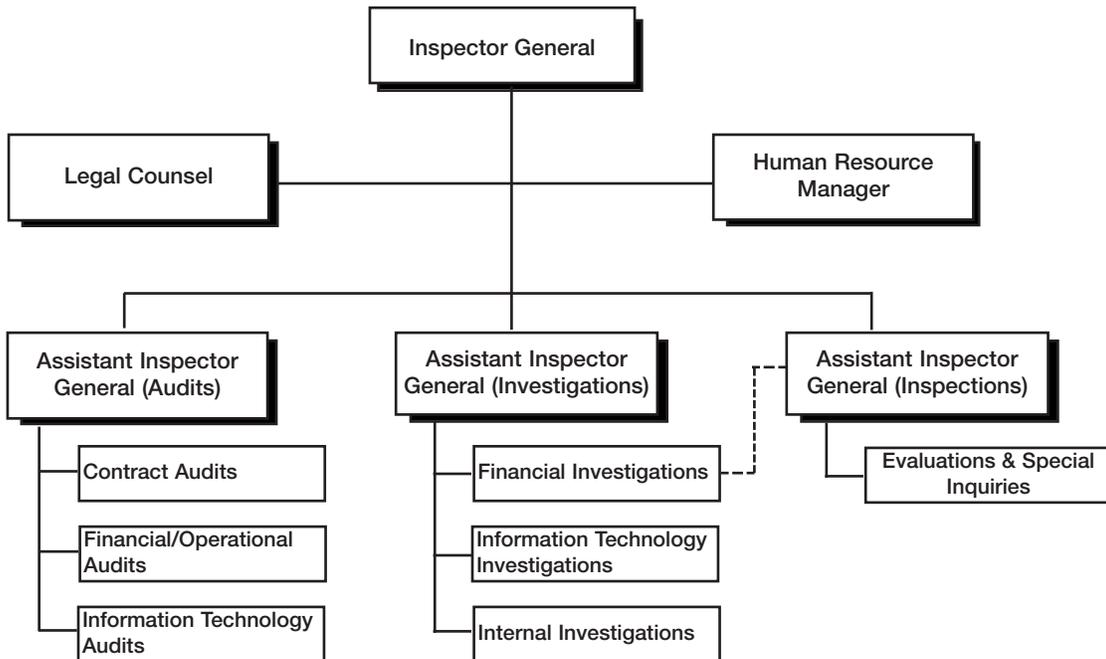


### INSPECTIONS

The Inspections unit, which is staffed by auditors and investigators, was formed at the beginning of FY 2004. This unit functions in the model of a task force whose primary mission is to identify fraud against TVA and seek prosecution of those responsible for that fraud. By combining the respective talents of auditors and agents in a single unit, we can more effectively pursue complex fraud cases. In addition, Inspections also will conduct policy and program evaluations to promote economy and efficiency in the management and administration of TVA programs and to prevent and detect fraud, waste, and abuse. In accordance with the Quality Standards for Inspections, the objectives of inspections include providing a source of factual and analytical information, monitoring compliance, measuring performance, assessing the efficiency and effectiveness of operations, and/or conducting inquiries into allegations of fraud, waste, abuse, and mismanagement.

During this period, Charles A. Kandt, Assistant Inspector General for Inspections, was called up to active duty in the Middle East. Mr. Kandt is a Lt. Colonel in the Army Reserves and has been a JAG officer for 23 years. During his absence, G. Donald Hickman, Assistant Inspector General for Investigations, is serving a dual role in heading up both Investigations and Inspections.





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**Hotline to report fraud, waste, and abuse: 1-800-323-3835**  
**OIG website: <http://oig.tva.gov>**



### The Inspector General Act—Recognizing 25 Years of Accomplishments

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Major General von Steuben

The IG Act became law on October 12, 1978, “to create independent and objective units” for the following purposes:

- To conduct and supervise audits and investigations relating to the programs and operations of their agencies;
- To provide leadership and coordination and recommend policies for activities designed (1) to promote economy, efficiency, and effectiveness in the administration of and (2) to prevent and detect fraud and abuse in, such programs and operations; and
- To provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

Because of problems in its nuclear program, the TVA Board adopted a resolution on October 18, 1985, creating an IG position at TVA. Then Board Chairman Charles H. “Chili” Dean stated “we need to develop more permanent systems for receiving and investigating employee concerns. It appears that the formation of an Office of the Inspector General within the agency, which would report to the Board and to the Congress, would offer such a permanent vehicle.” Director John Waters added, “A highly qualified Inspector General who occupies a position of independence, power, and prestige within this organization should help to promote the efficiency and increase the effectiveness of all TVA activities.”



TVA OIG accomplishments over the past 15 years include the following.

- In total, our contract audit efforts, including preaward audits, have identified since 1986 on average about \$30 million annually in savings and potential avoided costs. We have performed over 260 preaward audits, where our objective is to determine if the contractor's proposed costs are fairly stated and provided information regarding the contractor's proposals to management to help in the negotiation of the best deal for TVA. Taken in conjunction with our findings, management actions, including contract negotiations and decisions, have led to over \$328 million in savings for TVA prior to contract award. Similarly, we have conducted over 300 postaward contract audits which have identified overbillings, duplicate charges, overstated rates, ineligible charges, etc., and TVA management has disallowed or recovered nearly \$105 million.
- The OIG and TVA management share a commitment to improve the operation and cost effectiveness of TVA's workers' compensation program, which pays out roughly \$60 million annually. In addition to working collaboratively on initiatives to identify and eliminate unnecessary costs, our investigations of potential worker's compensation fraud have resulted in 42 convictions, nearly \$6 million in recoveries, and over \$71 million in avoided future costs. These convictions primarily resulted from individuals who were receiving benefits but failed to disclose to the Office of Workers' Compensation Programs (OWCP) that they were employed elsewhere.
- We have committed significant resources to assessing vulnerabilities in TVA's IT infrastructure, including penetration testing, pre-assessments, self-assessments, vulnerability assessments, and security audits. Our undertakings have significantly helped TVA in its efforts to identify risks and take remedial steps which are key to TVA's ability to comply with the Federal Information Security Management Act.
- We have devoted numerous resources to conducting operational reviews of various TVA programs such as economic development loans, health benefits, materials management, safety, dam safety, executive compensation and benefits,



Norman Zigrossi  
First Inspector General



William Hinshaw  
Second Inspector General



George Prosser  
Third Inspector General



Richard Chambers  
Fourth Inspector General



contracting processes, setting of power rates, facilities, and the nuclear decommissioning fund. As a result of our reviews, TVA has made numerous process improvements that enable TVA to operate more effectively and efficiently. For example, our review of the nuclear decommissioning fund found TVA could save an estimated \$49 million in management fees over the life of the fund if TVA modified its investment strategy. TVA has since made modifications to its investment strategy.

- Implementing and maintaining proper internal controls over TVA programs, practices, and systems has been a focal point for OIG and TVA management, especially in light of the corporate failures in recent years. The OIG has devoted significant resources to performing internal control reviews. These reviews have been in areas such as purchasing cards, hospitality expenditures, contributions, long-term debt, special financing activities, travel, accounts payable, tax-equivalent payments, revenue, billing, and other financial practices. We have also worked with TVA on being proactive with establishment of internal controls. At the request of TVA, we have performed pre-implementation reviews of new systems to ensure proper controls are included when a system is implemented. The results of these reviews have allowed TVA to remediate identified deficiencies in internal controls which will ultimately help TVA voluntarily meet the intent of the Sarbanes-Oxley Act of 2002.
- Our investigations into potential contractor fraud in per diem payments and the coal area have resulted in nearly 30 convictions and roughly \$8 million in recoveries. In the per diem area, we have identified contractor employees who falsely certified they had a permanent residence elsewhere so they could receive a temporary living allowance while working at TVA. In the coal area, we found overbilling, questionable coal weighing techniques, product substitutions, and fraud.

On October 14, 2003, President George W. Bush met with the Inspectors General to honor and recognize the 25th anniversary of passage of the IG Act. President Bush applauded the IGs for their dedication to their mission of combating fraud, waste, and abuse to make programs work better for the people. He also commended the community's vigilance to remain "agents of positive change."



On December 1, 2003, the President signed a joint congressional resolution which commended the IGs for their efforts during the past 25 years. That resolution recognized the many accomplishments of the IGs in preventing and detecting waste, fraud, abuse, and mismanagement; commended the IGs and their employees for their dedication and professionalism; and reaffirmed the role of IGs in promoting economy, efficiency, and effectiveness in the administration of the programs and operations of the federal government. We are proud to be a part of that tradition.



Meeting with President Bush



## TVA's Strategic Plan

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While the OIG maintains independence from TVA operations and management, we are committed to promoting TVA's success. TVA's fundamental mission—to provide affordable and reliable electric power, environmental stewardship, and leadership in sustainable economic development for the people of the Tennessee Valley—has remained unchanged for over 70 years. In today's changing environment, TVA faces many challenges in preserving its mission and remaining financially sound. The OIG recognizes these challenges and is committed to continuing and enhancing our presence in areas that will assist TVA in meeting its mission.

In January 2004, the TVA Board approved the TVA Strategic Plan. This Plan provides a framework for preserving TVA's core mission and remaining financially sound in a



competitive market. The plan addressed changes in TVA's business and regulatory environment; focused on the five vital areas of river system

operations, generation, transmission, customer products and services, and economic development; and reflected upon financial implications of the environment changes. TVA plans to focus on the following four areas for the next several years:

- Developing new, more highly differentiated prices, services, and customer contract terms that more closely tie the cost and the risk of each TVA product to the contract terms and pricing.
- Addressing the range of issues related to wholesale market design and transmission pricing, including how TVA will interface with the markets that are expected to surround the service area, as well as how TVA will price transmission services within the Valley when distributors can choose other suppliers.
- Accelerating debt reduction so that TVA has the financial flexibility needed to thrive in a more competitive environment.
- Maintaining and operating generation and transmission assets to continue to fulfill supply obligations in a safe and reliable manner.





OIG activities have been supportive of TVA's strategic direction in the past as reflected throughout this and prior reports and will continue to do so in the future. An obvious and quantifiable contribution the OIG makes is the monetary savings and recoveries that are a direct result of our audits and investigations. Contributions from our audits and investigations also have resulted in improvements in (1) the effectiveness and efficiency of various TVA programs such as workers' compensation, economic development, and environmental management; (2) internal controls over financial reporting; (3) contracting practices; and (4) physical and cyber security of TVA's infrastructure. We will continue to undertake projects, whether initiated by the OIG or requested by TVA management, which can contribute to TVA's success.



### Summary of Representative Audits

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Audits are initiated from (1) the OIG annual workplan, (2) additional issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, and (4) concerns raised by TVA management or other stakeholders. During this reporting period, we completed 39 audits which identified over \$14 million in questioned costs and almost \$12 million in funds which could be put to better use. We also identified numerous opportunities for TVA to improve program operations. Our audits included (1) pre- and postaward contract audits, (2) other financial-related audits, (3) IT reviews, and (4) operational audits.

#### **PREAWARD CONTRACT AUDITS IDENTIFY \$12 MILLION IN POTENTIAL SAVINGS**

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We completed five preaward audits that identified \$11.9 million in potential savings opportunities. During this reporting period, TVA management successfully negotiated \$5.8 million in savings as a result of preaward audits issued during this and previous reporting periods. Highlights of the more significant preaward audits follow.

- We determined a contractor's cost proposal to provide services to TVA's Transmission/Power Supply program was not consistent with how the



company accounted for its direct labor costs and could result in TVA paying excessive labor costs. Also, the contractor's proposal had overstated its indirect and payment bond costs. Based on our recommendations, TVA agreed to allow the contractor to bill a craft labor markup that included recovery of all costs (nonmanual labor and indirect costs) and to reimburse the contractors actual payment bond costs. We estimated the changes will save TVA about \$5.8 million over the five-year contract term.

- We reviewed the cost proposals submitted by three contractors to provide engineering support services. We determined one contractor's proposal included (1) overstated labor markups, direct charge billing rates, and labor rate ranges; and (2) excessive incentive bonuses. We estimated TVA could save \$4.9 million over the planned five-year contract term by negotiating our audit findings. We determined



the second contractor's proposal was fairly stated except for an overstated direct charge billing rate which we estimated would cost TVA an additional \$1.2 million over the contract term. The third contractor's proposal was fairly stated.

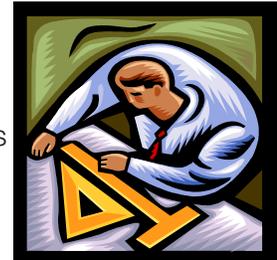
Negotiations for the contract awards are ongoing.

## **CONTRACT COMPLIANCE AUDITS IDENTIFY NEARLY \$5 MILLION IN QUESTIONED COSTS**

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During this reporting period, we completed 14 contract compliance audits that identified about \$4.7 million in ineligible and unsupported costs. Management generally agreed with our findings and has taken or plans to take corrective action. Highlights of some of the more significant audits follow.

- We reviewed the costs billed by two right-of-way maintenance contractors and found (1) one contractor had billed TVA an estimated \$638,000 for costs not supported by its payroll records and (2) the other contractor had not retained sufficient supporting documentation to determine if it had complied with the cost provisions of the contract. We also determined the companies had not paid their employees in accordance with the labor provisions of the contract even though they had certified they had done so. TVA management agreed with our findings and plans to (1) recover any overbillings and (2) require documentation to support future billings.



- We reviewed the proposed adjustments to provisional nonmanual labor and General & Administration billing rates submitted by two affiliated companies and determined that one company had overstated its rates. We estimated the overstatement had reduced a refund amount owed to TVA by \$262,913. TVA management negotiated all but about \$400 of the finding amount.
- We determined TVA was overbilled about \$34,700 by a contractor that provided right-of-way clearing and restoration services. The overbilling occurred because of the contractor's use of incorrect terrain classifications and miscellaneous billing errors. TVA management concurred with our findings and plans to recover any amounts due TVA.



## Audits

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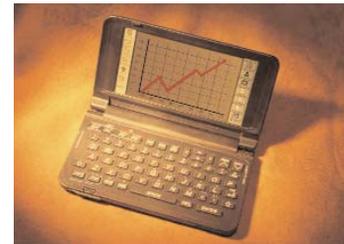
- We determined a contractor providing steam generator replacement services had overbilled TVA \$3 million for labor, materials, supplies, and bonuses. In addition, we found the contractor had (1) sold certain materials, supplies, and equipment to TVA for \$1.64 million and bought them back for \$250,000; and (2) shipped TVA-owned equipment to other non-TVA projects. TVA management is reviewing the audit issues to determine the actions it plans to take.
  - We determined a contractor providing Selective Catalytic Reduction catalyst had understated a material cost adjustment due TVA by about \$233,000 because (1) the contractor's actual material costs did not agree with the costs included in its adjustment calculations and (2) the contractor had not included all catalyst that had been sold to TVA. Negotiations with the contractor are ongoing.
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- We determined a contractor providing Fossil and Hydro Modifications and Supplemental Maintenance had overbilled TVA about \$243,000 because it had (1) incorrectly calculated union fund contribution amounts for certain laborers and (2) overpaid an employee. The contractor agreed with our findings and plans to issue TVA a credit for the overbilled amount.
  - We reviewed a contractor's \$64,445 claim for unrecovered shop costs that it asserted resulted when TVA delayed scheduled outage work at a TVA dam. We determined all but about \$4,200 of the claimed costs were not attributable to the dam project. TVA management is negotiating the claim.
  - We determined a contractor providing staff augmentation services had overbilled TVA about \$39,000 for (1) holiday premium pay not provided for by the contract and (2) labor and burden rates that were higher than provided for by the contract. TVA management stated that since the holiday pay had been paid in accordance with the contractor's policies, the contract would be revised to allow the payment of the premium. TVA also planned to revise the contract to clarify TVA's intent regarding the labor and burden rates and to collect any billings not in accordance with the contract.



- We determined TVA had overpaid a coal freight contractor about \$28,000 due to overbilled demurrage costs and miscalculated tonnage. The contractor agreed with our findings and plans to issue TVA a credit for the overbilled amount. We also found TVA had paid the contractor over \$123,000 for costs that had been verbally agreed to but were not provided for in the contract. We recommended and TVA management agreed that all costs paid by TVA should be provided for either in the original contract or in subsequent contract supplements.

### **INFORMATION TECHNOLOGY SECURITY IMPROVES**

During this reporting period, we completed five audits in the IT environment pertaining to (1) security at four TVA facilities and (2) security, software change controls, and contingency planning for TVA's non-electric revenue billing system. We found improvements were needed to address weaknesses in the following areas.



- Logical security controls designed to prevent unauthorized access to system programs and data, including isolation of critical components at one facility.
- Physical controls designed to prevent security breaches and protect equipment and personnel from hazards.
- Contingency planning designed to ensure a timely recovery in the event of a disaster.

TVA management agreed with our findings. TVA has implemented an agency-wide effort to address security weaknesses in TVA's existing IT infrastructure. Corrective actions to address our findings are a part of this remediation effort.

During the security reviews, we noted improvements and an increased emphasis on incorporating security best practices and configuration standards as TVA implemented new IT equipment. In addition, TVA has improved its network monitoring process to more easily identify unusual activity that could indicate possible security breaches.



### **NO MATERIAL PROBLEMS IN FY 2003 FINANCIAL STATEMENTS AUDIT**

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The independent auditors, PricewaterhouseCoopers LLP (PwC), issued an unqualified opinion on TVA's FY 2003 financial statements on January 23, 2004. On that same day, PwC issued a report on its consideration of TVA's internal control over financial reporting and results of tests of compliance with certain provisions of laws and regulations for the year which ended September 30, 2003. In meeting our statutory responsibility for the financial statement audit, the OIG assessed the external auditor's methodology, evidence, and documentation; performed supplemental tests of accounting records and compared the results to those of the external auditor; and examined the independence and qualifications of the external auditor. We determined the financial statement audit was performed in accordance with Government Auditing Standards in all material respects.

### **CALCULATION AND APPLICATION OF INDIRECT COST RECOVERY RATES NEED IMPROVEMENT**

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Various TVA organizations have programs in place to conduct external business projects. These projects include work for other federal agencies under the Economy Act, such as environmental cleanup work for the Department of Defense. Additionally, TVA performs transmission system projects for independent power producers that will sell electric power through TVA's grid. As part of our annual workplan, we reviewed how five TVA business units calculated and applied indirect cost recovery rates on a sample of external business projects. The five business units accounted for about 83 percent of TVA's total external business revenue of \$209 million for FY 2002, which in turn represented about 3 percent of TVA's total operating revenues. Four of the five business units both miscalculated and misapplied indirect cost recovery rates, under-recovering indirect costs totaling \$9.3 million from the external business customers. TVA management agreed with our findings and will implement improvements in the calculation and application of indirect cost recovery rates.



## TVA UNDERRECOVERS FOR TRITIUM PROGRAM

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TVA provides irradiation services related to tritium production at the request of DOE under the Economy Act. We audited TVA's billings to DOE totaling over \$57.5 million for a 39-month period and determined that (1) direct costs for the irradiation services



were supported by TVA records and properly billed except for \$47,000 inadvertently not billed and (2) miscalculation and misapplication of indirect cost recovery rates resulted in under-recovery of \$9.4 million of TVA's indirect costs from DOE. TVA

management agreed with our findings and plans to take appropriate action in future negotiations with DOE.

## TVA ENTERPRISE-WIDE RISK MANAGEMENT PROGRAM NEEDS ENHANCEMENT

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TVA's policy on risk management defines (1) Risk Management Committee (RMC) responsibilities and composition; (2) the Chief Risk Officer's (CRO) role and primary duties; (3) business unit responsibilities for risk identification, mitigation, and control; and (4) Board responsibilities for approving risk tolerance levels.

We assessed the adequacy of TVA's enterprise-wide risk management (ERM) practices using the Committee of Sponsoring Organizations' ERM framework to compare TVA's program to other successful ERM practices. Key elements of an effective program include:



**Risk Management**

- Visible executive and Board involvement.
- Clear vision of what ERM will look like when implemented—a defined end-state.
- Linkages to strategic objectives.
- CRO and RMC that support, not supplant, management's responsibility for managing risks.
- Consistent deployment throughout each organization by centralized leadership and a common framework.



## Audits

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- Defined and communicated policies and procedures.
- Ongoing oversight and continuous improvement.
- Clear articulation of roles and responsibilities.

While TVA has had considerable success, we recommended TVA's Board of Directors enhance ERM sponsorship by executive management, develop a top-down implementation strategy, and reassess key aspects of the current ERM policy. We also recommended certain actions by the CRO for program enhancement. TVA management is in the process of readdressing its approach to ERM.

### **TVA GENERALLY COMPLIES WITH THE NATIONAL ENERGY CONSERVATION POLICY ACT (NECPA)**

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The NECPA of 1978 and Executive Order 13123 adopted numerous energy efficiency requirements, including energy consumption reductions to be implemented by federal agencies, including TVA. We determined TVA was generally complying with the requirements established by the NECPA and Executive Order 13123. However, TVA may have trouble meeting the energy use per gross square foot target for office buildings and related structures in part due to increased personnel density, sustainable design principles not always fully incorporated, and increased energy use at the Chattanooga Office Complex, primarily attributed to TVA's sublease of space in the complex to a third party.

TVA management agreed with our findings and agreed to promote sustainable building design for all new facilities and modifications to existing facilities and investigate ways to implement energy reduction requirements in existing and future lease agreements.

### **OIG PROVIDES INFORMATION TO ASSIST TVA IN IDENTIFYING CONTROLS**

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The TVA Board of Directors, as part of its commitment to meet the intent of the Sarbanes-Oxley Act of 2002, established a Corporate Accountability and Disclosure Plan in February 2003. The plan included establishing a certification process for TVA's disclosure and financial reporting documents, establishing procedures to further the independence of TVA's outside auditor, establishing a code of disclosure and financial



ethics, creating a Disclosure Control Committee, and creating a program to train the appropriate individuals on the act and the plan.

As part of this effort, TVA has begun a process to document and evaluate financial disclosure controls and procedures, as well as the internal controls over financial reporting, to ensure effectiveness in both design and operation. To assist this effort, we provided TVA's Chief Financial Officer with controls information from OIG reviews completed during FYs 2000 through 2003.





### Summary of Representative Investigations

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OIG special agents and managers were commissioned with full law enforcement authority under the Homeland Security Act as part of our initiative to identify and eradicate fraud affecting TVA programs and operations. Our efforts in this area include combining audit and investigative resources in an Inspections unit designed to operate under a task force model to seek out fraud. In addition, we have assigned investigators as “road agents” to serve as key contacts at specific TVA facilities in order to more effectively identify cases, become more familiar with TVA operations, and establish key business contacts. To better focus on fraud, we also are referring more administrative allegations, such as personnel issues, to management for resolution. While it will take time for this initiative to get off the ground, we expect that over the next two years our efforts will begin producing results and will serve as a strong deterrent against fraud.

During the past six months, we closed 76 investigations, including allegations and concerns received from ratepayers, TVA management and employees, governmental and congressional staffs, and OIG auditors. Our investigations, including task force projects, resulted in (1) almost \$4.3 million in recoveries, projected savings, and fines/penalties; (2) three subjects indicted; and (3) three subjects convicted. Significant investigative activities are highlighted below.

#### **ALABAMA MAN ORDERED TO PAY NEARLY \$100,000 FOR MINORITY ECONOMIC DEVELOPMENT LOAN FRAUD**

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During this reporting period, an Alabama resident was sentenced to one year and one day in prison and ordered to pay \$95,754 in restitution to TVA. The defendant pled guilty to a felony count for providing false financial statements to TVA in order to obtain an economic development loan. In addition to defrauding TVA, the defendant also pled guilty to one felony count for providing false financial statements to a federally insured bank to obtain another loan. The defendant directed one of his employees to enter false financial transactions into the company’s accounting records, which caused the company’s net profit and cash position to be overstated. Based on the false documentation he submitted, TVA approved a \$100,000 loan from the Minority Business



Development Fund. The purpose of the loans was to finance business startup, including building construction. Subsequent to receiving the loans, the company filed for bankruptcy under Chapter 11. The ordered restitution will cover the outstanding balance of the TVA loan.

## **WORKERS' COMPENSATION INVESTIGATIONS SAVE TVA OVER \$857,000**

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During this reporting period, we provided the OWCP with results from a computer match which revealed several workers' compensation recipients may be receiving higher benefits than they are entitled to receive. We also determined a TVA employee submitted a false claim for workers' compensation benefits.



### **Computer Match**

In accordance with the Computer Matching and Privacy Protection Act of 1988, we conducted a computer match between (1) earnings records reported to the state of Tennessee and (2) workers' compensation records from the Department of Labor



OWCP. The purpose of the match was to identify beneficiaries potentially receiving for the same period both (1) wage loss compensation for disability and (2) wages. That information was then used to determine whether individuals receiving workers' compensation benefits may have underreported or failed to report their wages to OWCP.

Our review disclosed that the claimants generally reported their earnings. We found several cases, however, where OWCP had not adjusted the claimants' benefits based on their earnings. The results from the computer match raised questions about 16 TVA workers' compensation recipients. We found that in one case OWCP had already terminated the individual's benefits. After reviewing the matching results, we opened investigations into nine individuals who appeared to have earnings at least 25 percent greater than their rated loss of wage-earning capacity. (One factor to be considered in deciding whether to modify a claimant's wage-earning capacity is whether they are earning at least 25 percent more than the job they were rated in.) OWCP subsequently terminated benefits for three of those individuals, as follows.



## Investigations

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- One individual, a former TVA laborer, was rated as a salesman trainee but was employed as a store manager with an annual salary which exceeded \$40,000. During 2001, this individual reported his employment as a store manager to OWCP. During October 2003, OWCP issued a final notice terminating his compensation. We estimate the avoided future costs for this claimant are \$354,622.
- One claimant, a former welder, was rated as a respiratory therapist. During 2002, he reported earning \$7,000 per month as a pain management specialist, and during 2003 he reported earnings of \$44 per hour as a physician's assistant. During March 2004, OWCP terminated his compensation for wage loss. We estimate the avoided future costs for this claimant are \$376,552.
- A third claimant, a former TVA laborer, was rated as a part-time personal care attendant. However, the computer match indicated he was earning substantially higher wages, roughly \$90,000 in one year. OWCP also obtained information that this individual had earned roughly \$183,600 over a two-year period. Accordingly, during February 2004, OWCP issued a final decision concluding his medical condition had improved, enabling him to go from part-time to full-time personal care attendant, and he was no longer entitled to workers' compensation benefits. We estimate the avoided future costs for this claimant are \$126,340.

The projected long-term cost avoidance as a result of benefits being terminated for these three individuals exceeded \$857,500. In addition, TVA has requested OWCP to consider terminating benefits for two other individuals.

### **False Workers' Compensation Claim**

Our investigation showed a TVA employee submitted a false workers' compensation claim. The employee submitted a claim that he was injured while working at a TVA site. However, during a subsequent interview, the employee admitted he had injured himself at home. The employee was terminated, and TVA has controverted his claim.



## **CONTRACTOR EMPLOYEES CHARGED CRIMINALLY**

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Two contractor employees were charged criminally during this reporting period. In the first case, we investigated an allegation that anonymous, obscene telephone calls were being made to a female minor from a telephone at a TVA fossil plant.

Our investigation identified the person who was making the calls as a laborer working for a TVA contractor. When interviewed, he

confessed and his employment was terminated. He subsequently

pled guilty in Alabama state court to a charge of harassing communications. He

received a 90-day suspended sentence, two years' probation, a \$250 fine, and was ordered to complete a sex offender program as part of his probation.



In the second case, a former contractor who worked as a biologist at TVA was arraigned in Tennessee state court for submitting false timesheets. After his employment with the contractor ended, the defendant entered a locked TVA building at night and faxed falsified timesheets to the contractor which showed he was still working.

The contractor paid the former employee for several timesheets, and TVA reimbursed the contractor before the falsifications were discovered.

## **EMPLOYEE MISUSES GAS CREDIT CARDS**

---

Our investigation found a TVA employee was misusing Wright Express (WEX) credit cards, which are issued in TVA vehicles to purchase gas. The employee, who was



terminated, used three different WEX cards at area service stations

to put gas in cars belonging to friends and people he did not

know. He would approach people at the gas station and offer to

double the amount of gas they wanted in exchange for cash. For

example, if the person wanted \$10 in gas he would take the \$10

cash and put \$20 in gas in the vehicle by charging it on the WEX

card. The estimated loss to TVA exceeded \$25,000. We have referred this case for prosecutive consideration.



## Investigations

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### EMPLOYEES MISUSE COMPUTER RESOURCES

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During an investigation of an alleged child pornography case—that was not substantiated—the OIG discovered substantial misuse of TVA's computing resources.



The misuse included employees installing unauthorized software; chatting on-line with others for extended periods of time; sending inappropriate, sexually related e-mails; and downloading sexually explicit material. The misuse involved approximately 50 TVA employees and contractors working in the fossil organization. Some individuals simply received and read the material, while others distributed the inappropriate material to other employees and contractors. Management responded to our findings by taking disciplinary action against the identified people, including oral and written warnings, suspensions, and terminations.

### PLANT EMPLOYEES USED INCORRECT ITEM DESCRIPTIONS TO ORDER UNAUTHORIZED ITEMS

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In an investigation of purchasing activities at a fossil plant, we determined that eight TVA employees intentionally used incorrect item descriptions to order unauthorized items, namely pocket knives. They used descriptions such as “packing cutters,” “cleaning scrapes,” and “hole punch” when ordering pocket knives, because they believed the knives would not be ordered if they correctly described them. The knives ordered with incorrect item descriptions cost TVA roughly \$3,000. The most expensive item ordered was a collectible knife in a custom gift tin, which sold for \$45.50. The vendor generally identified the requested pocket knife by the correct item number used and included the incorrect item description on the invoices submitted to TVA. Management issued warning letters to the employees involved and conducted training to ensure the employees understand TVA's procurement policy.

### TWO TVA EMPLOYEES MISUSE TVA VEHICLES

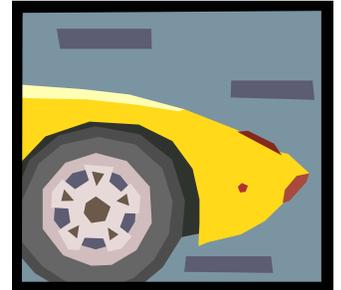
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We completed two cases involving misuse of a TVA vehicle. In one case, we found a senior TVA manager used his TVA-assigned vehicle on a daily basis, including when driving between home and work. The manager was under the impression that he was



authorized to use his assigned vehicle in this manner. He was issued a warning letter and guidance was issued to other managers reminding them of the rules regarding vehicle usage.

In the other case, a supervisor violated TVA policy by driving a TVA vehicle while under the influence of a prescription medication and was involved in a one-car accident. Personal firearms were found in the vehicle at the scene of the accident, also in violation of TVA policy, although he had a permit for the weapons. The supervisor claimed he was in effect sleep-walking due to the side effects of the medication, and he did not know how the guns got in the car. We also found that he had been on temporary assignment since 1999, and he had used his assigned vehicle for personal purposes when at his official duty station. The supervisor retired from TVA before disciplinary action was taken.



### **CONTRACTOR DID NOT WILLFULLY FALSIFY QUALITY ASSURANCE DOCUMENT**

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We investigated a possible falsification of a Quality Assurance (QA) document by a Quality Control (QC) Inspector working for a contractor on the Browns Ferry Nuclear Unit 1 restart project. The QC Inspector allegedly signed off on a work order step without performing the required cleanliness verification. Our investigation did not find a willful intent to falsify a QA document. Rather, neither of the contractor QC Inspectors on site during the shift in question could wear a respirator, which was required to conduct the verification. The QC Inspector discussed the matter with others and believed he could rely on a third party to conduct the required observation.

### **HARASSMENT ALLEGATIONS LEAD TO DISCIPLINE**

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Two harassment investigations during this reporting period led to discipline. In one case, we investigated an allegation that a foreman harassed a subordinate employee by acting inappropriately toward her. We did not substantiate the allegation of harassment by the foreman. However, we developed information that the subordinate employee used a racial slur and showed inappropriate pictures in the workplace. Based on the



## Investigations

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information developed during our investigation, TVA management counseled the foreman and suspended the subordinate employee for five days.

In the second case, while our investigation did not reveal harassment, it did find inappropriate actions by a supervisor, including making inappropriate comments and berating employees. Based on our investigation, TVA management altered the supervisor's work assignments, issued a warning letter, and monitored the supervisor's behavior.

## Task Forces

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We participate on three interagency law enforcement task forces in the Eastern District of Tennessee involving terrorism, health care, and the environment. Pooling multi-agency resources, both state and federal, allows us to enhance limited law enforcement resources and pursue the most effective remedies against individuals and companies who violate the law.

### **JOINT TERRORISM TASK FORCE**

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On February 24, 2004, Federal Bureau of Investigation (FBI) Director Robert S. Mueller testified before the Senate Select Committee on Intelligence. He listed several success stories in the efforts to identify terrorists and dismantle terrorist networks. He attributed these successes to the close coordination and information sharing "with other members of the Intelligence Community, our overseas partners, and with the essential force multipliers—state and local law enforcement officials who participate on our 84 Joint Terrorism Task Forces (JTTFs)." As stated by Mr. Mueller, "the JTTFs have played a central role in virtually every terrorism investigation, prevention, or interdiction within the United States. . . . JTTFs team up FBI agents with police officers, members of the Intelligence Community, Homeland Security, and other federal partners to coordinate counterterrorism investigations and share information. They are also a critical conduit between the FBI and the officer on the beat."



We continued our participation on the JTTF led by the FBI's Knoxville Field Division. Because of TVA's critical energy-related infrastructure, we have devoted one special



agent full-time to the task force and have committed audit support on an as-needed basis. We will continue to support these efforts to the best of our abilities.

### **HEALTH CARE FRAUD TASK FORCE**

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TVA operates a self-insured health benefits plan, and claims of health care fraud involving TVA and others are investigated by the Health Care Fraud Task Force. The Task Force, sponsored by the United States Attorney for the Eastern District of Tennessee, includes representatives from the investigative arms of federal, state, and local agencies, and Blue Cross/Blue Shield of Tennessee's Special Investigations Unit.

In our last semiannual report, we noted that an orthopedic surgeon was found guilty of 95 counts of health care fraud-related charges after a three-week trial. The surgeon had, among other things, submitted health care claims for nerve blocks when trigger point injections, which are lesser reimbursable procedures, were actually performed. During this reporting period, the surgeon was sentenced to 41 months in prison and 3 years of supervised release, and was required to make \$3,183,710 in restitution to five victim health care programs, including \$139,948 to TVA. The surgeon's practice provided care to TVA OWCP patients for years.

### **ENVIRONMENTAL CRIMES JOINT TASK FORCE**

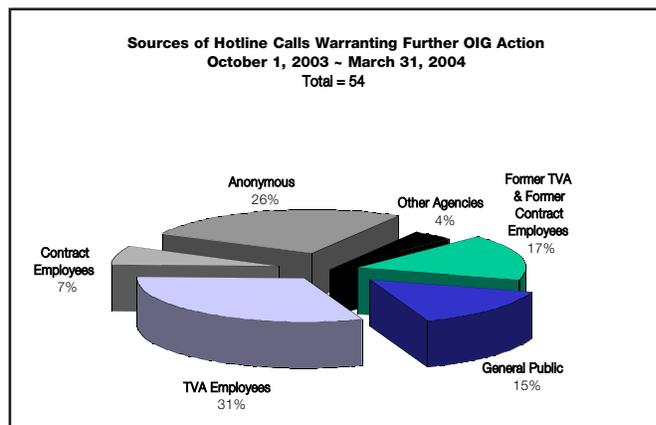
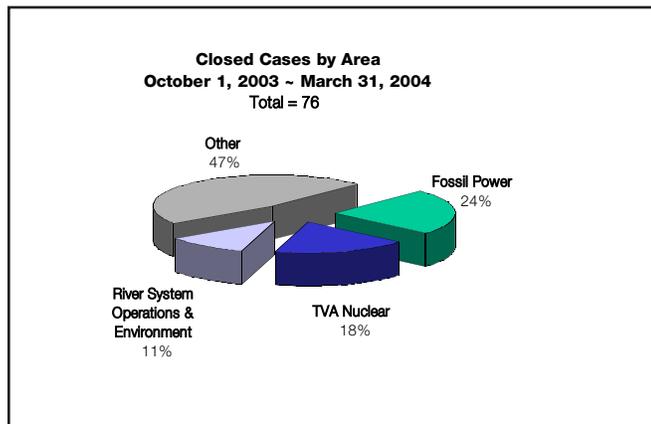
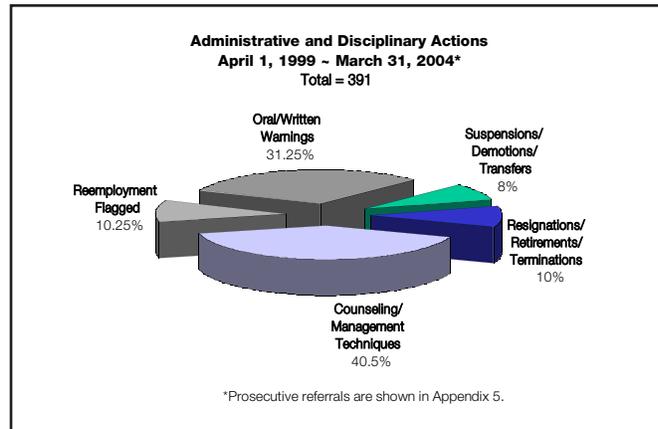
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The Environmental Crimes Joint Task Force, which is sponsored by the United States Attorney for the Eastern District of Tennessee, is comprised of members from numerous federal and state agencies. During this reporting period, one individual pled guilty as an accessory after the fact to the illegal transportation of hazardous waste without a manifest. During an investigation into the shipment of hazardous waste, namely 111-trichloroethane (TCA), by truck without a required hazardous waste manifest, the defendant told investigators that the TCA was not a hazardous waste and could be recycled. The company and the individual who transported the TCA had previously pled guilty to charges of, respectively, improper storage and disposal of the waste.





# Investigations





During this reporting period, legislative areas of interest included matters pertaining to the IG community and TVA, as well as the TVA OIG budget.

### **THE IG COMMUNITY**

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The TVA IG, Richard W. Moore, serves on the Legislation Committee for the President's Council on Integrity and Efficiency (PCIE). The overall mission of this Committee is to ensure the PCIE is kept abreast of congressional matters of interest to the IG community as a whole or which may impact OIG statutory authority, duties, and organization. The Committee also develops, coordinates, and represents to Congress official PCIE positions on particular legislative issues. Finally, the Committee serves as a resource base for the IG community on congressional rules, operation, and procedures. We shall continue to follow legislative items of interest to the IG community and work with the PCIE in keeping Congress apprised of our views on those matters.

### **TVA**

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We continued to follow issues of interest to TVA, including federal energy legislation which included a provision to restructure the TVA Board. We believe the pros and cons of this proposed legislation are being fully explored, and look forward to working with both TVA and Congress in these matters. We also responded to requests for information from members of Congress and their staffs.



### **THE OIG BUDGET**

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In Budget Passback Guidance to TVA, dated November 25, 2003, the Office of Management and Budget (OMB) stated that TVA's OIG will be proposed to be funded through a separate annual appropriation account beginning in FY 2005. As stated by OMB, this will enhance the independence of the TVA OIG as well as remove the appearance of a conflict of interest. The funding source for this activity will continue to be TVA revenues. OMB stated that TVA's OIG will create a separate budget request to be submitted to OMB with TVA's annual budget request for approval prior to its transmission to Congress. TVA responded on December 3, 2003, that appropriations language was neither necessary nor appropriate.



## Legislation and Regulations

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The President's budget for FY 2005 as submitted to Congress included a separate appropriation account for the TVA OIG to be funded by TVA with power funds. We understand there is disagreement about whether an amendment to the law is necessary in order for the TVA OIG budget to be reviewed and approved by Congress. We continue to believe having the OIG budget reviewed and approved by Congress, like other OIGs, is necessary to avoid any appearance of a lack of independence caused by the agency having unreviewable control over the OIG budget. TVA is the only "establishment" agency, where the IG is appointed by the President, whose budget is not reviewed and approved by Congress. We shall continue to work with Congress, TVA, and OMB to resolve this issue.

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# APPENDICES

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## Appendix 1

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### Index of Reporting Requirements Under the Inspector General Act

REPORTING REQUIREMENT	PAGE
Section 4(a)(2) Review of Legislation and Regulations	32
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	15-31
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	15-31
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 5
Section 5(a)(5) and 6(b)(2) Summary of Instances Where Information Was Refused	None
Section 5(a)(6) Listing of Audit Reports	Appendix 2
Section 5(a)(7) Summary of Particularly Significant Reports	15-31
Section 5(a)(8) Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 3
Section 5(a)(9) Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 3
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
Section 5(a)(13) Information under Federal Financial Management Improvement Act of 1996	None



## Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
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### CONTRACT

<b>2003-023C</b> 10/29/03	Duratek, Inc.			
<b>2003-059F</b> 11/05/03	Selected Invoices Under Contracts TV-98295U and 98PCG-226677 for Cumberland Membership Electric Corporation	\$54,971		
<b>2003-063C</b> 11/21/03	Dillard Smith Construction Company - Preaward			\$5,800,000
<b>2003-029C</b> 11/25/03	Numanco, LLC	39,056		
<b>2003-045C</b> 12/02/03	Three Rivers Contracting			
<b>2003-046C</b> 12/02/03	Southeastern Construction & Equipment Company, LLC	34,703		
<b>2003-022C</b> 12/18/03	Cornetech, Inc.	233,302	\$233,302	
<b>2003-042P</b> 01/15/04	Canal Barge Company, Inc. - Contracts TR0187 and TR0297	28,126		
<b>2003-060C</b> 01/28/04	Alstom Power, Inc. - Annual Adjustment of Provisional Rates	262,913		
<b>2003-057C</b> 02/10/04	GUBMK Constructors Contract No. 99998999 (formerly Contract No. 99PMJ-232187)	242,874	242,874	
<b>2004-018C</b> 02/20/04	Pinkerton Government Services - Retroactive Pay Adjustment			
<b>2004-026C</b> 02/20/04	Voith Siemens Hydro - Chatuge Delay Claim	60,177		
<b>2003-041C</b> 03/05/04	Bechtel Power Contract 99999075 for the Removal and Replacement of Sequoyah Unit 1 Steam Generators	3,068,142	110,596	
<b>2004-019C</b> 03/09/04	Burns & McDonnell/Science Applications International Corporation - Preaward			4,903,800



## Appendix 2

### Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
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#### CONTRACT (continued)

<b>2003-066C</b> 03/18/04	Pullman Power, LLC - Subcontractor for Advatech, LLC - Preaward			
<b>2004-009F</b> 03/18/04	TVA's Travel Services			
<b>2004-021C</b> 03/22/04	Parsons E&C/Acres International Corporation - Preaward			
<b>2003-004C</b> 03/30/04	A & G Tree Service, Inc.	\$638,542		
<b>2004-020C</b> 03/30/04	Sargent & Lundy - Preaward			\$1,200,000

#### FINANCIAL

<b>2003-019F-02</b> 11/14/03	TPS Overhead Recovery			
<b>2003-024F</b> 11/18/03	TVA's Accounts Receivable and the Allowance for Doubtful Accounts			
<b>2003-019F-05</b> 12/23/03	Administration Overhead Recovery			
<b>2003-019F-03</b> 01/07/04	CS&M Overhead Recovery			
<b>2003-055F</b> 01/12/04	Controls Over Reimbursable Projects for Independent Power Producers			
<b>2004-023F</b> 01/26/04	Performance of IG Agreed-Upon Procedures for Intragovernmental Activity & Balances			
<b>2003-019F-04</b> 01/29/04	TVAN Overhead Recovery			
<b>2003-044F</b> 01/29/04	Tritium Program - DOE and TVA Interagency Agreement No. DE AI02 00DP00315		9,458,235	
<b>2003-061F</b> 02/04/04	FY 2003 Review of TVA's Financial Statement Audit			



## Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
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### FINANCIAL (continued)

<b>2004-022F</b> 02/05/04	Verification of Summarized Facts Data - FY 2003			
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<b>2004-029F</b> 03/22/04	Review of TVA's 1st Quarter 2004 Financial Information by PwC			
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### INFORMATION TECHNOLOGY

<b>2003-054T</b> 11/13/03	Chickamauga Hydro Plant IT Security			
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<b>2003-049T</b> 11/18/03	Bill Out Subsystem (BOSS)			
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<b>2003-068T</b> 01/22/04	Cordova Substation IT Security			
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<b>2004-007T</b> 01/26/04	John Sevier Fossil Plant DCS IT Security			
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<b>2003-040T</b> 03/30/04	WBN IT Security			
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### PERFORMANCE

<b>2003-026P</b> 10/02/03	Enterprise-Wide Risk Management			
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<b>2003-013P</b> 12/15/03	Coal Demurrage Costs		\$5,900	
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<b>2003-067P</b> 02/02/04	Compliance With the National Energy Conservation Policy Act			
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<b>2004-001F</b> 03/09/04	Transmission/Power Supply's Employee Recognition and Safety Awards			
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<b>TOTAL</b>	<b>39</b>	<b>\$14,126,941</b>	<b>\$586,772</b>	<b>\$11,903,800*</b>
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\* This figure includes funds identified in preaward audits of proposals for contracts that may not be awarded.



## Appendix 3

### Audit Reports Issued With Questioned Costs

	NUMBER	QUESTIONED COSTS	
		TOTAL	UNSUPPORTED
A. For which no management decision has been made by the commencement of the reporting period	3	\$1,829,961	\$1,254,039
B. Which were issued during the reporting period	12	\$14,126,941	\$586,772
<b>Subtotals of A and B</b>	<b>15</b>	<b>\$15,956,902</b>	<b>\$1,840,811</b>
C. For which a management decision was made during the reporting period	12*	\$12,595,281	\$1,496,913
(i) Dollar value of disallowed costs	10	\$10,452,834	\$292,692
(ii) Dollar value of costs not disallowed	6	\$2,142,447	\$1,204,221
D. For which no management decision has been made by the end of the reporting period	3	\$3,361,621	\$343,898
E. For which no management decision was made within six months of issuance	0	\$0	\$0

\* The total number of reports for which a management decision was made during the period differs from the sum of C.(i) and C.(ii) when the same reports contain both costs disallowed and not disallowed by management.



## Audit Reports Issued With Recommendations for Better Use of Funds

	NUMBER	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period	0	\$0
B. Which were issued during the reporting period	3	\$11,903,800
<b>Subtotals of A and B</b>	<b>3</b>	<b>\$11,903,800</b>
C. For which a management decision was made during the reporting period	1	\$5,800,000
(i) Dollar value of costs agreed to by management	1	\$5,800,000
(ii) Dollar value of costs not agreed to by management	0	\$0
D. For which no management decision has been made by the end of the reporting period	2	\$6,103,800
E. For which no management decision was made within six months of issuance	0	\$0



## Appendix 4

### Audit Reports With Corrective Actions Pending

Final corrective actions on recommendations in two contract compliance audits, three operational audits, one financial audit, and nine IT audits have not been fully implemented; however, all are being implemented in accordance with currently established milestones.

AUDIT REPORT NUMBER AND DATE	DESCRIPTION
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<b>2001-064T</b> 12/21/01	<b>Hydro Automation Security-HDCC</b> This report contained recommendations regarding physical and logical security of the Hydro Dispatch Control Cell. TVA plans to complete final action by September 30, 2004.
<b>2001-074T</b> 01/07/02	<b>Application Review of Pegasys</b> This report contained recommendations regarding facility access control. TVA is evaluating options for addressing these recommendations.
<b>2001-087C</b> 04/30/02	<b>Canberra Industries</b> This report included recommendations to recover ineligible costs and improve contract administration. TVA has taken action to address the contract administration issues and is in the process of negotiating a settlement of the ineligible costs.
<b>2002-004C-01</b> 07/24/02	<b>Electric Power Research Institute</b> This report included recommendations to strengthen contract terms in several areas and improve recordkeeping of costs incurred by the contractor. TVA is negotiating these issues with the contractor.
<b>2002-012T-01</b> 10/25/02	<b>Security Review of Nuclear Facility Access Control Systems-SQN</b> This report contained recommendations regarding facility access control. TVA plans to complete final action by October 31, 2004.
<b>2002-017T</b> 06/25/02	<b>Hydro Automation-Dams</b> This report included recommendations regarding the physical and logical security of hydro automation systems at seven hydroelectric facilities. TVA management plans to complete final action by September 30, 2004.
<b>2002-025T</b> 08/07/02	<b>Security of Windows 2000/Windows XP</b> This report contained recommendations to strengthen environmental and logical controls of TVA's implementation of Windows 2000 and Windows XP. TVA management plans to complete final action by September 30, 2004.
<b>2002-043T-01</b> 01/06/03	<b>Power Billing System Security and Application Controls</b> This report included recommendations to strengthen power billing system controls. TVA management plans to complete final action by September 30, 2004.
<b>2002-051T</b> 09/27/02	<b>Information Technology Store</b> This report contained recommendations to strengthen IT Store purchase approval controls. TVA management is developing a new procurement procedure to address this issue.



## Audit Reports With Corrective Actions Pending

AUDIT REPORT  
NUMBER  
AND DATE

DESCRIPTION

<p><b>2002-051V</b> 03/26/03</p>	<p><b>Investment Recovery's Program for GSA Surplus Property Redeployment</b> This audit included recommendations to determine the value of property received subject to reimbursement or appropriation investment provisions of the TVA Act, limit the uses of GSA surplus property to those which are consistent with GSA rules, correct the weaknesses of a personal services contract forming a bartering arrangement, and improve the process for tracking property obtained through the GSA program. TVA management agreed with all of our findings. Management is negotiating with GSA to determine an appropriate reimbursement, has reevaluated the process for future GSA acquisitions, has discontinued the bartering agreement, and has updated the GSA database addressing discrepancies.</p>
<p><b>2002-075E</b> 03/03/03</p>	<p><b>Integrity of Selected Fossil Power Data Used in TVA's Energy Trading Model</b> This report included recommendations to improve the integrity of selected fossil data used in TVA's energy trading decision support model. TVA management plans to complete final action by the fall of 2004.</p>
<p><b>2002-092T</b> 06/19/03</p>	<p><b>Fixed Asset System General Computer Controls</b> This report contained recommendations to strengthen logical controls of TVA's Fixed Asset System. TVA completed final action as of April 1, 2004.</p>
<p><b>2003-015F</b> 07/28/03</p>	<p><b>Review of Completed Plant Retirements</b> This report contained recommendations to correct completed plant retirement inaccuracies, improve accounting for completed plant retirements, and strengthen management's controls over retirements processing. TVA management agreed to implement most of our recommendations and expects to complete final action by December 31, 2004.</p>
<p><b>2003-025P</b> 08/12/03</p>	<p><b>Review of Electronic Coal Supply RFP System</b> This report included recommendations to ensure Web application and database server password control settings comply with TVA policy and future Web application development is compatible with TVA policy. TVA management plans to complete final action within the next few months.</p>
<p><b>2003-032F</b> 05/20/03</p>	<p><b>Integrity of Generation Data Used to Estimate Unbilled Revenue</b> This report included recommendations to improve the accuracy and integrity of generation data used to estimate unbilled revenue. TVA management plans to complete final action by June 1, 2004.</p>



## Appendix 5

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### Investigative Referrals and Prosecutive Results\*

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#### Referrals

Subjects Referred to U.S. Attorneys	15
Subjects Referred to Other Agencies or State/Local Authorities	5

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#### Results

Subjects Indicted	3
Subjects Convicted	3
Referrals Declined	7

As a result of our investigations, OWCP terminated wage-replacement benefits for three individuals, which is projected to save TVA a total of \$857,514 over the individuals' lifetimes.

\* These numbers include task force activities.



	MAR 31, 2004	SEPT 30, 2003	MAR 31, 2003	SEPT 30, 2002	MAR 31, 2002
ANNUAL BUDGET (In Millions of Dollars)	\$8.8	8.5	8.5	8.0	8.0*
CURRENT STAFFING	78	78	84	87	86

## AUDITS

### AUDITS IN PROGRESS

Carried Forward	37	38	35**	33	38
Started	36	41	41	44	43
Canceled	(5)	(8)	(4)	(4)	(8)
Completed	(39)	(34)	(34)	(40)	(40)
In Progress at End of Reporting Period	29	37	38	33	33

### AUDIT RESULTS (Thousands)

Questioned Costs	\$14,127	\$1,908	\$1,125	\$3,816	\$1,780
Disallowed by TVA	10,453	137	989	911	267
Recovered by TVA	697	3,499	221	387	225

Funds to Be Put to Better Use	\$11,904	\$6,951	\$34,755	\$52,037	\$31,874
Agreed to by TVA	5,800	6,551	37,969	44,944	6,069
Realized by TVA	11,708	0	38,172	16,014	6,090

### OTHER AUDIT-RELATED PROJECTS

Completed	30	15	36	16	12
Cost Savings Identified/Realized (Thousands)	0	0	0	0	0

## INVESTIGATIONS\*\*\*

### INVESTIGATION CASELOAD

Opened	162	100	87	78	93
Closed	76	92	75	89	114
In Progress at End of Reporting Period	221	135	127	115	126

### INVESTIGATIVE RESULTS (Thousands)

Recoveries	\$3,412	\$100	\$879	\$961	\$233
Savings	863	875	366	8	1,175
Fines/Penalties	10	421	56	86	0.1

### ADMINISTRATIVE AND DISCIPLINARY ACTIONS

Recommended (# of Cases)	8	21	15	18	22
Actions Taken (# of Subjects)	75	24	16	7	6
Counseling/Management Techniques Employed (# of Cases)	13	21	16	24	15

### PROSECUTIVE ACTIVITIES (# of Subjects)

Referred	17	63	12	19	5
Indicted	3	4	6	9	5
Convicted	3	10	4	4	3

\* Reduction represents the transfer of certain benefit costs to corporate rather than organizational expense accounts.

\*\* Adjusted from previous reporting period.

\*\*\* These numbers include task force activities.

Tennessee Valley Authority  
Office of the Inspector General

# Help Track Down Fraud, Waste, and Abuse at TVA



Contact the OIG Hotline  
**1-800-323-3835**

**To report:**

- Contract or computer fraud
- Computer misuse or crimes
- False statements or false claims
- Irregularities in financial reporting
- Conflicts of interest and other ethics violations
- Travel fraud
- Theft or misuse of TVA property
- Management reprisal
- Workers' compensation fraud
- Bribery, kickbacks, or gratuities
- Health care fraud
- Environmental, health, and safety violations

For additional information, see our Web site at [oig.tva.gov](http://oig.tva.gov)

**Promoting**



**Excellence**

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