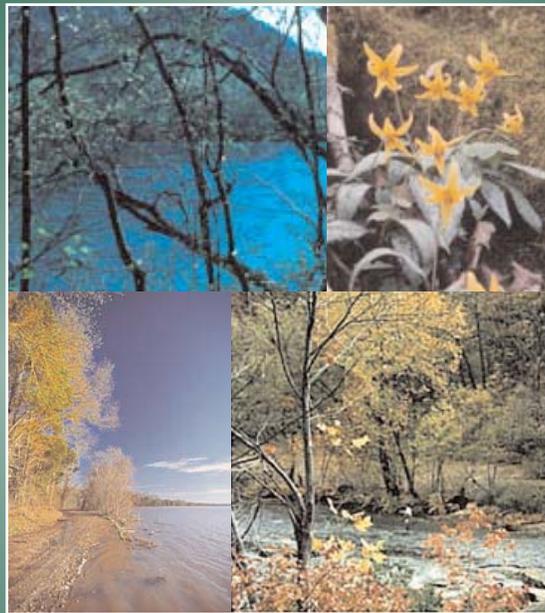


# *Office of the Inspector General*

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*Tennessee Valley Authority*



## *Semiannual Report*

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*October 1, 2006 ~ March 31, 2007*

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, inspections, and investigations.

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.



**EMPOWERLINE™**

A confidential connection for reporting fraud,  
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**How to Report a Concern**

Call toll-free:  
**877-866-7840**

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Or report on the web:  
**[www.OIGempowerline.com](http://www.OIGempowerline.com)**



# Tennessee Valley Authority

## Office of the Inspector General

### Message From the Inspector General

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This report to the TVA Board and to Congress concludes a full year for the newly constituted TVA Board which was sworn in on March 31, 2006. Legislation signed by President Bush in 2004 expanded the Board from three full-time members to nine part-time members with a full-time chief executive officer to run TVA on a day-to-day basis. As Director Skila Harris recently noted in an address to the TVA OIG, this change amounted to a “reinvention” of the TVA Board. Director Harris noted the differences in her role as one of the previous full-time Board members to her current service with her fellow part-time Board members. She also aptly noted that while most of the new Board members were familiar with independent auditors in private sector corporations, they had not worked before with Inspectors General.

As this year concludes a full year of service for the new Board, it seems appropriate to offer some observations about how this new structure has worked thus far. First, I heartily agree with Director Harris’ assessment that the current Board has exhibited a commitment to TVA’s best interests with the level of professionalism they have brought to their work. Secondly, this Board is keenly interested in the OIG providing objective and accurate reports about TVA issues. While it is true, as Director Harris noted, that many of the current Board members have not worked with an Inspector General previously, all of the Board members have demonstrated a respect for the independence of the OIG and concomitantly recognized the service that the OIG can provide to the Board. The OIG is being asked both by the TVA Board and the Chief Executive Officer to assist in assessing complex issues to ultimately make life in the Tennessee Valley better for everyone. Finally, this Board has shown an appreciation for the duty the OIG has to make public findings that identify problems at TVA.

With each of these letters that I write to the Board and to Congress, I am sensitive to the self-congratulatory tone they can have. I have been reminded appropriately, however, that our reason for existing is performance. This semiannual report speaks for itself and demonstrates the commitment and professionalism the OIG staff has to making TVA better. Each finding, recommendation, and dollar saved represents the fine efforts of a staff devoted to higher performance.

Therefore, it is with great pride that I submit this report to you highlighting the work done by the TVA OIG for the past six months.

Richard W. Moore  
Inspector General  
April 1, 2007



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## Executive Summary

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During this reporting period, we continued to support TVA by conducting objective audits, inspections, and investigations. 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 \$10.5 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, 2006 ~ March 31, 2007</b>	
Audit Reports Issued	18
Questioned Costs	\$1,252,456
Disallowed Costs*	\$1,429,334
Funds Recovered	\$694,984
Funds Put to Better Use	\$8,913,475
Funds Realized by TVA	\$3,603,475
Investigations Opened	73
Investigations Closed	50
Fines/Recoveries/Restitution/Savings	\$430,684
Criminal Actions	4
Administrative Actions (No. of Subjects)	4
Inspections Completed	7

\*Disallowed costs exceed questioned costs because disallowed costs include management decisions within this reporting period on questioned costs from prior periods.

Our 18 audits and 12 other audit-related projects during this reporting period resulted in questioned costs, funds to be put to better use, and the identification of areas for process and control improvements. Highlights include (1) contract audits which identified over \$1.2 million in questioned costs and \$8.9 million in funds which could be put to better use, (2) information technology (IT) audits which identified needed control improvements, and (3) financial-related and operational reviews which identified areas for improving control documentation and effectiveness. TVA management used information from our audits to recover about \$.7 million and negotiate about \$3.6 million in contract cost savings.



Our Inspections unit completed seven projects which identified several opportunities for improved program operations. Inspection topics include inventory accounting practices and controls over milestone-driven performance awards at the Browns Ferry Nuclear Plant (BFN), coal royalty receipts, and the accuracy of daily coal weights recorded at 9 of TVA's 11 fossil plants.

Investigations highlights include (1) use of technology to proactively detect and prosecute fraud, including data mining, cyber security, and computer forensics; (2) other proactive efforts to reach out to employees and others to make OIG more accessible; and (3) recoveries or avoided costs which totalled over \$400,000.

We also are providing support for TVA's Audit and Ethics Committee, and we have several initiatives underway to improve office efficiency. These initiatives include implementing High Performance Organization principles, process improvements, telework, and upgrading office automation.

### Definitions

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

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

**Disallowed Costs** - Questioned costs that management agrees should not be charged to TVA.



## TVA Profile

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TVA has now completed its transition from a full-time three-member Board of Directors actively managing TVA to a part-time nine-member Board that is more of a policy making body. With the resignation of a Board member during January 2007, however, there are currently only eight Board members. The new Board appointed TVA's first Chief Executive Officer, Tom D. Kilgore, on October 13, 2006.

Below are some highlights of TVA history and operations.

- 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. TVA's threefold mission includes power production, environmental stewardship, and economic development.



President Roosevelt signed the legislation creating TVA in 1933.

- Today, TVA is the nation's largest public power company. TVA's revenue totalled \$9.2 billion in fiscal year (FY) 2006. 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



TVA provides electricity in seven states.

cooperative power distributors, and by directly serving 62 large industries and federal facilities in the Valley, TVA supplies the energy needs of 8.7 million people.



- As a regional development agency, TVA supplies affordable, reliable power; supports the nation's fifth largest river system, the Tennessee river system; and promotes economic development. TVA dams are part of a totally integrated resource management system for a 41,000-square-mile watershed where each dam operates in relationship to the others for multiple purposes and public benefits, including flood control, maintaining navigation, providing recreational opportunities, and protecting water quality.



TVA dams produce electricity and provide flood control.



## Office of the Inspector General

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### Office Authority

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Created by the TVA Board of Directors in 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.

### OIG RESPONSIBILITIES

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- Promote economy and efficiency while preventing and detecting fraud, waste, and abuse.
- Conduct and supervise audits and investigations relating to TVA programs and operations.
- Keep the TVA Board and Congress fully and currently informed concerning fraud and other serious problems, abuses, and deficiencies relating to TVA programs and operations.
- Recommend corrective actions concerning problems, abuses, and deficiencies, and report on the progress made in implementing such actions.
- Assure work performed by non-federal auditors complies with government auditing standards.
- Issue semiannual reports to TVA Board and Congress.

### OIG AUTHORITIES

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- Conduct any audit or investigation the IG deems necessary or desirable.
- Access all TVA records or other material.
- Issue subpoenas and administer oaths.



- Receive complaints and grant confidentiality.
- Have direct and prompt access to the TVA Board.
- Hire employees and contract for services as necessary.

## Organization

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The OIG's primary location is adjacent to the TVA headquarters in Knoxville, Tennessee. To obtain broader coverage throughout the Valley, the OIG also has Investigations offices in Mayfield, Kentucky, in Chattanooga, Tennessee, and at BFN near Athens, Alabama, as well as an Inspections unit located in Chattanooga. The OIG consists of three primary components: (1) Audits, (2) Inspections, and (3) Investigations.



The OIG is primarily located in the TVA Towers in Knoxville.

## OIG STRATEGIC PLAN

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### VISION

To be a highly effective organization that promotes positive change by identifying opportunities for improvements in the performance and efficiency of TVA's programs and operations.

### MISSION

Promote excellence in TVA's operations through the conduct of investigations, audits, inspections, and advisory services designed to promote economy, efficiency, and effectiveness and prevent and detect fraud, waste, and abuse.

### LEADERSHIP PHILOSOPHY

The TVA OIG strives to be a high performing organization made up of dedicated individuals who are empowered, motivated, competent, and committed to producing high quality work that improves TVA and life in the Valley. Each of us has important leadership, management, team, and technical roles. We value integrity, people, open communication, expansion of knowledge and skills, creative problem solving, and collaborative decision-making.



## Office of the Inspector General

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### STRATEGIC GOALS

#### PERFORMANCE

Perform timely reviews that address stakeholder concerns and areas of highest risk

#### WORKFORCE

Cultivate and retain a highly skilled, innovative, and motivated workforce

#### STAKEHOLDER

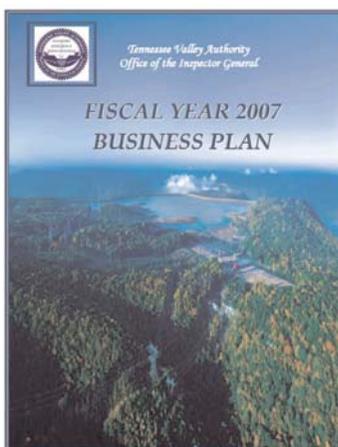
Effectively communicate with stakeholders and deliver services that meet their needs

### STRATEGIC OBJECTIVES

- Focus efforts on areas of highest impact and risk
- Ensure processes are efficient and effective
- Maintain highest levels of quality
- Stay abreast of emerging issues and industry trends
- Stay abreast of stakeholder concerns
- Continue to develop innovative methods for fraud detection

- Hire and retain the best
- Manage pay to stay competitive with target market
- Develop staff to achieve the highest level of capabilities
- Motivate staff to excel
- Ensure accountability in individual performance
- Promote a balanced lifestyle

- Manage stakeholder perceptions of the OIG to promote (1) high credibility, and (2) independence and objectivity
- Respond to customer needs
- Improve stakeholder awareness of OIG
- Ensure stakeholders are kept informed
- Ensure stakeholders have an opportunity to provide input in the annual audit planning process and each individual review, as appropriate
- Increase effectiveness of OIG hotline





## AUDITS

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Audits conducts and/or supervises comprehensive financial and performance audits of TVA programs and operations. Based upon the results, Audits makes recommendations to ensure that program objectives and operational functions are achieved effectively and efficiently. Audits develops a plan annually to achieve the most beneficial allocation of resources. The annual plan addresses those issues, programs, operations, and activities that have the greatest likelihood of placing TVA at risk for fraud, waste, abuse, or in regards to IT, malicious or other intrusion.



Audits consists of three departments—Contract Audits, Financial/Operational Audits, and IT Audits.

- Contract Audits has lead responsibility for contract compliance and pre-award 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 audit and related services 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.
- IT 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.



## Office of the Inspector General

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### INSPECTIONS

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The Inspections unit was formed at the beginning of FY 2004. Inspections provides flexibility to conduct limited scope policy and program evaluations to promote economy and efficiency in the management and administration of TVA programs. In accordance with the Quality Standards for Inspections, the objectives of the Inspections unit 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.



### INVESTIGATIONS

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Investigations 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, and economic development loan recipients. Investigations 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. Investigations 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.



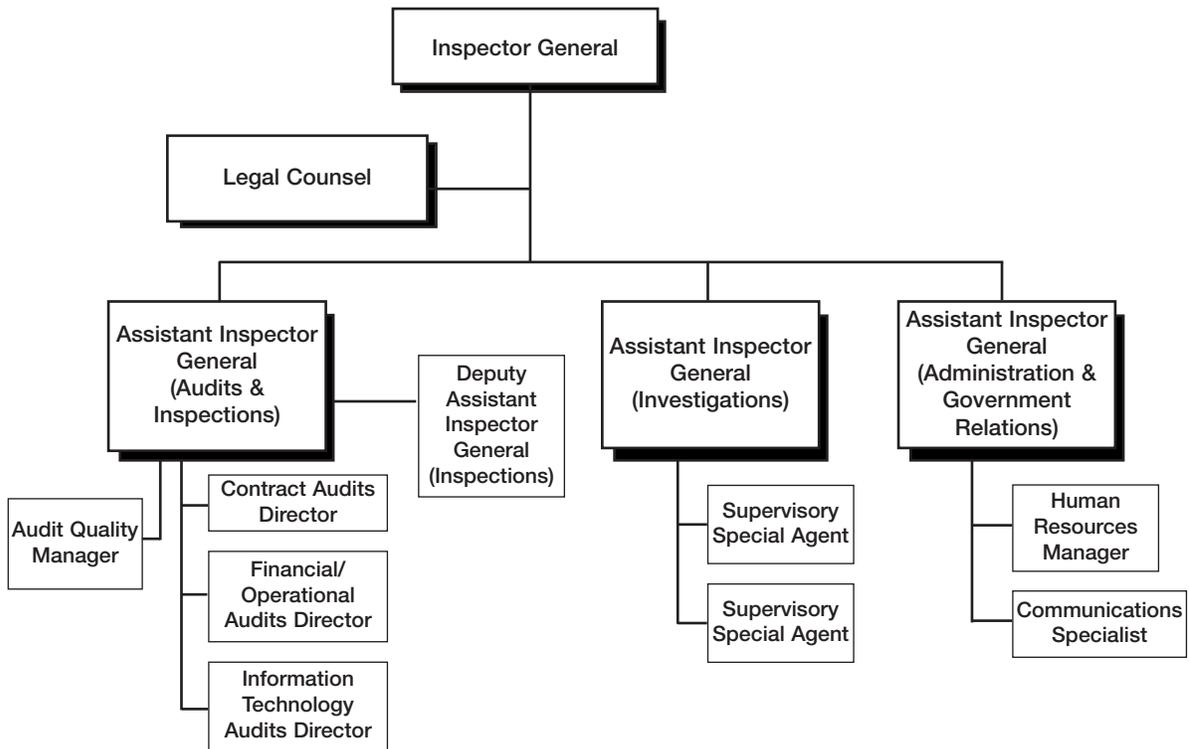
### THE OIG HIRES A COMMUNICATIONS SPECIALIST

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As part of the OIG's goal to become a higher performing organization, Stefanie Hoglund was recently hired as a communications specialist. She will oversee media relations and communications planning for the OIG.

Ms. Hoglund, who formerly served as the Public Information Officer for the Knox County Health Department and the East Tennessee Regional Health Office, has a master's degree in Health Education and a bachelor's degree in Communications, both from The University of Tennessee.



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OIG website: <http://oig.tva.gov>



## Special Features

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### OIG Works with TVA Audit Committee

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In December 2004, President Bush signed the 2005 Consolidated Appropriations Act, which included legislation to expand TVA's Board from three full-time to nine part-time members. That Act also required TVA to establish an Audit Committee. The Committee, formally titled the Audit and Ethics Committee, held its first meeting in June 2006.

Since the Committee's formation, it has relied on the IG to review internal control and financial reporting practices and keep it apprised of any violations of law by employees, significant deficiencies in controls, and aggressive accounting practices. The Committee also is responsible for recommending to the Board, in consultation with the IG, the external auditor who is responsible for the annual financial statement audit and quarterly review of TVA financial information. The IG meets with the Committee at least quarterly to inform members of audits planned, initiated, and completed. Also addressed are any violations of law, including fraud, detected by the OIG.

### OIG Internal Enhancements

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As discussed below, our efforts to enhance OIG performance include implementation of High Performance Organization (HPO) principles, process improvements, telework, and upgrading office automation.

#### **HPO IN ACTION**

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We continue implementation of HPO principles, which are centered on using a diagnostic/change model to build a high performing organization. This initiative, started in August 2005, is intended to improve OIG performance by helping us focus on topics such as vision, values, leadership, work product, and results.

Since the inception of HPO, OIG employees representing all levels of the organization generally have met monthly as a Leadership Council to help make HPO a way of life in the OIG. Examples of HPO in action include (1) defining vision, values, and organization



philosophy; (2) increasing flexibility/innovation such as in work schedules and openness to doing things differently; (3) improving teamwork by eliminating silos within and across organizations; (4) promoting leadership roles for everyone in the office; and (5) developing a better line-of-sight between each individual's work and OIG goals.

These principles have been embedded through revisions to our performance appraisals, changes to the career path, and incorporation in our business plans.

### **PROCESS IMPROVEMENTS**

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One major element of HPO is process improvements. We challenge each person in the OIG to constantly examine the way we do business and suggest better methods as we work to eliminate the “we’ve always done it this way” mentality. We adopted a mechanism for submitting process improvements to ensure they receive consideration at the Assistant IG level. Suggestions include improving teamwork accountability, creating an internal discussion board, improving database information, and enhancing technology.

### **TELEWORK**

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As another HPO initiative, we are moving toward extended telework. We envision giving employees the ability to telework three or more days per week. By using results-based management, we believe this initiative will lead to improved office performance.

Our initial pilot program will involve 11 volunteers from Audits and Investigations who will telework at least 3 days a week and share cubicle space when they are in the office. Through this pilot program, we hope to ensure appropriate technology support is in place and to identify any barriers or impediments to an effective telework program.



## Special Features

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### UPGRADING OFFICE AUTOMATION

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We have upgraded office automation. We were using two different systems—a project management system plus a document management system—and a lot of paper to accomplish our mission.

Our goal was to use just one on-line system that would meet both project and document management needs. After a review of several software packages, we purchased a system which allows us to do both project and document management—a one-stop shop for all information on a project.

The system also allows us to move from hard copy work papers to electronic work papers. We have moved investigations, legal, administrative, and audit files to this system, which also supports our telework initiative.

### Contract Audits & Procurement—A Continuous Improvement Process

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Contract Audits works with TVA Procurement to improve the TVA contracting process. Our role includes conducting pre-award and contract compliance audits, providing advice to TVA Procurement officials, and conducting process reviews. Procurement, in turn, acts on our findings and recommendations through negotiating cost savings for TVA and implementing process improvements. While we are organizationally and functionally independent, we work together with Procurement to maximize the positive impact.

Over the past ten FYs, our audits have identified average cost savings of over \$30 million per year and various areas for potential improvements. During August 2006, we completed a review of TVA's contracting process that identified several areas where contract management could be improved for greater contractor compliance with pricing terms and conditions. We recently began a review of TVA's contract award process to identify areas for improvement.



Based on our audit findings, during the past two FYs Procurement has acted to recover nearly \$10 million and agreed with over \$24 million in funds which could be put to better use. During the past year, Procurement has initiated numerous improvement efforts in TVA's contracting process, partially in response to Contract Audit's review of the contracting process. These efforts include the following:

- Implemented management and peer team assessments of contract files and contract pricing terms and conditions;
- Developed training curriculum program tailored for new employees, supervisor workshops, and knowledge transfer sessions;
- Streamlined contract approval processes;
- Began identification and elimination of non-value added activities;
- Centralized tracking, document management, and processing of agency-wide contracts;
- Consolidated contract and contracting process information resources into one website;
- Increased focus on the technical contract managers in TVA's Strategic Business Units through (1) reinforcement of the technical contract manager's role by meeting with executive management in the Strategic Business Units; (2) standardization of the invoice review process and improved monitoring by Procurement's contract managers; (3) improved training, access to contract process resources, and periodic newsletter communications; and (4) joint contract meetings for sharing lessons learned; and
- Implemented new software to improve administration of staff augmentation contracts and new accounting practices to improve tracking of all contract labor.

We will continue these joint efforts in contracts and other areas as we work with TVA to improve program operations and effectiveness.



### 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 18 audits identifying over \$1.2 million in questioned costs and over \$8.9 million in funds which could be put to better use. We also identified several opportunities for TVA to improve program operations. Our audits include (1) pre- and post-award contract audits, (2) financial-related audits, and (3) IT audits. We also completed 12 other audit-related projects.

#### **PRE-AWARD CONTRACT AUDITS IDENTIFIED \$8.9 MILLION IN POTENTIAL SAVINGS OPPORTUNITIES**

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To support TVA management in negotiating procurement actions, we completed pre-award audits of (1) a cost proposal submitted by a company to provide engineering services for TVA Nuclear and (2) the indirect cost recovery rates included in a contract with a company providing construction and modification and supplemental maintenance services for TVA Nuclear. Our audits identified \$8.9 million in potential savings opportunities for TVA to negotiate, including reduced rates and volume discounts. TVA has or is planning to use the results of our findings to negotiate better contract terms.

#### **CONTRACT COMPLIANCE AUDITS IDENTIFIED \$1.2 MILLION IN QUESTIONED COSTS**

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During this semiannual period, we completed five contract compliance audits that identified \$1.2 million in ineligible and unsupported costs. Highlights of these audits follow.

- We audited \$18.6 million of payments TVA made to a contractor for services of TVA retirees who provided engineering and technical assistance to the Federal Emergency Management Agency (FEMA) for major disasters and emergencies. We found the contractor overbilled TVA an estimated \$149,584 for labor, travel, miscellaneous costs, and administrative fees. Additionally, we noted control



deficiencies regarding the authorization and payment of costs by the contractor to employees and by TVA to the contractor. The contractor stated it (1) concurred with our conclusions and recommendations but is continuing to find documentation that should reduce the overbilled amount and (2) has instituted controls regarding payments to employees and subsequent billing of costs to TVA.

- We audited \$11.4 million of costs billed by a TVA contractor who provided engineering and procurement services to install NOxStar (NOx emissions reduction technology) at a TVA fossil plant. We determined the contractor overbilled TVA about \$886,000 in royalty fees, labor, materials and manufacture costs, unapproved travel and other project costs, and overhead and general and administrative costs. TVA management stated they agreed with our findings and plan to pursue recovery of the overbilled amount.
- We audited \$3.4 million of costs billed by a TVA contractor who performed surveys of historic properties and determined the contractor overbilled TVA an estimated \$4,964, including overstated labor costs and unsupported and ineligible travel and miscellaneous costs. The contractor submitted a refund to TVA for the estimated overbilled amount.
- We audited \$22.2 million of costs billed by a TVA contractor for construction and modification services for TVA generating plant switchyards, substations, electrical transmission system, and power control communication facilities. We found overbillings and overpayments of about \$58,000 including (1) overbillings for small tools due primarily to the contractor's application of a recovery rate to an incorrect cost base, (2) craft wages and benefits that exceeded amounts provided for by TVA's labor agreements, and (3) miscellaneous overpaid and unsupported costs. The contractor and TVA management agreed with our findings except for the overbilled craft wages and benefits. In response to that issue, TVA management stated TVA Labor Relations had decided certain variances from the labor agreements would be allowed and most of the variances identified in this review were within the guidelines established by Labor Relations.



## Audits

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- We audited \$5.6 million of costs billed by a TVA contractor for construction and modification services for TVA generating plant switchyards, substations, electrical transmission system, and power control communication facilities. We found TVA was overbilled an estimated \$186,378 for (1) craft labor costs that exceeded amounts provided for by TVA's labor agreements, (2) misclassified subcontractor labor, (3) ineligible subsistence allowance payments, and (4) unsupported costs. The contractor agreed with most of our issues and provided credits to TVA. However, the contractor stated it planned to perform a 100-percent review of craft labor costs associated with the audit period rather than rely on the audit estimate of the overbilling. TVA management plans to work with the contractor to recover the overbilled craft labor costs.

### **OTHER CONTRACT-RELATED AUDITS AND PROJECTS**

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#### **FEMA MISSION ASSIGNMENTS**

TVA provides engineering and technical assistance to FEMA for major disasters and emergencies using TVA retirees who work for a TVA subcontractor. In April 2006, the Department of Homeland Security requested all IG offices to perform a review of the 2005 Gulf Coast Hurricane Assignments performed by their agency. The purpose of the audit was to evaluate their agency's procedures pertaining to the billing and reimbursements for FEMA mission assignments.

Our review found TVA (1) did not have adequate controls in place to ensure the accuracy of costs TVA paid its contractor and subsequently billed to FEMA and (2) could not provide documentation of FEMA's approval of TVA use of a markup rate to recover its costs of administering the retiree subcontract. TVA management subsequently instituted new procedures to correct the deficiencies identified by our audit. Based on the new procedures, we determined TVA was generally in compliance with federal guidelines pertaining to the billing and reimbursement for FEMA mission assignments. However, we recommended FEMA provide written authorization for TVA use of a specific markup to recover its costs of administering the retiree subcontract.



## GENERAL ASSISTANCE

We provided advice to TVA management regarding (1) deficiencies in certain contracts, (2) billings to other agencies, and (3) evaluations of contractor proposals. We also provided assistance to OIG Investigations in various contractor investigations and fraud risk assessments.

## FINANCIAL-RELATED AUDITS

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During this semiannual period, we completed four financial-related audits, one attestation engagement, and testing of financial reporting controls over various processes to assist with TVA's initiative to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX). Highlights of these audits follow.

- TVA contracted with the independent certified public accounting firm of PricewaterhouseCoopers LLP (PwC) to audit TVA's balance sheets as of September 30, 2005 and 2006, and the related statements of income, changes in proprietary capital, and cash flows for each of the three years in the period which ended September 30, 2006. In addition, the contract called for the review of TVA's quarterly financial information associated with the filing of its quarterly report on Form 10-Q with the Securities and Exchange Commission for the first quarter of FY 2007. The contract required that audit and related work be done in accordance with generally accepted government auditing standards. We reviewed PwC's reports and related audit documentation, interviewed their representatives, and performed such other procedures as we deemed appropriate in the circumstances to provide reasonable assurance the audit and related work were performed in accordance with generally accepted government auditing standards. Our reviews disclosed no instances where PwC did not comply, in all material respects, with generally accepted government auditing standards.
- We surveyed TVA and financial institutions in the Tennessee Valley to identify (1) TVA-owned cash accounts not currently accounted for by TVA Treasury and (2) non-TVA-owned cash accounts set up in TVA's taxpayer identification number



## Audits

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(TIN). In summary, we identified (1) one certificate of deposit in TVA's TIN not accounted for by TVA Treasury, (2) three non-TVA-owned accounts incorrectly set up in TVA's TIN, (3) one account set up in TVA's TIN without sufficient information to determine if TVA owned the funds, and (4) ten accounts reported as TVA or related accounts by one financial institution that would not confirm the TIN which were not listed by TVA Treasury as TVA-owned accounts. TVA Treasury agreed to follow up with the financial institutions regarding our findings.

- We reviewed TVA's first Fuel Cost Adjustment (FCA) that went into effect January 1, 2007. The objective of our review was to determine whether the FCA for the second quarter, FY 2007, was calculated correctly and in accordance with the agreed-upon methodology. In summary, we found the FCA was calculated correctly and in accordance with the agreed-upon methodology.
- We performed procedures agreed-upon with TVA management over the FY 2006 performance measures and found (1) changes to the FY 2006 goals were properly approved with seven exceptions, two of which impacted the payout; (2) actual year-to-date inputs for each indicator agreed with the respective "reason for improvement" sheet; (3) actual inputs for the eight TVA-wide metrics agreed with the underlying support provided by the Strategic Business Units with one exception which did not impact the payout; and (4) the payout percentages were mathematically accurate.
- In support of TVA initiatives to comply with SOX, we completed 49 projects to test or retest financial reporting controls in 43 processes of the more than 70 key business processes determined to be in scope for SOX compliance. These projects were designed to provide the Vice President and Controller with information to assess TVA's readiness to comply with SOX. We identified control deficiencies in over 65 percent of the controls tested. The deficiencies included needed improvements in control design (about 45 percent), control not being performed as designed (about 31 percent), and inadequate documentation retained to demonstrate the control operated in the period tested (about 24 percent). The process owners provided actions planned or taken to address the deficiencies identified.



## IT AUDITS

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During this semiannual period, we completed two audits in the IT environment pertaining to (1) penetration testing for selected TVA network systems and (2) remediation action for securing the general ledger database. In addition, we completed four interim reviews for SOX readiness testing of IT general control areas and issued a summary report for SOX readiness testing performed between March 2006 and January 2007.

In the penetration test, we noted improvements could be made to address weaknesses in logical security controls designed to prevent unauthorized access to system programs and data. Management generally agreed with our findings and either has implemented or is in the process of implementing corrective actions.

In the remediation action audit and SOX readiness reviews, we noted either (1) controls were operating effectively or (2) documentation and/or controls required some level of remediation. Management generally agreed with our findings and either has implemented or is in the process of implementing corrective action.



## Inspections

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### Summary of Representative Inspections

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Inspections may be initiated from various sources including (1) annual project planning, (2) management requests, (3) audit/investigative referrals, and (4) spin-off reviews resulting from an ongoing inspection. During this semiannual period, we completed seven inspections which identified over \$15,000 in questioned costs. We also identified various opportunities for TVA to improve program operations. Highlights of our inspections follow.

#### **INVENTORY ACCOUNTING PRACTICES**

---

At the request of the TVA Chief Nuclear Officer and Executive Vice President, we conducted a review of inventory accounting practices at BFN. Specifically, we were requested to determine (1) whether proper accounting practices and TVA policies were followed when returning material and components (i.e., spare parts) to inventory after being removed from installed locations and (2) whether existing procedures provided adequate guidance on returning spare parts to inventory. In summary, we found:

- Noncompliance with generally accepted accounting principles and TVA policies and procedures;
- TVA policies and procedures did not adequately address (1) how to account for the return of material/components to inventory from installed locations (i.e., spare parts) and (2) the inventory tracking of spare parts; and
- No indication of intent to manipulate the entries to achieve outage performance goals, although the circumstances could create an appearance to do so.

TVA management agreed with our findings and recommendations and has initiated or plans to initiate corrective action.



## DAILY COAL REPORTS

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In support of the fraud risk assessment for Fuel Supply, Fossil Power Group, we conducted an inspection regarding the accuracy of the Daily Coal Reports (DCR) relating to nine fossil plants. The DCR is used to (1) identify variances between vendor/terminal and TVA shipment weights and (2) graph the identified variances. The objective of our review was to verify whether TVA and vendor/terminal shipment weights were accurately entered into the respective DCR for the period December 1, 2005, through May 3, 2006. In summary, we found:

- Of the 482 coal shipments tested from the 9 fossil plants, 33 shipments were not recorded in the DCR in accordance with TVA weight documentation and/or vendor/terminal bills of lading;
- Variances between vendor terminal weights and TVA shipment weights ranged from -31.42 to 60.69 percent, and the net effect of all variances showed that TVA received approximately 75,113 tons of coal less than were reported on the vendor/terminal bills of lading;
- Shipment weights for missing and/or extra rail cars were not consistently accounted for at plants receiving coal by rail;
- Missing and extra rail cars were not consistently tracked at all fossil plants receiving coal by rail; and
- Comments were not consistently noted on the DCR when TVA or vendor/terminal weights were not available or when exceptions existed for certain shipments.

TVA management agreed with our findings and recommendations and has initiated or plans to initiate corrective action.

## ROYALTY PAYMENT REVIEWS

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At the request of the Coal Acquisition and Supply, Fossil Power Group, we initiated an inspection to obtain and review information related to a coal company's cost and profitability assertions. The company leased land from TVA and paid TVA a royalty fee



## Inspections

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per ton on all coal removed from a mine which was on the leased premises. Due to increased costs and reduced profitability, the company requested TVA to consider revising the contract to reduce the royalty fee payments.

In summary, our review of selected financial and production report information and supporting cost documentation pertaining to the TVA mine found (1) nothing to indicate cost and profitability assertions were not accurate, (2) some costs and coal revenues were a function of market conditions which impacted the company's profitability, and (3) the company began allocating costs on internal financial reports in August 2006 which more accurately depicted profitability. In addition, the company discovered royalty fee payments were underpaid by approximately \$15,000 when providing requested information during our review.

### **INVENTORY MANAGEMENT SYSTEMS**

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We conducted a review to determine whether TVA's inventory management system, PassPort, accurately reflected the reported \$14.3 million in inventory housed at the Hartsville facility as of December 20, 2006. We compared PassPort data to physical inventory on hand for 93 catalog identification numbers (CAT IDs). We found PassPort accurately reflected the location and quantity on hand for 89, or 95.7 percent, of the CAT IDs selected for review.

We also compared inventory on hand for 38 judgmentally selected CAT IDs to PassPort and found (1) inventory held for use was commingled with surplus materials and (2) materials were not always accurately reflected or were excluded in PassPort. According to Procurement, it was waiting on plant direction for the disposition of several materials housed at Hartsville, including some items corresponding to the CAT IDs we reviewed.

Management agreed with our findings and has taken or plans to take appropriate corrective action.



## Summary of Representative Investigations

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During the past six months, we closed 50 investigations based, in part, on allegations and concerns received from ratepayers, TVA managers, TVA employees, contractor employees, and OIG auditors. While our investigations in the past have largely been reactive, we are implementing programs to develop a more proactive fraud detection and prevention program. Below we discuss (1) our use of technology to more proactively detect and prosecute fraud, (2) other proactive programs, (3) fraud risk assessments, and (4) our support of law enforcement task forces.

### **USE OF TECHNOLOGY TO PROACTIVELY DETECT AND PROSECUTE FRAUD**

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Widespread use of and advances in technology create new and greater risks for TVA. Conversely, data mining, cyber security, and computer forensics provide greater opportunities for detecting and prosecuting fraud.

#### **DATA MINING**

Our data mining efforts can encompass every area electronic records are available, including contracts, credit cards, medical payments, and workers' compensation. Some examples follow.

- We examine contract payment records for significant price changes over time, which may identify (1) artificially low bids to obtain a contract and (2) significant price differentials in the same commodity between vendors. We have opened several investigations as a result of these types of reviews.
- We periodically review TVA credit card charges for red flags, such as purchases on weekends or holidays and charges to certain merchant categories—pursuant to the Standards Industrial Classification Code—such as casinos, pet stores, and jewelry stores. We also compare charges to travel reimbursement to ensure the cardholder was in travel status when the card was being used outside the home base. In





## Investigations

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addition, we review use of government travel cards to identify prohibited personal use. Our reviews routinely identify questionable charges. For example, during this reporting period, we identified an individual whose travel card charges were twice as high as claimed travel expenses and included personal, prohibited charges. The employee was given a warning, and the employee's travel card was suspended.

- Our review of medical payments has identified instances of prescription drug abuse. We look for individuals who obtained prescriptions for the same drug from more than one doctor and/or obtained refills at multiple pharmacies. We also look for doctors or pharmacies which seem to be overprescribing certain Schedule II or III drugs such as Oxycontin and Hydrocodone.
- In the workers' compensation area, we analyze information and use routines to identify individuals who may be receiving benefits they are not entitled to. These routines include identifying individuals who (1) may need to return to work because a court order has reduced their available income, (2) use only post office boxes, (3) have minimal medical payments, or (4) move a substantial distance from where the injury occurred. We also look for excessive prescription narcotic drug use.

### **CYBER SECURITY CONFERENCE**

We helped host the second Cyber Security Summit in Knoxville, Tennessee, with the Federal Bureau of Investigation (FBI), The University of Tennessee, and TVA IT Security. This summit brought together security professionals from academia, government, and private industry. Topics included the state of incident response, analyzing malicious code, emerging cyber threats, and a roundtable discussion on the United States fighting the cyber war.

The importance of cyber security cannot be overemphasized. In making October the National Cyber Security Awareness Month, Congress noted:

- The importance of the internet to individuals and businesses;
- How our nation's critical infrastructures rely on the secure and reliable operation of our information networks;



- That cyber security is a critical part of our nation's overall homeland security;
- That terrorists and others have demonstrated an interest in utilizing cyber means to attack our nation; and
- That national organizations, policymakers, government agencies, private sector companies, nonprofit institutions, schools, academic organizations, consumers, and the media all recognize the need to increase awareness of computer security and enhance our level of computer and national security in the United States.

Attacks against private and public networks show no signs of abating. Whether the attacks are simple or sophisticated, they cause (1) damage to user confidence, (2) privacy violations, and (3) significant economic losses. During this reporting period, for example, we worked with the United States Computer Emergency Readiness Team in responding to a possible intrusion into the TVA system.

### **COMPUTER FORENSICS**

We have a computer lab and expertise which allows us to search and recover information on computers or networks which may have been used to perpetrate a crime. We also participate in incident responses and network monitoring. For example, one investigation during this reporting period found a contractor employee was using Peer-to-Peer software on his TVA computer in violation of TVA policy. His downloads included music and pornographic movies. The contractor employee was terminated.



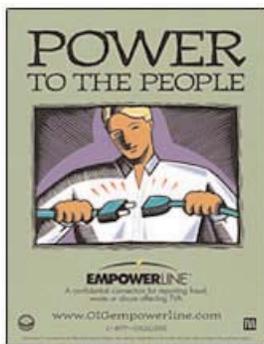
## Investigations

### OTHER PROACTIVE PROGRAMS

Our efforts to reach out to employees and others include creating a design for the OIG hotline, Empowerline; a reward program; and reaching out to employees and others to make the OIG more accessible.

#### EMPOWERLINE

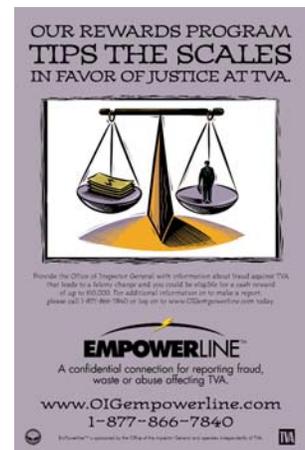
Employees, contractors, and the general public can report suspected fraud, waste, or abuse affecting TVA to the OIG-sponsored hotline system, Empowerline. Empowerline



is administered by a third-party contractor and can be reached 24 hours a day, 7 days a week, either by a toll-free phone call or over the web. Individuals who report concerns can do so anonymously or they can request confidentiality. They also can use Empowerline to track the outcomes of concerns they report. This outsourced system offers a convenient mechanism for individuals to report their concerns and provide assurance they can remain anonymous or maintain confidentiality.

#### REWARD PROGRAM

Under our reward program, a source of information (“source”) may receive a cash reward for disclosing to the OIG information about criminal or unlawful activities involving TVA programs and personnel. To apply for a reward, a source must provide substantial information not previously known to the OIG that leads to a felony charge or a substantial monetary recovery from an individual who defrauded a TVA program. Rewards, which are solely within the discretion of the OIG, may be given to any person except current and former OIG employees and employees of other law enforcement agencies.





## OUTREACH PROGRAM

Our outreach program includes (1) designating Knoxville-based special agents for each TVA plant; (2) assigning one agent to Kentucky, one to Chattanooga, Tennessee, and two to northern Alabama; (3) visiting TVA facilities; and (4) introducing new employees to the OIG through TVA's orientation program and a letter from the IG.

Our 2005 survey of TVA employees and contractors, as well as other input, indicated that some individuals were not familiar with the OIG or what constitutes fraud. As a result, the OIG is determined to increase awareness of its mission—to assist employees, contractors, and the public in identifying and reporting fraud. Training all new TVA



Paul Houston and Ryan Wilson, stationed at BFN, serve northern Alabama and central Tennessee.

employees is crucial in this effort. We introduce all new TVA employees to the OIG and



Craig Yates, assigned to Mayfield, Kentucky, provides coverage of the northern Tennessee Valley area.

their responsibility to report suspected fraud. We send each new employee a letter welcoming them to TVA and explaining the OIG function. There also is a section in the New Employee Orientation program devoted to the role of the OIG. New employees watch a video introduction by the IG addressing the need to be vigilant for those who would victimize TVA or otherwise improperly profit from their relationship to TVA. New employees also receive training on their responsibility to cooperate with the OIG.

## FRAUD RISK ASSESSMENTS

We work with TVA management to conduct fraud risk assessments (FRA) of major processes throughout TVA. An FRA is a process for management and business process owners to identify and analyze fraud risk factors that may be common to general business practices and also specific to the organization and its operations. The OIG serves as facilitator and consultant during the FRA process. This process is intended to identify (1) types of fraud which can occur, (2) the likelihood and significance of fraud occurring, (3) the controls in place to prevent fraud, and (4) actions needed to



## Investigations

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improve fraud-preventive controls. As part of this process, we provide fraud awareness training.

During this reporting period, we completed an FRA in Bulk Power Trading, including processes used to buy and sell power, analyze power needs, construct strategic power purchasing plans, and procure and protect information systems. There were 5 fraud risk areas identified and 24 possible fraud schemes considered. Based on an evaluation of the controls in place to prevent the fraud schemes, one recommendation was made. That recommendation was to strengthen internal controls by requiring Bulk Power Trading employees to complete an annual confidential financial disclosure report.

### **WORKERS' COMPENSATION FRAUD**

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This reporting period's results involving workers' compensation include elimination, suspension, and reduction of benefits. The total long-term savings and recoveries to TVA from three cases discussed below, including amounts attributable to this and prior reporting periods, are projected to exceed \$1.4 million.



In order to receive workers' compensation benefits under the Federal Employees' Compensation Act (FECA), a recipient must periodically submit disclosure forms to the United States Department of Labor, Office of Workers' Compensation Programs (OWCP), which requires the recipient to report all employment, including self-employment, in which the recipient has participated during the time periods covered by the forms. OWCP uses those reports to assist in determining whether an individual has a continuing entitlement. Our workers' compensation investigations focus on individuals' failures to report employment. While there are other types of workers' compensation fraud, such as claiming an injury occurred on the job when it occurred elsewhere, most of our cases involve someone lying to continue receiving benefits.

We previously reported that a former TVA Nuclear employee pled guilty to one count of filing a false statement to obtain benefits under the FECA, namely that he falsely reported to OWCP during April 2003 that he was not employed or self-employed when,



in fact, he was employed as a truck driver. Because any individual convicted of committing fraud in connection with the application for or receipt of workers' compensation benefits loses his entitlement to any future benefits, his benefits were stopped, saving TVA an estimated \$501,322. During this reporting period, the former employee was sentenced to five years' probation and ordered to pay \$5,005 in restitution. OWCP declared a forfeiture on an additional \$27,608 in benefits he received.

The FECA also provides that individuals who are incarcerated based on a felony conviction cannot receive benefits while incarcerated, although eligible dependents could receive compensation at a reduced rate.

- We identified individuals in western Kentucky who were receiving total disability benefits, but records showed they incurred limited medical expenses. We determined that one of those individuals was serving a 20-year prison sentence for attempted robbery. That individual's benefits were suspended while he is incarcerated. The projected long-term savings to TVA total \$515,320; we also recovered \$9,886 in previously issued workers' compensation checks.
- Our investigation of a former TVA fossil plant employee receiving workers' compensation benefits revealed the individual was incarcerated due to a conviction for felony narcotic violations and sentenced to 60 months in federal prison. While his dependents will continue to receive compensation, his benefits were suspended while he is incarcerated, saving TVA over \$80,000.

## TASK FORCES

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We recognize the importance of sharing investigative resources and information with other federal agencies and task forces in order to focus enhanced law enforcement resources by applying the most effective criminal and civil statutes against individuals and companies who are breaking the law. During this reporting period, we continued to provide investigative resources to the Environmental Crimes Joint Task Force, the Joint Terrorism Task Force, and the Health Care Fraud Task Force.



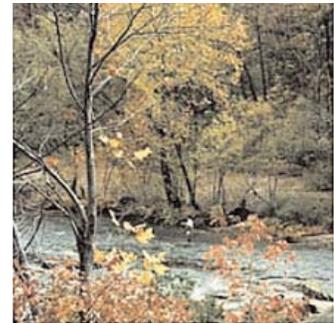
## Investigations

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### ENVIRONMENTAL CRIMES JOINT TASK FORCE

The Environmental Crimes Joint Task Force, sponsored by the United States Attorney for the Eastern District of Tennessee, is comprised of members from numerous federal and state agencies. Our participation on this task force supports TVA's goal of supporting a thriving river system. During this reporting period, task force results include the following.

- During December 2006, a subcontractor providing waste management services at a Department of Energy facility in Tennessee pled guilty to a misdemeanor charge of violating the Rivers and Harbors Act following the release of waste water containing radionuclides from a settling pond. The company was sentenced to pay a \$10,000 fine and to make \$290,000 in restitution to be used for remediation and education and protection to improve and enhance the natural environment in Tennessee, including Anderson County where the violation occurred.



- A former Waste Water Treatment Plant operator pled guilty to one count of making a material false statement in a document required to be filed and maintained under the Clean Water Act. The former operator falsified entries on the Monthly Operating Report and Discharge Monitoring Report. The falsified Discharge Monitoring Report was filed with the Tennessee Department of Environment and Conservation.

### JOINT TERRORISM TASK FORCE (JTTF)

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. As previously stated by FBI Director Robert S. 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



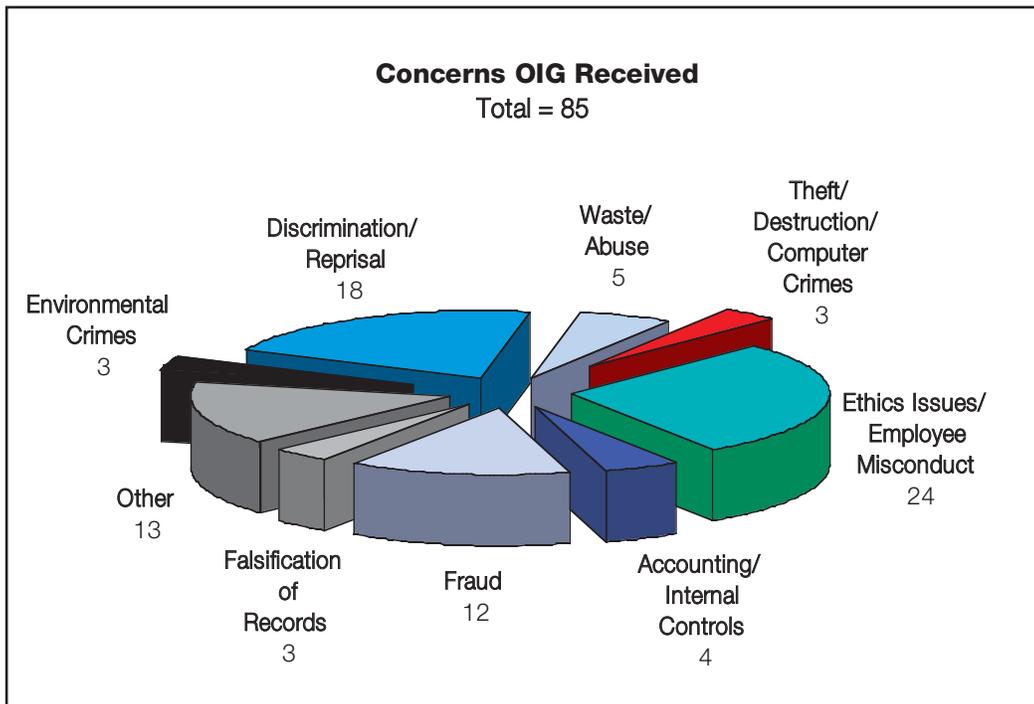
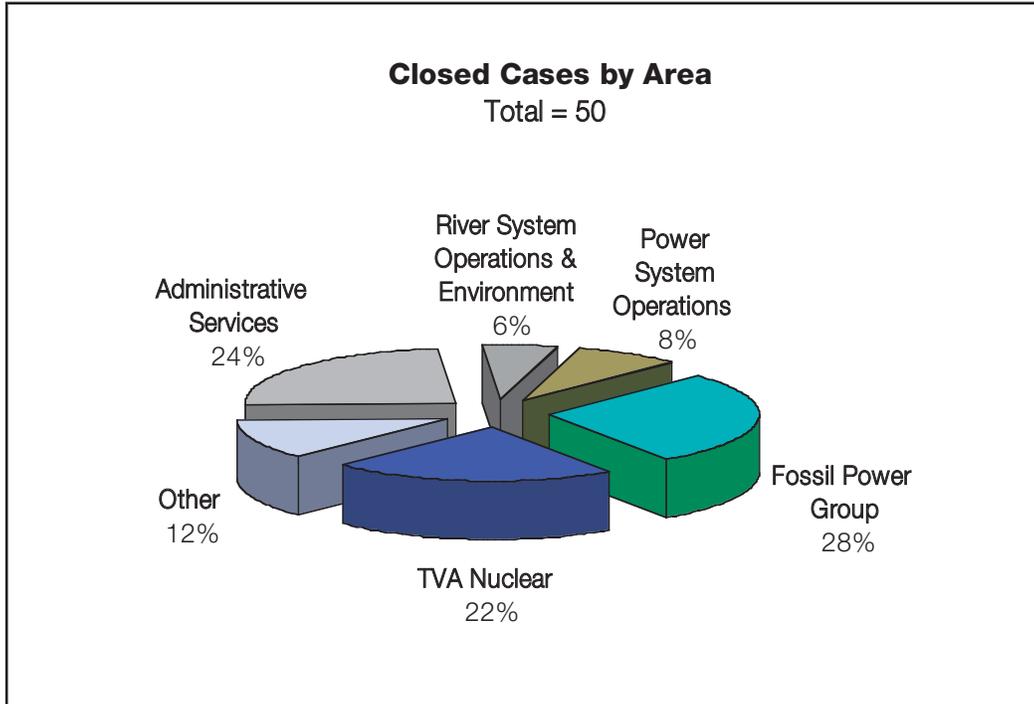
counterterrorism investigations and share information. They are also a critical conduit between the FBI and the officer on the beat.”

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

We continued our participation on the Health Care Fraud Task Force sponsored by the United States Attorney for the Eastern District of Tennessee. TVA operates a self-insured health benefits plan, and claims of health care fraud involving TVA and others are investigated by this task force. The task force includes representatives from the investigative arms of federal, state, and local agencies, and the BlueCross BlueShield Tennessee Special Investigations Unit.



## Investigations





We are responsible under the IG Act for reviewing proposed legislation and regulations that relate to the programs and operations of TVA. Although TVA's Office of General Counsel reviews proposed or enacted legislation that could affect TVA activities, the OIG independently follows and reviews proposed legislation that affects the OIG and/or relates to waste, fraud, and abuse in TVA programs or operations.



During this reporting period the Accountability in Government Contracting Act of 2007, S. 680, currently pending in the Senate Committee on Homeland Security and Governmental Affairs, and its companion bill, H.R. 1362, passed by the House on March 15, 2007, are major pieces of legislation being followed by the TVA OIG.

Among other items, as currently proposed, the Senate version of the Accountability in Government Contracting Act of 2007 contains several amendments to the IG Act. We generally support those provisions, which we believe will improve OIG operations. The House version, however, does not contain these provisions. IG Richard Moore is a member of the PCIE Legislation Committee and is working with the Committee to ensure the position of the IG community is communicated to both houses of Congress.



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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	34
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	15-32
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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	15-32
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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>2006-016C*</b> 11/20/06	Review of TVA's Contract with National Emergency Assistance	\$116,488	\$116,488	
<b>2006-015C</b> 12/18/06	Mitsui Babcock	886,178	1,816	
<b>2007-002C</b> 12/19/06	Pre-award Audit of Bechtel Power Corporation's Proposal for DSEP Services at WBN			\$403,475
<b>2006-036C</b> 01/17/07	Compliance Audit of TRC Garrow Associates, Inc.	4,964	895	
<b>2006-022C*</b> 01/25/07	Henkels & McCoy, Inc. - Contract No. 0028496 - Compliance Audit	58,448	406	
<b>2006-038C</b> 01/26/07	Stone & Webster Construction, Inc. - Contract No. 14703 - Review of Indirect Markup Rates			8,510,000
<b>2006-011C*</b> 01/31/07	Review of TVA Contract No. 28499 With Dillard Smith Construction Company	186,378	5,716	

### FINANCIAL

<b>2006-040F*</b> 12/18/06	Review Of PricewaterhouseCoopers' Audit of the TVA FY 2006 Financial Statements			
<b>2007-018F</b> 02/14/07	SOX Readiness Testing for Perform Closing			
<b>2007-025F</b> 02/15/07	Audit Of PricewaterhouseCoopers' Review of TVA's 1st Quarter FY 2007 Financial Statements			
<b>2005-062F</b> 03/14/07	TVA's Financial Reporting Controls - SOX Readiness Testing			

\* These reports or a summary can be found on our web page <http://insidenet.tva.gov:8042/2007audits.html>.



## Appendix 2

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
<b>INFORMATION TECHNOLOGY</b>				
<b>2006-034T-02</b> 10/23/06	Security of TVA's Network Perimeter - Blue Level Testing			
<b>2007-021T</b> 01/30/07	Remediation Testing of Login Trigger Implementation for IBS Databases			
<b>2006-014T</b> 02/15/07	IT General Controls - SOX Readiness Testing			
<b>PERFORMANCE</b>				
<b>2007-003F*</b> 10/27/06	Agreed Upon Procedures for TVA FY 2006 Performance Measures			
<b>2006-039C*</b> 01/26/07	Review of TVA's Controls Over the Execution of FEMA's Mission Assignments			
<b>2007-005F*</b> 03/15/07	Identification of TVA's Cash Accounts			
<b>2007-017F*</b> 03/15/07	Review TVA's Fuel Cost Adjustment Process			
<b>TOTAL</b>	<b>18</b>	<b>\$1,252,456</b>	<b>\$125,321</b>	<b>\$8,913,475</b>

\* These reports or a summary can be found on our web page <http://insidenet.tva.gov:8042/2007audits.html>.



## 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	2	\$550,807	\$125,941
B. Which were issued during the reporting period	5	\$1,252,456	\$125,321
<b>Subtotals of A and B</b>	<b>7</b>	<b>\$1,803,263</b>	<b>\$251,262</b>
C. For which a management decision was made during the reporting period	7*	\$1,803,263	\$251,262
(i) Dollar value of disallowed costs	7	\$1,429,334	\$251,262
(ii) Dollar value of costs not disallowed	3	\$373,929	\$0
D. For which no management decision has been made by the end of the reporting period	0	\$0	\$0
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(i) and C(ii) when the same reports contain both costs disallowed and not disallowed by management.



## Appendix 3

### 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	2	\$6,836,000
B. Which were issued during the reporting period	2	\$8,913,475
<b>Subtotals of A and B</b>	<b>4</b>	<b>\$15,749,475</b>
C. For which a management decision was made during the reporting period	3*	\$7,239,475
(i) Dollar value of costs agreed to by management	3	\$4,533,774
(ii) Dollar value of costs not agreed to by management	2	\$2,705,701
D. For which no management decision has been made by the end of the reporting period	1	\$8,510,000
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(i) and C(ii) when the same reports contain both costs agreed to and not agreed to by management.



## Audit Reports With Corrective Actions Pending

Final corrective actions stemming from one contract compliance, two operational, one financial, and six IT audits are not complete; however, corrective action is underway and scheduled for completion in accordance with the current revised milestones.

### AUDIT REPORT NUMBER AND DATE

### DESCRIPTION

<b>2001-074T</b> 01/07/02	<b>Application Review of Pegasys</b> This report contained recommendations regarding facility access control. Implementation of the new access control system is underway and is expected to be complete in 2008.
<b>2003-004C</b> 03/30/04	<b>A&amp;G Tree Service, Inc.</b> TVA asserted a claim against A&G for \$638,542 for unsupported billings under the contract. A formal Contracting Officer's Decision was rendered in March 2005 that concurred with our audit findings and TVA's claim and directed A&G to reimburse TVA for overpayments of \$638,542 under a closed contract. During May 2005, TVA stopped A&G from performing work under a subsequent contract and recovered part of TVA's damages by withholding payments totaling \$88,362 on invoices under the subsequent contract. A&G filed two lawsuits against TVA (1) for the payments withheld and (2) to appeal the Contracting Officer's Decision. The timeframe for resolution of these lawsuits is indeterminate.
<b>2003-040T</b> 03/30/04	<b>Nuclear Plant IT Security</b> This report included recommendations to strengthen logical and physical controls at a nuclear generation facility. TVA management has completed remediation action on all but one recommendation which is targeted for completion by September 30, 2007.
<b>2005-009T</b> 06/30/05	<b>Review of TVA's Information Factory Application, Access, and General Controls</b> This report included recommendations to strengthen control over the system. TVA management is implementing planned remediation action for the three open recommendations which are expected to be complete by June 30, 2007.
<b>2005-012T</b> 06/30/05	<b>Integrated Business System Application, Access, and General Controls</b> This report included recommendations to strengthen control over the general ledger system. Remediation was completed on 12 recommendations. TVA management is implementing planned remediation actions for the remaining four items which are expected to be complete by April 13, 2007.
<b>2005-034F</b> 01/30/06	<b>Internal Controls Over Time Reporting</b> The Controller agreed to rewrite Accounting Procedure 14 to emphasize specific information applicable to role definitions, expectations and accountability, and continued periodic refresher training for System Administrators (SAs), as well as implement a mandatory on-line training module for the SAs. The Controller is currently developing SOX documentation related to the time reporting process. This documentation, which is expected to address these issues, is to be complete in June 2007.
<b>2005-039T</b> 01/30/06	<b>eWorkplace Application, Access, and General Controls</b> This report included 15 recommendations to strengthen control over the time reporting system. Weaknesses were identified in processing controls, direct data changes, logical access controls, change management, and backup and contingency planning. TVA management has completed remediation action on 12 recommendations and is implementing planned actions for the remaining 3 recommendations. Actions are expected to be complete by June 30, 2007.



## Appendix 4

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### Audit Reports With Corrective Actions Pending

AUDIT REPORT  
NUMBER  
AND DATE

DESCRIPTION

**2005-052F**  
02/23/06

**Follow-up Review of TVA's Hospitality Program**

The Controller agreed with our recommendation to revise Business Practice 7 and will include specific reference to form TVA 17901 and use of the purchasing card for hospitality spending. Responsibility for this action was transferred to Human Resources. To date, the finding is not remediated. The OIG is currently performing a routine review of the hospitality program.

**2005-055T**  
01/24/06

**Integrated Contractor System Logical Access and General Controls**

This report contained 13 recommendations to strengthen logical access and general controls over TVA's Integrated Contractor System. TVA management agreed with our recommendations. Remediation for six recommendations is complete, and the remaining recommendations are targeted for remediation by June 30, 2007.

**2005-059F**  
12/06/05

**Summary of SOX Process and Controls Documentation Reviews**

The Chief Financial Officer (CFO) organization agreed to implement changes to various business processes and update related documentation in the Risk Control Tracking System to implement our recommendations. The CFO organization is tracking planned process changes in the Summary of Aggregated Gaps Report. The planned improvements are to be complete in FY 2007.



## Investigative Referrals and Prosecutive Results\*

### Referrals

Subjects Referred to U.S. Attorneys	6
Subjects Referred to State/Local Authorities	1

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### Results

Subjects Indicted	2
Subjects Convicted	2
Referrals Declined	3

\* These numbers include task force activities and joint investigations with other agencies.



## Highlights

	MAR 31, 2007	SEPT 30, 2006	MAR 31, 2006	SEPT 30, 2005	MAR 31, 2005
<b>AUDITS</b>					
AUDITS IN PROGRESS					
Carried Forward	16	20*	24	30	28
Started	42	23	22	41	35
Canceled	(4)	(1)	(3)	(11)	(2)
Completed	(18)	(26)	(22)	(29)	(31)
In Progress at End of Reporting Period	36	16	21	24*	30
AUDIT RESULTS (Thousands)					
Questioned Costs	\$1,252	\$1,411	\$774	\$6,422	\$8,859
Disallowed by TVA	1,429	782	1,122	4,969	7,586
Recovered by TVA	695	793	1,641	5,016**	2,312
Funds to Be Put to Better Use	\$8,913	\$10,839	\$700	\$5,634	\$24,306
Agreed to by TVA	4,534	2,790	633	1,251	20,181
Realized by TVA	3,603	2,287	740	6,002	7,886
OTHER AUDIT-RELATED PROJECTS					
Completed	12	11	11	10	3
Cost Savings Identified/Realized (Thousands)	\$103	\$0	\$36	\$0	\$0
<b>INVESTIGATIONS ***</b>					
INVESTIGATION CASELOAD					
Opened	73	70	80	84	84
Closed	50	105	71	84	103
In Progress at End of Reporting Period	148*	113	148*	157	157
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$332.5	\$643.1	\$2,966.5	\$1,880.3	\$216.3
Savings	87.9	1,038.7	1,625.4	36	1,581.5
Fines/Penalties	10.2	.5	6.2	6.7	.4
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	5	16	17	10	11
Actions Taken (# of Subjects)	4	6	9	13	16
Counseling/Management Techniques Employed (# of Cases)	7	14	14	16	12
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred	6	3	5	8	12
Indicted	2	1	3	4	3
Convicted	2	1	3	5	4
<b>INSPECTIONS</b>					
Completed	7	20	14	13	14
Cost Savings Identified/Realized (Thousands)	\$15	\$0	\$0	\$118	\$0

\* Adjusted from previous semiannual report.

\*\* Includes excess funds recovered by TVA of \$33,219.

\*\*\* These numbers include task force activities and joint investigations with other agencies.

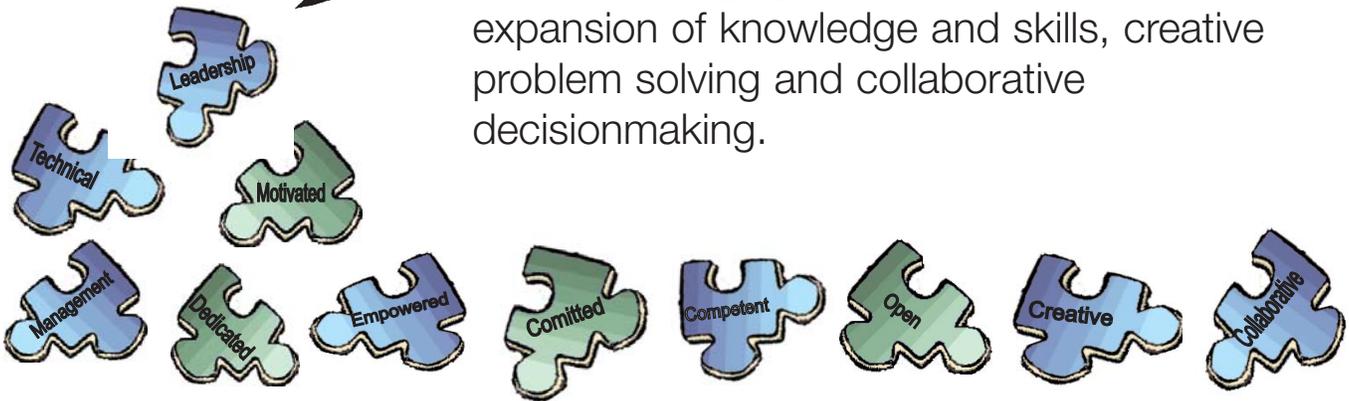
# OIG LEADERSHIP PHILOSOPHY



The TVA OIG strives to be a high performing organization made up of dedicated individuals who are empowered, motivated, competent, and committed to producing high quality work that improves TVA and life in the Valley.

Each of us has important leadership, management, team, and technical roles.

We value integrity, people, open communication, expansion of knowledge and skills, creative problem solving and collaborative decisionmaking.





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