

Office of the Inspector General

Tennessee Valley Authority



Twenty Years of an Independent Light

SEMIANNUAL REPORT

October 1, 2007 – March 31, 2008

Table of Contents

03	A QUICK LOOK AT THE OFFICE OF THE INSPECTOR GENERAL
04	MESSAGE FROM THE INSPECTOR GENERAL
06	EXECUTIVE SUMMARY
08	OFFICE OF THE INSPECTOR GENERAL
14	SPECIAL FEATURE – 20TH ANNIVERSARY <ul style="list-style-type: none">• Former TVA IGs Join with OIG to Celebrate 20 Years of Statutory Independence• A Former TVA Executive’s Perspective on the Formation of the OIG• Statutory Independence Made A Difference• Promoting Positive Change in TVA for 20 Years• Promoting Operational Excellence• Promoting Integrity in Financial Reporting• Responding to Key Stakeholders• Promoting Cost Reduction• IT Reviews Grow in Importance• Preventing and Detecting Fraud, Waste, and Abuse• 20-Year Cumulative Audit and Related Project Highlights• An Award Winning IG’s Office
40	SUMMARY OF REPRESENTATIVE AUDITS
45	SUMMARY OF REPRESENTATIVE INSPECTIONS
48	SUMMARY OF REPRESENTATIVE INVESTIGATIONS
52	CONGRESSIONAL REQUEST AND SUMMARY OF LEGISLATION AND REGULATIONS
54	APPENDICES <ul style="list-style-type: none">• Appendix 1: Index of Reporting Requirements Under the IG Act• Appendix 2: Audit Reports Issued• Appendix 3: Audit Reports Issued With Questioned Costs and Recommendations That Funds be Put to Better Use• Appendix 4: Audit Reports With Corrective Actions Pending• Appendix 5: Investigative Referrals and Prosecutive Results• Appendix 6: Highlights This Semiannual Period• Appendix 7: Glossary, Abbreviations, and Acronyms• Appendix 8: Tennessee Valley Region Map

A Quick Look at the Office of the Inspector General

The Office of the Inspector General (OIG) is an independent organization charged with conducting audits, inspections, and investigations relating to Tennessee Valley Authority (TVA) programs and operations, while keeping the TVA Board and Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations.

The OIG focuses on (1) making TVA's programs and operations more effective and efficient; (2) preventing, identifying, and eliminating waste, fraud, and abuse and violations of laws, rules, or regulations; and (3) promoting integrity in financial reporting.

If you would like to report to the OIG any concerns about fraud, waste, or abuse involving TVA programs

or violations of TVA's Code of Conduct, you should contact the OIG Empowerline system. The Empowerline is administered by a third-party contractor and can be reached 24 hours a day, seven days a week, either by a toll-free phone call (1-877-866-7840) or over the Web (www.oigempowerline.com). You may report your concerns anonymously or you may request confidentiality.

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 decision-making.

Message from the Inspector General

This semiannual report is unique for us. For the first time in our relatively short history as an organization, we are taking the opportunity to reflect back over the last 20 years.



In 1988, Congress established by law the Office of Inspector General at TVA. A fair question is, to what end? If we were judged on the same basis as private sector business units, how would we stack up? Did we pay our way? And perhaps the most important consideration, have we helped make TVA better?

Some might say there is a natural tendency in government to dismiss prior administrations as ineffective and to discount their achievements, that each administration strives to make its distinctive mark and to laud its own achievements. We owe the American public more. We owe them our best efforts to learn from the past as we move to the future.

Looking at the TVA OIG, I see more than any one particular administration. Compartmentalization by Inspector General, Board members, or who was sitting in the White House does a disservice to the work of the many fine auditors and investigators who managed to transcend any such limitation. The exemplary work done by our people today was made possible in large part by those who went before us. This edition of our semiannual report honors

their contributions to helping make TVA better and clearly answers the questions I pose above.

In March of this year, the TVA OIG brought together four of our former Inspectors General to reflect on their years as IG. Bill Willis, the former general manger of TVA, gave us a Board level view of the creation of the TVA OIG, including the attendant concerns. The combined recollections of the former IGs and Bill Willis put into context the historical relationship between the TVA Board and the OIG. Most of the current employees of our office had never heard these accounts.

Our office has gone from agency created to statutorily mandated to presidentially appointed. The four former Inspectors General who came together helped us understand the context of our evolution and the many lessons learned over the past 20 years. They also helped us see different viewpoints and approaches for handling issues that have faced the IG community from day one, such as how to balance independence and working with management. By learning from the past, we are in a better position to deal with whatever may happen.

In conclusion, this semiannual report illustrates results today and over the last 20 years that show we have paid our way and we have helped make TVA better. But I would be remiss if I did not emphasize that much of our success has been due to the steadfast support of the TVA Board and TVA management who understand our role and share our beliefs. Particularly, I extend my heartfelt gratitude to the TVA Board and President and CEO Tom Kilgore for their continued efforts to make the relationship between TVA and the OIG work. Their commitment to make TVA a world-class organization is evident with each passing year.



Richard W. Moore
Inspector General

Executive Summary

The results of our audits, inspections, and investigations from the past six months are summarized throughout this report. Highlights include the following:

- This issue includes as a special feature the celebration of the 20th anniversary of the TVA OIG gaining statutory independence under the Inspector General Act (IG Act) as amended in 1988.
- Our preaward audits identified \$101 million in potential savings to TVA through negotiation of submitted contract cost proposals.
- We completed five contract compliance audits that identified \$774,477 in questioned costs, including \$657,540 we determined a contractor owed TVA for provisional billing adjustments for calendar years (CYs) 2005 and 2006.
- We found total hospitality expenditures, including employee recognition expenses, for the period October 1, 2005, through June 30, 2007, were 64 percent lower than our last audit covering hospitality expenses in 2003.
- We reviewed reportable environmental events (REE) at TVA facilities for the two years ended September 30, 2006. We identified (1) noncompliance with reporting requirements; (2) different interpretations on how some environmental occurrences should be classified; (3) environmental issues not documented and managed through TVA's corrective action program; (4) lack of a corporate REE procedure; (5) inaccurate environmental data in the Electronic Corrective Action Program (eCAP), Environmental Event Reporting (EER) system, and REE registry; and (6) two instances where TVA did not externally report events because of uncertainty about requirements.
- We performed two organizational effectiveness reviews of TVA's Information Services (IS) organization and Information Technology (IT) Security function. In these reviews, we found:

The recent restructuring of the IS operations area mirrors leading practices. In addition, IS' methodologies and tools for conducting IT projects are above those of its peers. However, our review showed some areas need improvement, such as: TVA needs to (1) better integrate IS governance with TVA business strategy; (2) improve focus on strategic business partnering and communication with customers; (3) target organization and policy changes, performance measures, and service management toward aiding customers to achieve business goals; (4) consolidate procedures to increase usability; and (5) develop a strategy for handling the risk of the aging workforce and ensuring knowledge transfer.
- While IT Security has made strides in establishing the technology infrastructure, we found: (1) IT Security lacks a business-level mechanism to provide cross-agency oversight, a strategic TVA-wide approach, and grounding in risk management; (2) coordination and communication with business units were not well defined and could be more effective with increased training, communication, and business unit involvement in security planning; (3) procedures were outdated and did not address issues for all business segments; and (4) performance management was substantially undefined.
- We reviewed the external contractual services' component of River System Operations and Environment (RSO&E) Internal/External Contractual Services' program. The program is operated by Resource Management (RM). In summary, we found:

The work being performed is not a TVA core business and does not appear to align directly with TVA's Strategic Plan. Specifically, the work does not (1) involve the generation or transmission of electricity, (2) relate

to environmental stewardship in the Tennessee Valley, or (3) help bring jobs to the Tennessee Valley through capital investment. We concurred in TVA’s decision to eliminate chemical agent work once current contractual commitments expire.

- The largest civil False Claims Act settlement in the history of the TVA OIG occurred during this period. The United States (U.S.) Attorney’s Office for the Southern District of Illinois negotiated the settlement in a case we worked jointly with the Federal Bureau of Investigation (FBI). We investigated whether TVA was defrauded by three Kinder Morgan limited partnerships (collectively “Kinder Morgan”) that provided coal and other energy

transportation and distribution services at two coal terminals. TVA incurred losses of more than \$6.5 million. The company agreed to pay back three times this amount for a total of more than \$19.5 million. The company also agreed to reimburse other private customers approximately \$5 million. TVA recovered its actual losses plus the cost of the investigation from the settlement amount, less a standard administrative fee collected by the U.S. Department of Justice (DOJ), for a total monetary recovery of nearly \$8 million.

STATISTICAL HIGHLIGHTS October 1, 2007 ~ March 31, 2008	
Audit Reports Issued	38
Questioned Costs	\$774,477
Disallowed Costs	\$370,085
Funds Recovered	\$3,338,626
Funds to be Put to Better Use	\$100,990,000
Funds Realized by TVA	\$53,986,500
Investigations Opened	155
Investigations Closed	121
Fines/Recoveries/Restitution/Savings	\$29,604,937
Indictments/Convictions	7
Disciplinary Actions (No. of Subjects)	9
Inspections Completed	8

Office of the Inspector General | Overview

OFFICE RESPONSIBILITIES AND AUTHORITY

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

OIG RESPONSIBILITIES

- Promote economy and efficiency while preventing and detecting fraud, waste, and abuse.
- Conduct and supervise audits, inspections, 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 nonfederal auditors complies with Government Auditing Standards.
- Issue semiannual reports to TVA Board and Congress.

OIG AUTHORITY

- Conduct any audit, inspection, 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.

Office of the Inspector General | Strategic Plan

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.

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.

GOALS & OBJECTIVES

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

- Focus efforts on areas of highest impact and risk
- Ensure processes are efficient and effective
- Stay abreast of emerging issues and industry trends
- Stay abreast of stakeholder concerns
- Produce work that is timely, relevant, and high quality

Workforce... *Cultivate and retain a highly skilled, productive, and fully engaged workforce*

- Hire and retain a well qualified workforce
- Maintain competitive pay and award programs that allow for rewarding team and individual contributors
- Develop leadership, team and technical skills of each employee
- Ensure accountability in individual performance
- Promote effective communications within OIG

Stakeholder... *Communicate effectively with stakeholders and deliver services that meet their 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

CORE VALUES

• Independence	• Quality	• Leadership	• Communication
• Integrity	• Initiative	• Teamwork	• Respect for Individual
• Innovation	• Results		

Office of the Inspector General | Organization

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 near the Browns Ferry Nuclear Plant outside Athens, Alabama; as well as an Inspections group located in Chattanooga. The OIG consists of three primary components: (1) Administration and Government Relations, (2) Audits and Inspections, and (3) Investigations.

ADMINISTRATION AND GOVERNMENT RELATIONS

The administrative section works closely with the IG, Deputy IG, and managers to address the day-to-day operations of the OIG and to develop policies and procedures. Responsibilities include personnel administration, budget and financial management, purchasing and contract services, facilities, communications, conferences, and government relations.

AUDITS AND INSPECTIONS

The Audits and Inspections groups perform a wide variety of engagements designed to promote positive change and provide assurance to TVA stakeholders. Based upon the results of the engagements, the Audits and Inspections groups make recommendations to enhance the effectiveness and efficiency of TVA's programs and operations. The groups use an impact- and risk-based approach to developing an annual work plan. The groups' plans consider TVA's strategic plans, major management challenges, TVA's enterprise risk management process, and other input from TVA management. The planning model also evaluates each potential engagement from the standpoint of materiality (i.e., costs or value of

assets), potential impact, sensitivity (including public and/or congressional interest), and likelihood it will result in recommendations for cost savings or process improvements. The result of the OIG audit and inspections planning process is a focus on those issues of highest impact and risk of fraud, waste, and abuse, and IT issues, including malicious and other system intrusions.

The **AUDITS** group, based in Knoxville, conducts and/or supervises comprehensive financial and performance audits of TVA programs and operations.

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

The **INSPECTIONS** group, based in Chattanooga, provides assurance on the effective and efficient achievement of program objectives and operational functions. It performs both comprehensive reviews and more limited scope policy and program reviews. In accordance with the Quality Standards for Inspections, the objectives of the Inspections group 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.

Audit and inspection findings vary depending on the objectives of the

audit. Issues can be generalized into specific categories depending on the type of engagement performed.

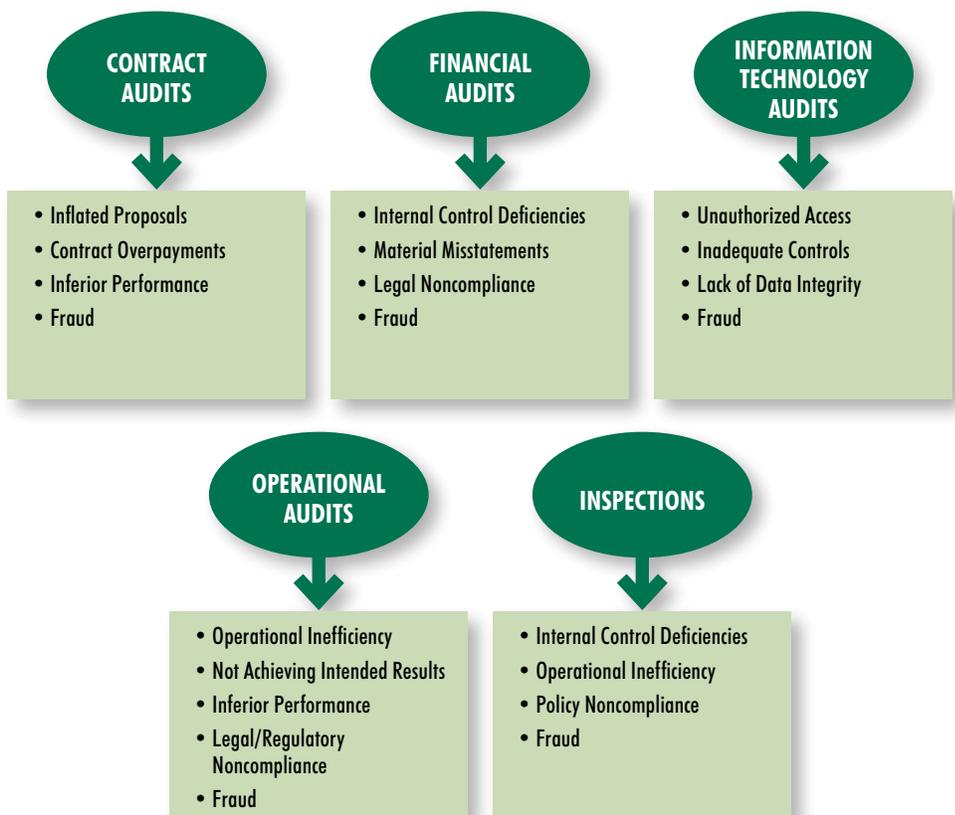
The graphic below shows some representative examples of audit and inspection issues commonly reported.

INVESTIGATIONS

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, economic development loan recipients, and others who commit crimes against TVA. Investigations maintains liaisons with federal and state prosecutors and reports to the DOJ whenever the OIG has reason 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.

TYPES OF AUDIT AND INSPECTION ISSUES



Office of the Inspector General | 2008 Team



Office of the Inspector General | Organization Chart



RICHARD W. MOORE
Inspector General



Richard P. Levi
Legal Counsel



BEN R. WAGNER
Deputy Inspector General

ADMINISTRATION AND GOVERNMENT RELATIONS



Ronald Wise
Assistant Inspector General
Administration and Government Relations



Kay Myers
Manager
Human Resources



Stefanie Hogle
Communications Specialist

INVESTIGATIONS



John E. (Jack) Brennan
Assistant Inspector General
Investigations

AUDITS AND INSPECTIONS



Robert E. Martin
Assistant Inspector General
Audits and Inspections



David P. Wheeler
Director
Contract Audits



Gregory C. Jaynes
Deputy Assistant Inspector General
Inspections



John H. Barrow
Acting Director
Financial and Operational Audits



Louise B. Beck
Audit Quality Manager



Jill M. Matthews
Director
Information Technology Audits

SPECIAL FEATURE – 20TH ANNIVERSARY



Twenty Years of an Independent Light

Former TVA IGs Join with OIG to Celebrate 20 Years of Statutory Independence

When four of the five previous IGs met on stage Wednesday, March 5, at The University of Tennessee Conference Center in downtown Knoxville, it was “truly a historic moment,” said current TVA IG Richard W. Moore.

Moore, who hosted the event, said at no time in history had five of the six IGs been together in the same room at the same time. The event was noticeably missing former IG Richard Chambers who was in Germany on business but sent his regards through Moore.

The celebration took place to recognize the 20th anniversary of the TVA OIG gaining statutory independence under the amendments passed in 1988 to the IG Act.

Norm Zigrossi was the first IG at TVA, serving from 1985 to 1992. Zigrossi explained how the office was formed when he became the first TVA Board appointed IG in 1985.

“People were waiting outside the door to talk to me,” he said, noting that in the first two months he received 4,000 concerns regarding TVA that people wanted the IG to address.

Zigrossi also noted that he faced significant opposition as the first IG. George Prosser added, “Norm Zigrossi was the right guy to put this together. He lived this thing 24 hours a day, seven days a week, and he was fighting a lot of people who didn’t want an IG.”

According to earlier reports, opinions about establishing an OIG were mixed with some saying they thought it was an unnecessary expense and others stating an IG was the only fair and impartial way to ensure TVA was operating in an ethical and efficient manner.

“We needed people to know that we were for real,” Zigrossi said. “We knew what we were doing, and we were there to help TVA become a better place. We had to have credibility and high standards. We had to be fair and to provide a service in a timely manner. Old facts, old news will never get you there.”

William Hinshaw, the second IG, who served from 1992 to 1994, complimented Zigrossi in saying, “I inherited something that Norm’s personal success created. It was his success that created a sense of expectation.”

truly a historic moment



Norm Zigrossi, Bill Hinshaw, George Prosser, Don Hickman

Hinshaw's period wasn't without controversy though. Hinshaw explained that there were several Board chairmen in six months and one of them fired him, he quipped.

One of Hinshaw's biggest accomplishments he believed was investigating TVA's medical plan administrator which led to an \$8.73 million recovery.

Hinshaw's tenure was followed by George Prosser, who served as the IG from 1994 to 2000. Prosser noted of his time as the IG, "I came along at a time when reinvented government was getting some legs. Like many of the group here," he added motioning to his colleagues, "it's tough to be an IG and be part of the organization."

When asked what he was most proud of, Prosser replied, "I never promoted

from anywhere but within, because we had good people who could do the job, and that's the thing I'm most proud of." Prosser introduced Don Hickman, who was acting IG following Chambers' tenure. "Don was the perfect guy for the job," he said. "Don could've been an IG several different places. He just didn't want to leave."

Hickman confirmed he did receive several job inquiries regarding IG positions in Washington, D.C., but he didn't want them. He credited his staff at the time for receiving those invitations saying that they made him "look good."

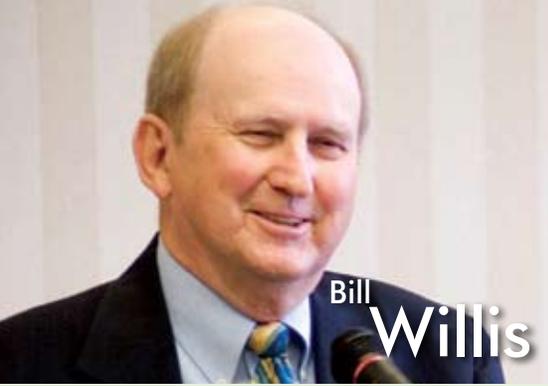
Hickman encouraged the TVA OIG current staff by saying to them, "You all work in a world of dichotomies. They tell you to be firm but flexible. This can be an easy job if you develop

the right kind of relationship with the agency. You have to develop an atmosphere of mutual respect."

Hickman added, "Too often you're known by your reputation, and it's not always accurate." He also pointed out that the TVA OIG should be working with TVA to prevent waste, fraud, and abuse. "If you wear your prevention hat, your caseload will be down instead of up, and that's a good thing."

Zigrossi's parting advice was to, "Let the facts speak to the results and you'll never go awry."

Hinshaw followed with, "This is a good place to be. I mean if you're going to be an IG, this is the best place in the country to do that."



Before there was Tom Kilgore, current President and Chief Executive Officer of TVA, there was Bill Willis.

A Former TVA Executive's Perspective on the Formation of the OIG

Bill Willis was TVA's General Manager in the 1980s, then became Chief Operating Officer, and finally Senior Executive Officer, before he retired from TVA in 1993. Though the titles changed with different TVA boards, the overall function of Willis' position did not.

As general manager, Willis was in charge of the day-to-day operations of TVA and was the person to whom all TVA employees ultimately reported.

In the mid 1980s, when the IG's office was formed, TVA faced unrelenting scrutiny about its struggling nuclear program, which had come under fire because of a prolific number of employee complaints. At that time, the nuclear program started reporting directly to the TVA Board.

Willis remembers those days and recalls the climate TVA's first IG faced when filling the unprecedented role.

"The problems the nuclear program was having is what brought on the discussion by Congress that TVA needed added outside oversight," Willis said. "We had to shut down our nuclear program because of several issues we were having with it. A lot of employees were filing reports to the Nuclear Regulatory Commission (NRC), the Department of Labor (DOL), and everywhere else they could file them. So, there was a lot of discontent. A lot of TVA complaints, both internally and externally, were not getting resolved."

Willis said eventually Congress commanded the then three-member TVA Board to create an IG position. The Board tasked Willis with carrying out the machinations to both create the position and find the right person for the job.

Willis said he enlisted the help of his assistant at the time, John Stewart, and they hired a consultant to assist in the search for TVA's first IG. That search led them to Norm Zigrossi, who was Special Agent in Charge of the FBI's Washington, D.C., field office.

TVA was able to get it turned around and to make it one of the best nuclear programs in the country...

"We did a lot of research and investigating and we felt confident that Norm was the right man to start the Inspector General's office," Willis said. "We knew with Norm's background he wasn't a quitter, and we needed someone who would stay the course in creating the office in light of all the opposition he would face."

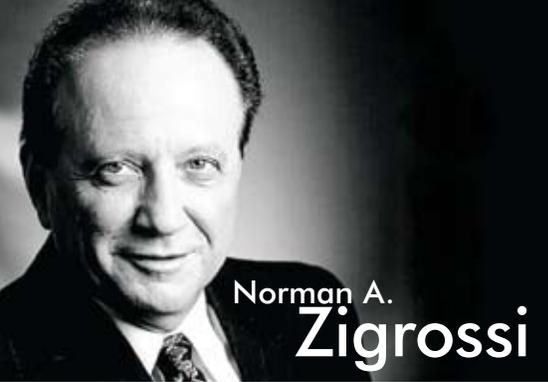
As it turned out, Zigrossi did just that. Willis explained that because TVA was an organization that for more than 50 years had limited outside oversight, naturally there were some deep-rooted concerns about establishing an IG's

office, but that even Willis' fears were alleviated after Zigrossi took office.

"There was a real fear of the IG coming in and the concern that some of the managers had revolved around the idea that we had always pushed the organization to do new things, to take some risks, and to be innovative. We were afraid of people pulling back and playing it safe all the time, but after the IG's office was in place and was working and operating, I think the fear of that fear went away. I think people went back to doing what they had always done and got back to proactive business practices."

Willis continued, "I stayed in touch with Norm and kept him informed of issues and there were no surprises. I had no problems."

Willis noted that TVA's nuclear program got turned around, as well, during his tenure. He believes the problems with the program started because many of TVA's experienced nuclear managers left the organization for higher-paying jobs. It wasn't until former TVA Board Chairman Marvin Runyon made a plea to Congress to restructure salary ranges for key TVA positions that the organization was able to employ the best nuclear talent needed to rebuild the nuclear program. Willis added, "TVA was able to get it turned around and to make it one of the best nuclear programs in the country, and I am extremely pleased that the program is still strong to this day."



Norman A.
Zigrossi

TVA's First IG 1985 - 1992

*“The OIG is a catalyst
for change within TVA”*

– April 1988

The year was 1985. TVA's nuclear program was receiving an abundance of attention, but not the kind of attention anybody would want.

Then, TVA General Manager Bill Willis recalls, TVA had lost a lot of its talent in the nuclear program to higher-paying jobs in the mid 80s. It would be at least three years before this trend would start to turn around. In the meantime, TVA's nuclear program was in obvious decline and reports were being filed with the NRC, the DOL, and the U.S. Congress, alerting them to the concerns employees had over the flailing program.

Because of the number of concerns that were raised to Congress, TVA, which had only limited oversight for more than 50 years, was tasked with hiring an IG for the first time ever.

After an extensive search, FBI veteran Norm Zigrossi was named as the first TVA IG.

During Zigrossi's tenure on October 18, 1988, President Reagan signed into legislation Public Law No. 100-504, establishing the TVA OIG and 32 others as statutory IG offices. This law made the OIG responsible for virtually TVA's entire internal audit and investigative activities.

Murder and drugs aren't usually part of a normal day's work, but these were issues that Zigrossi would have to address under the new statutory authority.

Tragedy struck the OIG in May 1990 with the murder of an OIG special agent in his home. The OIG devoted substantial resources to investigating the murder and eventually obtained a confession from the agent's wife.

Also in the early years of Zigrossi's tenure, the U.S. Court of Appeals for the Sixth Circuit affirmed a district court ruling that OIG agents conducted themselves lawfully and appropriately while investigating alleged drug use by Sequoyah Nuclear Plant employees.

In a significant win for 17 TVA employees retiring during this time period, an OIG investigation into the disclosure of confidential information about upcoming changes in retirement eligibility and pension computation rules that benefitted a senior TVA manager resulted in the changes being made retroactively to include the 17 recently retired TVA employees.

A review of the TVA OIG's operations determined that the OIG's operations compared “favorably with other Federal OIGs of long standing.”

Within the OIG, automation became a major event, with every staff member provided either a personal computer or access to a departmental computer. An office automation plan is prepared to meet both short-term and long-term automation goals.

Statutory Independence Made A Difference

During this time, a \$92 million rate increase was avoided because of an OIG finding concerning a change in a TVA accounting policy.



Beginning in June 1989, the OIG commenced performing preaward audits, a program that still continues. These audits assist contract administrators in evaluating proposed TVA contracts. They aid TVA in negotiating a lower price for goods or services. They help to ensure contract language and/or terms and conditions are clear so that the possibility of costly misinterpretation is lessened or avoided.

In 1990, the value of this effort was demonstrated early on when a single preaward audit for the nuclear arm of TVA identified \$42.5 million that could be put to better use.

In October 1989, the OIG provided TVA with a cost analysis of its arrangement with the U.S. Treasury Department (USTD) for short-term borrowing and checking account services, demonstrating that TVA could enhance its internal controls and reduce its costs by using a commercial bank. TVA subsequently obtained USTD approval to use a commercial bank for checking account services, reducing its costs annually by more than \$4 million.

Most significantly, 1989 was the year that TVA's Chief Financial Officer (CFO) recognized the OIG's role as TVA's internal auditor.

In 1991, the OIG first implemented an employee recognition program. With various refinements and improvements, this program, which recognizes the skill, dedication, and value of OIG employees, is an important part of the OIG today.

In April 1992, IG Zigrossi ended his term as IG, resigning to become a senior TVA manager. Succeeding him, William L. Hinshaw, II, took office as TVA IG on May 1, 1992.



Employee Recognition Program Award Winners

1986

TVA Office of the Inspector General becomes operational in 1986 amid controversy surrounding TVA's nuclear program.

1988

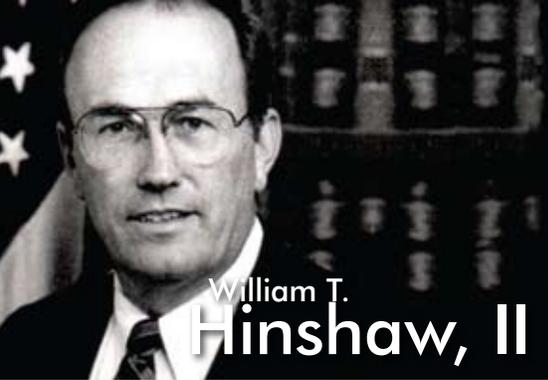
Norm Zigrossi, the first TVA Inspector General, is the IG when the office gains statutory status in 1988.

1990

In 1990, the TVA OIG identifies a TVA accounting finding that avoids a \$92 million rate increase.

1992

In 1992, Zigrossi resigns as TVA's first Inspector General and William Hinshaw is named as the next IG.



TVA's Second IG 1992 - 1994

"I have repeatedly been impressed by the dedication and skill of the men and women of this office whose efforts are directed toward making TVA the best utility in North America"

– April 1993

IG Hinshaw immediately saw the need for a greater OIG presence in the Valley as TVA operations and personnel were scattered throughout the region. So in 1992, he directed the opening of satellite offices, first in Chattanooga, Tennessee, and Huntsville, Alabama, and then in Memphis, Tennessee, because of the amount of OIG activity in or near these cities. And because of an increasing number of sexual harassment complaints, IG Hinshaw directed an undertaking by the OIG to identify and help eliminate sexual harassment in the TVA workplace.

It could be said that IG Hinshaw made the OIG more mobile. In July 1992, a team was formed to evaluate the OIG's automated data processing equipment, software, and processes. Phase one of this process came to fruition in March 1993 with major upgrades and/or replacement of the OIG's computer equipment. All traveling OIG employees received laptop or notebook computers that could be inserted into docking stations and used with regular sized monitors and keyboards while in the office, or easily transported alone for work in the field, and the nontraveling employees received desktop computers.

Hinshaw was obviously interested in contributing to the community and on June 9, 1992, the OIG joined TVA's Adopt-A-School program by entering a partnership with Gresham Middle School in Knoxville. The OIG's activities in the Adopt-A-

School program included constructing an outdoor classroom at the Environmental Center on Gresham's campus, hosting an annual chili cook-off to raise money, tutoring, planning and implementing an incentives achievement program, and coordinating donations of surplus TVA equipment, furniture, and computers.

Some of the major audits and investigations conducted by the OIG during Mr. Hinshaw's tenure included the following. A combined audit and investigative review in 1992-1993 of TVA's medical plan administrator led to an \$8.37 million dollar recovery. The OIG review showed the administrator improperly retained more than \$10 million in discounts it received from medical providers over a 10-year period. This review provided a direct benefit to TVA employees both through improved administration of TVA's medical insurance plan, thus helping reduce future costs, and through creation of a trust fund to offset future increases in medical costs established from the \$8.37 million the administrator refunded to TVA.

In 1993, the OIG benchmarked TVA's contractor performance evaluation process to that of other utilities and found TVA's process to be one of the "best in class." Also in 1993, at the request of the Vice President of Fossil Fuels, the OIG audited \$13.7 million of price adjustment claims totaling \$37.2 million by a company that supplied coal to TVA during the period 1977 through 1991.



TVA's Medical Plan Administrator Review Team

This audit questioned a total of \$10.2 million. TVA effectively implemented our recommendations and settled all outstanding claims by paying the company \$4 million.

IG Hinshaw testified before the Subcommittee on Oversight of Government Management, Committee on Governmental Affairs, concerning the Technology Brokering Program (TBP). IG Hinshaw testified regarding the OIG findings that the Department

of Defense (DOD) contract officer had not properly authorized the vast majority of orders TVA processed, TVA accepted interagency orders which did not meet the stated objectives of the TBP, and TVA inappropriately used cooperative agreements to procure goods and services for DOD.

On March 31, 1994, IG Hinshaw resigned as the IG. Succeeding him, George T. Prosser, became IG on April 1, 1994.

1992

In 1992, IG Hinshaw expands the OIG by opening satellite offices in Huntsville, AL, and in both Memphis and Chattanooga, TN.

Hinshaw opens an Inspections unit in Chattanooga to conduct quick turn-around audits.

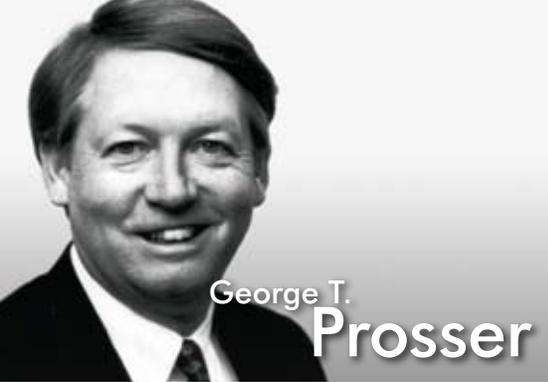
Hinshaw starts a partnership with Gresham Middle School in Knoxville as part of TVA's Adopt-A-School program.

1993

In 1993, an audit is completed that leads to TVA's recovery of \$8.37 million from its medical plan administrator.

1994

In 1994, Hinshaw retires as the IG and George T. Prosser, who had been with the IG's office since its inception, is named as the next IG.



George T.
Prosser

TVA's Third IG 1994 - 2000

*"I am proud
to be associated
with so many
qualified and
dedicated
employees"*

– April 2000

IG George T. Prosser had been with the OIG since its inception. During his tenure, where he served for the two preceding years as Assistant IG for Investigation, Mr. Prosser received the Paul R. Boucher Public Service Award from the President's Council on Integrity and Efficiency (PCIE) for his efforts in detecting abuse in the federal workers' compensation program.

In late summer 1994, the OIG completed a joint audit and investigation of a software contract. The audit was commenced at the behest of TVA management because of possible conflicts of interest concerns. OIG auditors determined that during May 1990, TVA paid the contractor \$15.6 million in advance for software products to be ordered over a five-year period ending May 1995. Contractually, TVA would forfeit the unused portion of the \$15.6 million prepayment when the contract expired. The OIG's work led to TVA and the contractor resolving several issues by the contractor refunding over \$8 million to TVA. Without this agreement TVA would have forfeited the unused portion of the software agreement.

Also, in 1994, the OIG completed a comprehensive Concerns Resolution Staff (CRS) program review. The review involved over 1,750 interviews. The OIG's findings were generally positive for TVA. Then, in 1995, TVA Nuclear management asked the OIG to review the CRS program at the Watts Bar Nuclear plant due to the NRC's interest in the program. The OIG interviewed

another 400 randomly selected TVA and contractor employees, as well as reviewed over 100 related and recently closed files. Again, our findings were generally positive. That September, our special project team journeyed to Washington, D.C., to brief senior NRC officials on the results of the review. Then, in 1996, the OIG performed a review of the Sequoyah Nuclear Plant's employee concerns program, interviewing more than 340 employees and contractors. Yet again, our findings were generally positive. These reviews have continued through the ensuing years.

During 1993 and 1994, the OIG participated in the "Federal Employees' Compensation Act (FECA) Fraud Deterrence Group," which was selected to receive the Secretary of Labor's Exceptional Achievement Award for 1995. The group played a significant role in the enactment of Public Law 103-329, which bans payment of FECA benefits to claimants who are convicted of defrauding the program, suspends payment of benefits to incarcerated felons, and changes the FECA fraud statute from a misdemeanor to a felony.

In 1997, special agents from the OIG became part of a newly formed federal and state Environmental Crimes Joint Task Force (ECJTF). This joining of forces soon bore fruit with three convictions in 1998. Two convictions fell under the federal Clean Water Act: (1) a conviction of a waste disposal company for dumping grease waste



**Former IG George Prosser
in Discussion**

into a manhole; and (2) a conviction of a company that transports hazardous waste and used oil for discharging waste into U.S. waters. The third conviction was of a wastewater plant operator for violating Tennessee law by submitting false operating reports to the Tennessee Department of Environment and Conservation. The work of the ECJTF has continued

through the years resulting in many more convictions.

With Y2K approaching, 1997 was the year the OIG began to review TVA's Year 2000 computer rollover activities, the success of which was critical to prevent disruption in the delivery of electric power. Any type of system failure could have resulted in anything from small customer inconvenience to

electric power plant shutdown affecting millions of customers. Our reviews helped to assure the smooth transition to the 21st century.

IG Prosser left his position as IG on August 14, 2000. On September 14, 2000, the Executive Council on Integrity and Efficiency (ECIE) honored Mr. Prosser for his outstanding contribution to the IG community.

1994

In late summer 1994, the OIG completes a joint audit and investigation of a software contract that leads to TVA recovering more than \$8 million.

1996

In 1996, OIG investigators become deputized by the U.S. Marshal.

1997

With Y2K approaching, the OIG prepares for computer rollover activities for the year 2000.

2000

IG Prosser leaves his position in 2000 and is honored by the ECIE for his outstanding contribution to the IG community.



Richard F.
Chambers

**TVA's Fourth IG
2000 - 2002**

"We stand ready to assist fellow law enforcement agencies in any way possible during this time [September 11, 2001] of national crisis"

– October 2001

On August 14, 2000, Richard F. Chambers became the fourth IG of TVA.

One of IG Chambers first actions was to create an IT group. By establishing this group, IG Chambers ensured the independence of OIG computer systems. An increase in staff levels occurred for the first time in 13 years.

IG Chambers then went about implementing a number of management initiatives. He implemented an office-wide strategic planning process, which led to development of a new strategic plan and vision. The new vision was "to illuminate today's challenges and tomorrow's solutions." The five strategic

objectives were to (1) cultivate and retain a highly skilled, innovative, and motivated workforce; (2) enhance communications with stakeholders and deliver services that meet their needs; (3) leverage OIG resources to optimize productivity and results; (4) focus on areas of high risk to TVA; and (5) envision change affecting TVA and identify effective solutions.

IG Chambers also instituted an annual office-wide training symposium and established a number of process improvements, including: (1) updating the employee recognition program, (2) implementing automated workpaper software, and (3) revising audit scoping, background investigation, and audit report development processes. Mr. Chambers further expanded alternative work schedules and flex time. He also adopted an auditor career tract program for entry-level auditors and created competitive higher-level positions in Audits and Investigations.

During IG Chambers tenure, the OIG received seven team awards for outstanding achievements from the ECIE. In addition, two task forces on which the OIG participated received PCIE/ECIE Awards for Excellence. Two

investigations also resulted in six TVA special agents being recognized by FBI Director Freeh for their contributions to these investigations.

On November 1, 2000, President Clinton signed Public Law 106-422, designating the position of TVA IG as presidentially appointed. IG Chambers retired from federal service in January 2002, and pursuant to the Federal Vacancies Reform Act, the First Assistant to the IG, G. Donald Hickman, assumed the role of Acting IG.



Illuminating today's challenges and tomorrow's solutions

2000

Richard Chambers takes office as the next IG in August of 2000. One of his first actions is to create an Information Technology team.

Chambers implements a strategic planning process that results in a strategic plan and a new vision for the office — "to illuminate today's challenges and tomorrow's solutions."

Chambers initiates an all-employees training symposium that is still in effect today.

In November 2000, President Clinton signs into law a bill making TVA's Inspector General a presidentially-appointed position.

2001

Following the tragedy of September 11, 2001, the OIG initiates a number of reviews to validate the effectiveness of TVA's procedures and controls.



G. Donald
Hickman

**TVA's Acting IG
2002 - 2003**

"I am extremely pleased by the support I have received as Acting Inspector General from Congress, OIG employees, the TVA Board, and our other stakeholders"

- October 2002

Subsequent to the tragic events of September 11, 2001, a major effort of the OIG was the initiation of a number of reviews to validate the effectiveness of TVA's security procedures and controls. These efforts were concluded under the direction of Acting IG Hickman.

The initial effort was a preliminary survey to assess the adequacy of TVA's security plans and actions taken in response to the terrorist attacks and related threats. The OIG found that TVA was taking or had taken appropriate measures to mitigate

the risks associated with the security of TVA's nuclear and nonnuclear facilities. The OIG also made a major commitment to assist TVA management in developing a cost-effective plan to evaluate TVA computer security procedures and controls.

On October 1, 2001, the OIG became a member of the PCIE. It did not take long for the OIG to win its first PCIE award. In 2002, an OIG audit team was awarded an Award of Excellence by the PCIE for the team's work in the area of TVA Long-Term Bulk Power trading. The team produced two highly complex reviews of TVA's weekly, monthly, seasonal, annual, and multi-year trading in the wholesale electricity market. The reviews were especially timely, as several power marketers had either filed for or were on the brink of bankruptcy. In addition, Enron and other utilities were facing scrutiny due to questionable energy trading and accounting practices.

The year 2002 saw the passage of the Homeland Security Act. Section 812 of the Act provided for law enforcement authority for TVA special agents under guidelines to be issued by the DOJ. To ensure a smooth transition, the OIG initiated and developed an intensive

law enforcement skills refresher training program. In addition, the OIG began participating on the Joint Terrorism Task Force (JTTF) led by the FBI's Knoxville Field Division.

A considerable amount of legislation had been passed in the preceding three years, requiring federal agencies to review and improve security of its information, e.g., Federal Information Security Management Act (FISMA), and to report annually on its action plans for improvements. The same legislation also requires OIGs to independently evaluate and report on agency compliance. Members of the TVA OIG became part of an IT Security Assessment (ITSA) project team. By March 31, 2003, the team had conducted 23 self-assessments and 2 vulnerability assessments.

On April 22, 2003, President Bush announced his intention to nominate Richard W. Moore, an Assistant U.S. Attorney in the Southern District of Alabama, to be the IG of TVA. Mr. Moore subsequently was confirmed as the first presidentially appointed IG at TVA, effective May 9, 2003, and Mr. Hickman returned to his position as the Assistant Inspector General of Investigations.

2002

In October 2001, the OIG becomes a member of the PCIE and wins its first PCIE award in 2002.

IG Chambers retires in 2002 and Donald Hickman is named as the Acting Inspector General.

The Homeland Security Act is passed in 2002 and gives law enforcement authority to TVA OIG special agents.

IG Hickman establishes performance measures of productivity, timeliness and results for TVA OIG staff. A computer forensics lab is also established.



**TVA's Fifth IG
2003 - present**

“TVA has many stakeholders, but ultimately it belongs to the people”

– October 2005

One of IG Moore’s first acts was to recreate the Inspections group and place it in Chattanooga so it was near a number of TVA operational and operations support units. The Inspections group provides flexibility to conduct limited scope policy and program evaluations to promote economy and efficiency in the management and administration of TVA programs and to conduct inquiries into allegations of fraud, waste, and abuse.

TVA OIG special agents received full law enforcement authority in a commissioning ceremony on January 23, 2004. 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. Our efforts in this area include opening additional satellite offices and assigning 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.

Unit 1 at Browns Ferry Nuclear Plant had been shut down since 1985. Because of the significance of the work being undertaken to restart Unit 1, estimated at the time to cost \$1.8 billion, the OIG in 2004 redirected resources to Browns Ferry Nuclear Plant to conduct reviews to promote cost control and to detect and correct instances of waste, fraud, and abuse. Our efforts had immediate results, both audit and investigative. Shortly after we began our reviews, we determined a contractor providing engineering services at Browns Ferry Nuclear Plant had overbilled TVA \$602,611 and we found the Consignment Inventory Payment controls could be strengthened.



IG Moore during plant visit

2003

In April 2003, Richard Moore is nominated as the first presidentially-appointed TVA IG.

2004

IG Moore assigns investigators as “road agents” to serve as key contacts at specific TVA facilities.

2006

IG Moore launches an outreach program to educate TVA plant employees about the OIG and its mission.

In an effort to support TVA management in identifying potential risks and mitigation strategies, the first fraud risk assessment training classes begin in 2004.

Our investigators, working with the U.S. Postal Service, found a Browns Ferry Nuclear Plant employee accepting kickbacks in the purchase of overpriced janitorial supplies. In another case, a contract employee made about \$10,000 of personal charges on a TVA credit card.

Two investigative initiatives in 2004 were: (1) the hiring of a forensic analyst along with the development of a data mining program; and (2) conducting throughout TVA fraud risk assessments, i.e., a process for 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.

With the strong support of TVA management, the initiation of the fraud risk assessment process was instantly successful in identifying potential risk areas and mitigation strategies for a number of TVA organizations. Working collaboratively with TVA management, we were able to identify a number of areas where controls could be improved. TVA management

subsequently developed remediation plans for those areas.

Recognizing the obligation of TVA to be accountable to the public, as well as the need for a greater amount of transparency, the OIG in 2005 began placing some audit and inspection reports on the OIG Web site either in full or in summary form.

In January 2006, the OIG renamed and contracted out the hotline, renamed Empowerline, to provide: toll-free 24-hour coverage, seven days a week to those calling; anonymity, if desired; and trending data to identify potential problem areas based on the number and type of calls received. This outsourced system offers a convenient way, i.e., by a toll-free telephone call or over the Web, for individuals to report concerns about activities adversely impacting TVA.

In conjunction with the establishment of Empowerline, the OIG instituted a reward program. Under the reward program, the disclosure to the OIG of information about criminal or unlawful activities leading to a felony charge, or a substantial monetary recovery for TVA, may result in a cash reward for the individual making the disclosure.

Demonstrating his personal commitment to the OIG's outreach efforts, IG Moore personally kicked off an initiative to open a dialogue with TVA employees. He attended all-hands meetings at the Kingston, John Sevier, and

Johnsonville TVA fossil plants. The all hands meetings provided an opportunity to discuss the OIG's role and responsibilities and encourage employees to call Empowerline.



2007

An effort is led to revamp the OIG hotline to make it operational 24 hours a day, seven days a week. It is renamed the Empowerline.

IG Moore launches a "Best Practices" initiative that receives a PCIE award in 2007.

IG Moore initiates the Higher Performing Organization model in the OIG and establishes telework as a long-term initiative designed to drive up performance.

Largest False Claims Act civil settlement in OIG history – \$25 million.

Other aspects of the outreach program were: (1) designation of Knoxville-based special agents for each TVA plant; (2) assigning agents to Mayfield, Kentucky; northern Alabama; and Chattanooga, Tennessee; and (3) introducing new TVA employees to the OIG through TVA's orientation program and a personal letter from the IG.

Also in January 2006, we initiated our newsletter, the OIG Connection. The purpose of the OIG Connection is to help engender effective communication about the functions, findings, actions, and role of the OIG. Eight issues of the OIG Connection have gone to press and the response has been positive.

Both the PCIE and the ECIE promote sharing of best practices through monthly meetings, journal articles, and conferences. However, IG Moore's discussions with individual IGs revealed an interest in supplementing the natural exchanges of best practices that occur by formalizing a process that focuses specifically on this area. This office took the initiative to establish a protocol for OIGs who wished to participate in a "best practices" exchange with other OIGs to share information, promote innovative thinking, and encourage improved practices within the OIG community.

So far, the TVA OIG has participated in five such exchanges. The result has been an enthusiastic endorsement by the offices that have participated.

This program has resulted in improved processes and increased office morale, but more importantly, it has enabled the participating offices to better serve their agencies and add greater value as a part of the IG community.

In 2007, the OIG joined the world of media production. Because so many people are now media oriented, a decision was made that the best way to communicate with TVA employees was to use the medium from which most were used to receiving information. The TVA OIG produced two videos. A video about the OIG was added to the TVA program introducing new employees to TVA. A second video was developed as a fraud education tool. It shows real-life examples of fraud cases involving TVA employees and

contractors. This video was placed on our Web page and advertised throughout TVA by way of the OIG Connection.



OIG Connection – March 2008 Issue



Best Practice Session with U.S. Postal Service



Fraud Video
Visit our Web site at www.oig.tva.gov for link to video

Promoting Positive Change in TVA for 20 Years

The TVA OIG has gone from (1) an office created by the TVA Board in 1985 to (2) a statutory office where the IG is appointed by the agency head to (3) a presidentially appointed IG office.

This year, we are celebrating our 20th anniversary since becoming statutory. In 1988, S. 908 passed the Senate by a vote of 85 to 0 and became Public Law No. 100-504, establishing the TVA OIG and 32 others as statutory IG offices where

the IG is appointed by the agency head. Although the TVA OIG previously had been operating generally in conformance with the IG Act, it now was authorized and required by statute to do so.

During 2003, in connection with the 25th anniversary of passage of the original IG Act, President Bush in meeting with the IGs said they were “agents of positive change.” TVA OIG accomplishments over the past 20 years reinforce that message. The OIG has conducted independent and objective reviews of TVA programs and operations across the board. TVA management has used our findings to help them achieve significant financial savings and recoveries and to develop and implement process improvements.

PUBLIC LAW 100-504—OCT. 18, 1988

102 STAT. 2515

Public Law 100-504
100th Congress

An Act

To amend the Inspector General Act of 1978 to establish offices of inspector general in certain departments, and for other purposes.

Oct. 18, 1988
[S. 908]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—INSPECTOR GENERAL ACT AMENDMENTS

SEC. 101. SHORT TITLE.

This title may be cited as the “Inspector General Act Amendments of 1988”.

SEC. 102. ESTABLISHMENT OF OFFICES OF INSPECTOR GENERAL.

Inspector
General Act
Amendments of
1988.
Government
organization and
employees.
5 USC app.

5 USC app.

Promoting Operational Excellence

The great Northeast-Midwest blackout of August 2003 and the South Florida blackout of 2008 are reminders that electricity is a key component of our daily lives. While utilities across the U.S. face increased competition and grapple with strategic direction decisions regarding cost, reliability, and service, TVA's mission is much broader and includes: (1) "providing affordable,

reliable power that helps businesses and families prosper"; (2) environmental stewardship; and (3) economic development. The electric utility marketplace has experienced significant changes in 20 years, thus prompting TVA to periodically assess and adjust its strategic plans, organizational objectives, organizational structures, and workforce composition.



New Yorkers on the Brooklyn Bridge exiting New York City during the Blackout of 2003

OIG Audits was also reorganized several times throughout the 20-year history to better align with TVA, meet customer needs, and identify and prioritize audits/inspections of activities essential to TVA's mission and goals. While the organizational structure and many of the auditors have changed, operational/performance reviews completed by the OIG have continued to impact both corporate and operational business units throughout TVA. Operational/performance reviews have contributed to TVA's efforts to (1) reduce the cost of power, (2) improve operational performance, (3) fulfill its environmental stewardship mission, and (4) achieve economic development. To ensure that operational/performance audit resources were directed to key audit areas, the OIG assessed TVA's challenges, considered management's audit/inspection requests, and developed a yearly, risk-based, operational audit plan. These reviews during the past 20 years have included activities and programs such as:

- **Nuclear Power Employee Qualifications** – Identified employees working in the Nuclear Power Program with questionable qualifications or who provided false information;
- **TVA's Technology Brokering Program** – Identified serious program issues that resulted in Congressional hearings;
- **TVA's Medical Plan** – Identified over \$16 million in overcharges and interest incurred by TVA that resulted in a settlement of over \$8 million;
- **TVA's Polychlorinated Biphenyls (PCBs) Elimination Strategy** – Highlighted the need for a more concentrated effort to reduce the amount of equipment containing PCBs which poses a risk to human health and the environment;
- **TVA Risk Management** – Recommended TVA develop a more robust enterprise-wide risk program with other suggested risk management improvements;
- **TVA's Role as a Regulator** – Highlighted the inherent conflict in TVA serving as a regulator while working to ensure good customer relations;
- **TVA Nuclear Concerns Resolution Program** – Assessed in numerous reviews Nuclear Power employees willingness to raise safety or quality concerns;
- **TVA's Economic Development Program** – Assessed in numerous reviews compliance and efficiency issues in TVA's economic development programs;
- **TVA's Ethics and Compliance Program** – Recommended a more comprehensive ethics and compliance program that would result in a more organized corporate approach to ethics and compliance and tone at the top issues;
- **Hospitality and Credit Card Use** – Tested in numerous reviews policy compliance and reasonableness of TVA's credit card usage and hospitality expenditures; and
- **Coal Procurement and Inventory Management** – Tested in numerous reviews coal vendor compliance with contract billing and delivery terms, in addition to reviews of the overall coal management programs.

Promoting Integrity in Financial Reporting

OIG's financial-related audits over the years have had significant impact on TVA. The single most significant financial audit was of TVA's Fiscal Year (FY) 1987 energy sales that resulted in a \$92 million increase in TVA's revenue and recognition of unbilled electricity sales. Other financial audits with a large dollar impact included:

- FY 1989 audit of payroll costs, which led to savings of more than \$3 million.
- FY 1991 audit of air travel costs, which saved approximately \$1 million.
- FY 1992 audit of TVA's accounting for pension costs, which resulted in a \$42 million reduction in costs.
- FY 2001 audit of TVA's nuclear decommissioning fund, which prompted a change in the investment strategy estimated to improve future fund performance by approximately \$20 million, and another audit conducted in that year, which resulted in TVA cancelling plans for \$8 million in charitable contributions.

The OIG has also performed numerous other financial-related audits of TVA's accounting systems

and business processes over the years that have helped TVA management make improvements to those systems, processes, and related controls. In many cases, the OIG's recommendations from these audits resulted in monetary savings, and in many other cases, the audits affirmed that TVA's systems, processes, and related controls were functioning properly.

TVA's Financial Statements – The OIG's role in TVA's annual financial statement audit has increased dramatically over the past 20 years. In its early years, the OIG typically audited certain elements of TVA's balance sheet and income statement to facilitate the audit of TVA's financial statements by an external auditor. In later years, however, the OIG became more involved in assuring the external audit complied with applicable standards. In 2003, the OIG began providing technical contract management and funding for the financial statement audit to assure the external auditor remained independent of TVA operations and management, both in fact and appearance. In 2005,

with the restructure of the TVA Board and the establishment of the Audit and Ethics Committee, the role of the OIG in TVA financial reporting further expanded as it began holding quarterly meetings with this committee and providing additional assurance to members regarding the independence of the external auditor and the quality of the auditor's work.

Internal Control Over Financial Reporting – In 2005, the OIG's role in TVA financial reporting again expanded through its support of TVA's initiatives to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX). The OIG has provided support for TVA's SOX initiatives since 2005, and in that time, has performed about 150 reviews and provided objective feedback on TVA financial reporting control design and documentation, as well as control operation effectiveness. In addition, the OIG has facilitated fraud risk assessments with TVA management covering a broad range of financial reporting processes. The OIG continues to coordinate with TVA management to support its compliance with SOX.



Financial and Operational Audits Team

Responding to Key Stakeholders

Congressional requests from members of the Valley Congressional delegation during the past 20 years have focused on accountability for costs and rates and justifications for certain TVA business decisions. Billing rate programs, agency management practices, and certain significant expenditures as shown below are illustrative of the work we have performed at the request or suggestion of Congress.

- Economy Surplus Power Program – Congressman Bob Clement requested an assessment of whether certain industrial customers were properly billed during the summer of 1998 when a volatile power supply situation existed;
- Selected Power Rate and Cost Issues – Senator Mitch McConnell requested an audit of TVA’s rates and charges to determine how TVA’s programs and expenses were passed on to distributors and direct-served customers;
- TVA’s Office Space and Vacancy Rates and the Highland Ridge Tower – Senator Jeff Sessions requested a review of TVA’s decision to lease the Highland Ridge towers in Nashville and questioned some of the expenditures; and
- Agency Management Practices – Congressman Zach Wamp requested numerous reviews of TVA management practices including: (1) executive compensation, (2) spending on special events, (3) TVA advertisement programs, (4) use of consulting contracts, (5) property leases and purchases, (6) use of TVA airplane, and (7) decisions to relocate personnel to Nashville.

Promoting Cost Reduction

Over the last 20 years, the OIG has performed over 800 preaward, compliance, and contract claim audits that collectively identified almost \$880 million of questioned costs and funds to be put to better use.

- Preaward audits are based on TVA management requests for audit assistance either prior to award of a contract or prior to extension of a contract. Our audit objectives are generally to determine if a contractor’s cost proposal is fairly stated. TVA management is able to use the information obtained in our audits to have a better understanding of the contractor’s cost structure and to negotiate cost provisions that are more fairly stated. Since April 1988, we have performed over 330 preaward audits that collectively identified savings opportunities of about \$659 million. Although TVA did not eventually award contracts to some of the companies whose proposals we reviewed, for those contracts which were awarded, TVA management was able to use our audit results to negotiate contract terms that helped it avoid \$404 million in costs.
- Compliance audits are reviews of costs billed to TVA by contractors or subcontractors to determine if the costs were in accordance with contractual provisions. We select contracts for audit that have high potential for waste, fraud, and abuse due to issues such as contract size and complexity, past history of problems with particular contractors, recurring issues within a particular contract type, and limited management oversight. Over the past 20 years, we performed 450 compliance audits that identified \$158 million of questioned costs and \$32 million of funds to be put to better use. Although management action is outstanding on some of the audits, TVA has been able to thus far successfully recover or avoid over \$75 million in costs.
- Claims and Litigation Support – Over the past 20 years, we supported TVA management’s assessment of claims and litigation filed by contractors. We performed over 35 audits and provided litigation support on various occasions to TVA’s Office of the General Counsel. Our audits identified \$28 million of ineligible and unsupported costs which TVA management was able to use to negotiate better settlements with the contractors.

IT Reviews Grow in Importance

The evolution of IT uses within the agency, as well as other companies, over the past 20 years has been significant. This evolution has brought considerable efficiencies as well as risk to TVA. As technology has evolved, so has the demand for resources and the skill sets required to audit IT.

The OIG now devotes an entire audit department to IT-related reviews and strongly supports training needed to stay current on where the risks lie. To address risks across federal agencies, several pieces of legislation have been passed in recent years, requiring federal agencies to review and improve security of its information and report annually on its action

plans for improvements. One example is FISMA which also requires OIGs to independently evaluate and report on agency compliance.

About six years ago, TVA launched a series of initiatives to upgrade its security infrastructure. The OIG participated on this project with TVA

IS and outside consultants to identify (1) critical risks and the current status of IT security for critical TVA systems and (2) steps necessary to protect TVA systems from cyber-attack. This project encompassed over 20 self-assessments and 10 security vulnerability reviews, including penetration tests for a cross section of TVA assets and facilities (e.g., nuclear, transmission, fossil, hydro, data centers). As a result of this project, TVA initiated actions to strengthen its security practices. Since this project, the OIG has continued to perform security reviews, program reviews, penetration tests, pre-implementation reviews of new systems, and legislatively mandated reviews.



IT Audits Team

Preventing and Detecting Fraud, Waste, and Abuse

The major focus of investigations has shifted significantly over the past 20 years. During the early years, the OIG devoted substantial investigative resources to administrative investigations. For example, during FY 1990, we issued 212 investigative reports to TVA management. Our investigations included employee misconduct, personnel matters, vehicle operations, and harassment. While we also pursued criminal cases and obtained 13 convictions that year, TVA needed our independent investigative arm to look into misconduct cases.

As time has progressed, however, we have shifted away from misconduct to focus more on major fraud. We now have significantly fewer agents than in our early years, and we focus those resources on cases that we think likely will bring a bigger return to TVA. Examples of major impacts over the past 20 years include the following.

- We have obtained numerous convictions of loan recipients for either providing false information to TVA to obtain a loan or diverting the funds for personal use. One recent economic development case involving a \$500,000 loan is awaiting trial.
- Our workers' compensation investigations have helped TVA control the costs of that program. We investigate both false claims of a work-related injury and instances where individuals who are working while receiving benefits falsely report

Investigations has produced major results for TVA over the past 20 years as shown by the following numbers.

CASELOAD	
Cases Closed	6,024
INVESTIGATIVE RESULTS	
Recoveries	\$ 82,412,820
Fines/Penalties	\$ 1,770,988
Savings	\$88,335,232
MANAGEMENT ACTIONS	
Disciplinary Actions (# Subjects)	1,012
PROSECUTIVE ACTIVITIES	
Convictions	278

they are unemployed. Our savings to TVA have totaled over \$75 million during the past 20 years in this area.

- Numerous investigations related to the procurement of coal have led to both convictions and substantial monetary recoveries for TVA. These investigations have included overstated weights, theft, and product substitution. A \$25 million recovery in a coal case is featured in this semiannual.
- Investigations of contracts in other areas also have produced significant results. They include an \$8 million recovery from the administrator of a TVA benefit plan; an \$8 million credit from a company that received an improper advanced payment from TVA; conviction of a contractor's Chief Operating Officer and payment of \$1.6 million for

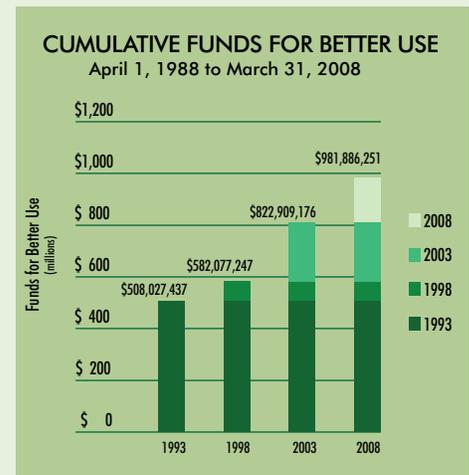
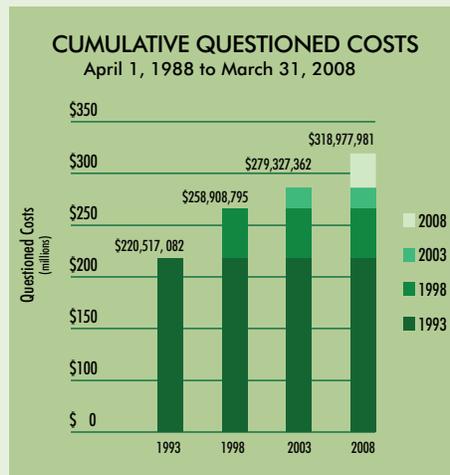
submitting false claims for labor hours and per diem; and several convictions of contractor employees for falsely claiming entitlement to per diem and the recovery of over \$3.5 million.

- Our theft and credit card investigations also have contributed to the bottom line at TVA. For example, our investigation of the theft of tools by contractor employees resulted in five convictions and the recovery of over \$1 million. Another investigation resulted in a conviction and recovery of over \$.5 million where a contractor employee used a TVA VISA card to obtain supplies, falsified records to show TVA received the supplies, and stored the supplies in private warehouses.

20-Year Cumulative Audit and Related Project Highlights

Over the 20-year period ended March 31, 2008, the OIG completed 1,832 audits and related projects and made 3,321 recommendations to TVA management. We questioned approximately \$319 million in costs and recommended approximately \$982 million be put to better use. As a result of this work, TVA recovered over \$113 million and put over \$642 million to better use.

AUDITS & OTHER PROJECTS April 1, 1988 – March 31, 2008	
AUDITS COMPLETED	1,394
AUDIT RESULTS (Millions)	
Questioned Costs	\$319
Disallowed by TVA	135
Recovered by TVA	114
Funds to be Put to Better Use	\$982
Agreed to by TVA	707
Realized by TVA	643
OTHER AUDIT-RELATED PROJECTS¹	
Completed	438
Cost Savings Identified/Realized (Millions)	\$ 69



¹ Includes the number of inspections completed during the period and any associated cost savings identified or realized.

An Award Winning IG's Office

Each year, the PCIE and the ECIE present awards for outstanding achievements within the IG community.

These awards are a testament to a job well done.

The PCIE consists of presidentially appointed IGs, while the ECIE is comprised of IGs appointed by the agency head.

The TVA OIG was an ECIE member until October 1, 2001, when the IG position became a presidential appointment and the OIG, accordingly, became a member of the PCIE. PCIE/ECIE awards received by OIG employees over the past several years are as follows.

2000 ECIE AWARDS

George T. Prosser, IG
for outstanding contributions to the IG community.

G. Donald Hickman, Assistant Inspector General, Investigations

for his leadership and sustained contributions to the law enforcement community.

Special Agent James F. Farr and Senior Auditor Jerry D. Stover
for outstanding teamwork and efforts in a complex audit/investigation of fraud related to TVA's Tool Management Program.

Senior Special Agent Michael G. Duncan and Senior Auditor Harriet A. Miller
for their work in resolving a complex product substitution case.

The OIG's Workers' Compensation Team, composed of Special Agents James E. Hunter and Craig A. Yates, and Financial Investigations Manager James M. Reed

for their achievements in identifying and eliminating fraud in TVA's workers' compensation program.

Environmental Crimes Joint Task Force

for outstanding work in fighting environmental crimes from July 1, 1999, to June 30, 2000.



Award for Excellence – Investigating Environmental Crime Award recipient Joe Boehr standing between former IGs Prosser and Chambers



Award for Excellence – Investigations Award recipients Elizabeth Sherrod and Bill McBee with former IG Chambers

2001 ECIE AWARDS

Clean Air Compliance Program Team for their contribution to TVA's Clean Air Compliance Program.

Significant Review and Analysis Conducted at the Request of Congress Team for their work in conducting a congressionally-requested review and analysis of power rate and cost issues.

Office Space Team for their outstanding contributions toward improving TVA's decision-making processes related to property and office facilities.

Investigation Regarding a Senior Manager's Misconduct Team for working together to develop, analyze, and report complex findings regarding significant misconduct by a senior manager.

The East Tennessee Health Care Fraud Team for outstanding teamwork in a multi-agency effort to investigate and prosecute health care fraud by a medical provider in the Federal Judicial District of Eastern Tennessee.

2002 PCIE AWARDS

Long-Term Bulk Power Trading Team for producing two highly complex reviews of TVA's weekly, monthly, seasonal, annual, and multi-year trading in the wholesale electricity market.



2005 PCIE AWARD: SOX Review Team



2006 PCIE AWARD: Fraud Risk Assessment Team



2006 PCIE AWARD: Contract Audits Team

2005 PCIE AWARD

SOX Review Team for performing process-control reviews to assist TVA management in evaluating the design and operating effectiveness of financial reporting controls.

2006 PCIE AWARDS

Fraud Risk Assessment Team for developing and implementing an action plan to perform fraud risk assessments, an innovative and valuable tool to prevent and detect waste, fraud, and abuse.

Contract Audits Team for using proactive and innovative best practices to consistently identify significant cost savings, recoveries, and process improvements for TVA.

2007 PCIE AWARD

Ron Wise, Assistant IG for Administration and Government Relations, for the initiation of best practices sharing sessions with other OIG's.

During this reporting period, we completed 38 audits which identified over \$774 thousand in questioned costs and approximately \$101 million in funds which could be put to better use. We also identified several opportunities for TVA to improve program operations. Our audits included (1) pre- and post-award contract audits, (2) financial-related audits, (3) operational audits, and (4) IT audits. We also completed six other audit-related projects.

CONTRACT AUDITS

PREAWARD CONTRACT AUDITS IDENTIFY \$101 MILLION OF POTENTIAL SAVINGS OPPORTUNITIES

To support TVA management in negotiating procurement actions, we completed six preaward audits of cost proposals submitted by companies proposing to provide (1) engineering, procurement, and construction (EPC) services for the completion of Watts Bar Nuclear Unit 2, and (2) EPC services for gas-fired generating facilities. Our audits identified \$101 million in potential savings opportunities for TVA to negotiate. Some of our more significant findings

included (1) overstated indirect cost recovery rates, (2) unsupported insurance recovery rates, (3) excessive craft labor cost markups, (4) excessive markups of direct equipment costs, (5) potentially duplicate fee payments, and (6) unsupported cost escalations. TVA management used the results of our findings to negotiate better contract terms.

CONTRACT COMPLIANCE AUDITS IDENTIFY OVER \$774 THOUSAND IN QUESTIONED COSTS

During this semiannual period, we completed five contract compliance audits that identified \$774,477 in questioned costs. In addition, we provided (1) assistance on various contractor-related OIG investigations, (2) support to TVA's Office of the General Counsel for pending litigation with a TVA contractor, and (3) advice to TVA Procurement regarding various planned contracts. Highlights of our completed compliance audits follow.

- We audited \$5.2 million in costs billed to TVA by a contractor for subcontract services provided on the Browns Ferry Nuclear Unit 1 recovery project. Under its agreement with the prime contractor, the subcontractor provided (1) field engineers for the Browns Ferry Nuclear Unit 1 project and (2) the services of a senior modifications and maintenance manager. In summary, our audit found:
 1. The subcontractor miscalculated provisional billing adjustments

for payroll taxes and insurance resulting in a \$25,331 overbilling to TVA.

2. TVA paid \$192,039 in additional costs by moving the field engineering services from the subcontractor's existing direct contract with TVA to a subcontract. Although Procurement stated TVA had made the right business decision to move the field engineering work to a subcontract, we suggested TVA, in the future, consider the impact on TVA's final costs before shifting work being performed by contractors to a subcontract.

3. The contractor billed TVA \$225,676 for payments made to the subcontractor for the services of a senior modifications and maintenance manager. Although Procurement stated the subcontractor's executive was hired because the contractor had been unable to provide an appropriate senior manager to address craft productivity issues, we advised Procurement the subcontractor's executive essentially provided augmentation for the contractor's senior management, a cost normally covered by the contractor's overhead.

- We audited \$324,000 of costs billed to TVA by a contractor for volunteer services using TVA retirees and found TVA was overbilled \$63,755, including (1) \$44,855

for unsupported costs, and (2) an estimated \$18,900 for ineligible travel expenses. TVA management subsequently took action to recover these costs.

- We determined a contractor owed TVA \$657,540 for provisional billing adjustments for CYs 2005 and 2006. The contractor understated the amount it owed TVA by \$267,040 due to various errors in its reconciliations of previously billed and incurred costs. The contractor agreed with our findings and subsequently provided credits to TVA for the overbilled amount.
- Our audit of \$5.9 million of costs billed to TVA by a contractor that conducted various projects and programs from April 1999 through September 2007 found the costs were fairly stated and in agreement with the terms of the contract. However, about 20 percent of the payments TVA made to the contractor were related to a specific project where TVA was the administrator of funds collected from various federal agencies then disbursed to the contractor. Since the benefits received by TVA were negligible, given the costs of administering the funds for the project, we recommended TVA



“I am proud of the work performed by our auditors in contract audits. As a result of the work of the contract audit staff, TVA was able to save millions of dollars under contracts it awarded during this semiannual period.”

—David P. Wheeler, Director, Contract Audits

transfer the administrative function of the project to the contractor. TVA management and the contractor agreed with the recommendation.

TVA’S CONTRACT AWARD PROCESS HAS OPPORTUNITIES FOR IMPROVEMENT

Our review of TVA’s contract award process found opportunities for TVA to improve its award process by ensuring adequate competition is received and reinforcing compliance with Procurement policies. Specifically, our review of 40 contracts awarded by Procurement during FY 2006 found:

- Insufficient competition existed in the award of seven of the contracts, because only one bid had been received and evaluated;
- Technical Contract Managers contacted vendors and received pricing quotes prior to Procurement’s involvement in five of the contract awards; and

- With some exceptions, Procurement’s contract managers and purchasing agents retained appropriate documentation in the contract files.

To help TVA ensure it is receiving adequate competition, we recommended TVA Procurement (1) require management approval for all contracts greater than \$25,000 in which only one bid is received, (2) reinforce compliance with TVA’s requirement that only Procurement personnel are authorized to obtain proposals from potential suppliers, and (3) provide clear guidance as to the contract file documentation requirements. In addition, we suggested Procurement consider the benefits of creating a position of Competition Advocate, a position specifically required for other federal agencies.

TVA Management is reviewing our recommendations to decide what actions should be taken to improve the contract award process.



FINANCIAL AND OPERATIONAL AUDITS

During this semiannual period, we completed 17 audits, including one financial-related audit, four operational audits, and testing of financial reporting controls for 12 business processes to assist with TVA's initiative to comply with Section 404 of SOX. Highlights of these projects follow.

FY 2007 FINANCIAL STATEMENT AUDIT COMPLIED WITH STANDARDS

TVA contracted with the independent certified public accounting firm of PricewaterhouseCoopers LLP (PwC) to audit TVA's balance sheets as of September 30, 2007, and 2006 and the related statements of income, changes in proprietary capital, and cash flows for each of the three years in the period ended September 30, 2007. The contract required the audit be done in accordance with generally accepted government auditing standards. Our review disclosed no instances where PwC did not comply, in all material respects, with generally accepted government auditing standards.



"Daily engagement in analytical decision-making with highly trained professionals is more intellectually stimulating than I had expected; there is nothing mundane about directing OIG resources."

—John H. Barrow, Acting Director, Financial and Operational Audits

TVA'S HOSPITALITY EXPENSES REDUCED BY 64 PERCENT

We reviewed hospitality expenses incurred by TVA for the period October 1, 2005, through June 30, 2007, to (1) determine the type and level of expenditures; (2) assess compliance with policies and procedures; and (3) identify changes in hospitality policies since our last hospitality audit. We found total hospitality expenditures, including employee recognition expenses, averaged about \$2.3 million per year during the period, representing a 64 percent reduction from FY 2003 spending. For the period reviewed, TVA generally complied with policies and procedures, except as related to obtaining preapproval of hospitality expenditures. In response to our report, management took corrective action regarding preapproval of hospitality expenditures.

OIG REVIEWS 2007 WINNING PERFORMANCE PAYOUTS

We performed agreed-upon procedures, requested solely to assist management in determining the validity of the Winning Performance payout awards for the FY ending September 30, 2007. In summary, we found:

- The FY 2007 Winning Performance goals were properly approved.
- Actual year-to-date inputs for the sampled metrics agreed with the respective basis worksheet.

- Actual inputs for the nine TVA-wide metrics agreed with the underlying support provided by the Strategic Business Units, except for the calculation of the Delivered Cost of Power (DCOP) metric, which was inconsistent with the Board-approved formula. This resulted in a one cent overstatement of the calculated DCOP, further resulting in a .25 percent increase in the TVA Scorecard percentage. Management agreed and made the appropriate correction during the engagement.
- Also, in applying the procedures, we noted the Fuel Cost Adjustment (FCA) metric improperly included Browns Ferry Nuclear precommercial costs. The FCA metric approved by the Board did not include these costs. Including these costs in the FCA metric resulted in an 8.25 percent overstatement in the TVA Scorecard percentage. After discussion with management, these costs were removed from the FCA metric and subsequently included in the DCOP metric. A revised payout report was provided for retesting. We noted during retesting, the precommercial costs were properly excluded from the FCA metric and included in the DCOP metric. We further noted Allowance for Funds Used During Construction was added to the DCOP metric.

The payout percentages were recalculated by management and verified by the OIG, based on the changes to the DCOP metric noted above.

NEW EXECUTIVE ORIENTATION PROGRAM IMPROVED

We assessed the effectiveness of TVA's orientation for executives hired since our last review in 2005. In summary,

we found TVA's Human Resources personnel had:

- Developed a guide for executives to address issues unique to TVA.
- Provided guidance to newly-hired executives on areas of high sensitivity.
- Provided periodic guidance as needed in various areas.
- Provided orientation itineraries to four of the 15 new executives we interviewed.

In addition, we found according to TVA training records, 91 percent of newly hired executives attended TVA's standardized orientation process called the New Employee Experience, as opposed to 67 percent during our last review.

We also provided the Chief Administrative Officer with the suggestions by the 15 executives we interviewed as to how to improve the orientation program.

CONTROLS OVER REPORTABLE ENVIRONMENTAL EVENTS AT TVA FACILITIES NEED IMPROVEMENT

We reviewed REE² at TVA facilities for the two years ended September 30, 2006. The purpose of our review was to determine whether controls provide reasonable assurance that REE are identified, reported, and resolved in accordance with applicable laws, regulations, and TVA policies. We identified (1) noncompliance with reporting requirements; (2) different interpretations on how some environmental occurrences should be classified; (3) environmental issues not documented and managed through TVA's corrective action program; (4) lack of a corporate REE procedure; (5) inaccurate environmental data in

the Electronic Corrective Action Program (eCAP), Environmental Event Reporting (EER) system, and REE registry; and (6) two instances where TVA did not externally report events because of uncertainty about requirements.

We recommended TVA Environmental Stewardship and Policy (1) clarify the environmental occurrences required to be classified as environmental events, (2) develop a corporate REE procedure, (3) clarify the environmental occurrences required to be managed through the corrective action process, and (4) review environmental data in the eCAP, EER system, and REE registry for accuracy, correct identified errors, and identify a method to prevent future environmental database errors. We further recommended TVA's Environmental Executive work with other TVA executives to promote a culture of transparent reporting throughout TVA organizations. This could include a periodic briefing of management or executives on the status of REEs, environmental events, Notices of Violation, and Environmental Management System findings.

Management agreed with our recommendations and opened three Problem Evaluation Reports (PERs) to address the findings. The PERs will address (1) identified problems regarding classification of environmental occurrences, documentation of occurrences, decision-making with regard to classification, use of eCAP to manage environmental occurrences, and a lack of procedural guidance for REEs; (2) identified errors in the database(s) used to capture information on environmental occurrences; and (3) the lack of suitable mechanisms for transparent reporting and

periodic briefing of management and executives on the status of environmental occurrences and environmental audits.

SOX TESTING IDENTIFIES IMPROVEMENT AREAS

In support of TVA initiatives to comply with SOX, we completed 12 projects to test or retest financial reporting controls in 12 of about 68 key business processes determined to be in scope for SOX compliance. These projects were designed to provide the Vice President and Controller with information for TVA to assess its internal control over financial reporting as of September 30, 2008. Our findings included needed improvements in control design, inadequate documentation retained to demonstrate the control operated in the period tested, and other necessary documentation-related improvements.



Windmills at TVA's wind power generating site on Buffalo Mountain near Oak Ridge

² A reportable environmental event is an occurrence that violates regulatory requirements and triggers a notification to, or enforcement action by, a regulatory agency.

IT AUDITS

During this semiannual period, we completed five audits in the IT environment and performed four reviews in support of TVA's efforts to comply with certain provisions of Section 404 of SOX. Highlights of these audits follow.

IT SOX TESTING IDENTIFIES OPPORTUNITIES FOR IMPROVEMENT

During the first half of the semiannual period, we completed readiness testing of controls for three applications and one IT general control area, which were initiated at the end of FY 2007. Overall, we noted opportunities to improve SOX documentation, operating effectiveness of controls, and areas where control gaps existed. TVA management has taken or is in the process of taking action to remediate issues noted in these reviews.

IMPROVEMENTS NEEDED TO INCREASE EFFECTIVENESS OF IS ORGANIZATION AND IT SECURITY FUNCTION

We performed two organizational effectiveness reviews of TVA's IS organization and IT Security function. Both IS and IT Security have undertaken restructuring efforts. In these reviews, we found:

- The recent restructuring of the IS operations area mirrors leading practices. In addition, IS' methodologies and tools for conducting IT projects are above those of its peers. However, our review showed some areas need improvement, such as: TVA needs

to (1) better integrate IS governance with TVA business strategy; (2) improve focus on strategic business partnering and communication with customers; (3) target organization and policy changes, performance measures, and service management toward aiding customers to achieve business goals; (4) consolidate procedures to increase usability; and (5) develop a strategy for handling the risk of the aging workforce and ensuring knowledge transfer.

- While IT Security has made strides in establishing the technology infrastructure, we found: (1) IT Security lacks a business-level mechanism to provide cross-agency oversight, a strategic TVA-wide approach, and grounding in risk management; (2) coordination and communication with business units were not well defined and could be more effective with increased training, communication, and business unit involvement in security planning; (3) procedures were outdated and did not address issues for all business segments; and (4) performance management was substantially undefined.

TVA management generally agreed with our findings and is in the process of implementing corrective actions.



"Technology and the associated risks are continually changing. To be successful in this environment requires strong skills, commitment to continuous learning, and a passion for the work...that's what the IT Audits group brings to each project."

– Jill M. Matthews, Director, IT Audits

OTHER IT-RELATED REVIEWS

We performed three other reviews pertaining to (1) security controls for a critical system, (2) risk assessment performed on personally identifiable information, and (3) pre-implementation of a new system. In these reviews, we noted:

- A critical system contained weaknesses in control documentation; participation agreement language; logical and physical controls designed to prevent unauthorized access to system programs, data, and facilities; and general controls designed to ensure ongoing operations. TVA management generally agreed with the recommendations and is in the process of implementing corrective actions.
- The risk assessment methodology used by TVA was consistent with National Institute of Standards and Technology and the U.S. Office of Management and Budget guidance, and corresponding conclusions reached regarding risk to personally identifiable information were reasonable.
- TVA security plans and procedures and plans for application testing and data loading are expected to provide adequate control over security, testing, and data reliability for the new system.

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 eight inspections. We also identified various opportunities for TVA to improve program operations. Highlights of our inspections follow.

RESOURCE MANAGEMENT EXTERNAL CONTRACTUAL SERVICES

River System Operations and Environment (RSO&E) Internal/External Contractual Services' program, operated by Resource Management (RM), provides services/technologies to TVA and external customers. RM is responsible for (1) business development, including bid and proposal preparation; (2) product development activities; and (3) business coordination of external projects and operations. Our inspection covered the external contractual services work being conducted by RM. Our objectives were to determine if (1) work performed by RM was in accordance with applicable policies and procedures and

(2) costs associated with TVA employees working for outside entities/agencies were adequately recovered. In summary, we found:

- The majority of FY 2006 RM External Contractual Services' revenue was generated from work for other federal agencies, and the projects we selected for review appeared to be in compliance with the Economy Act of 1932, as amended (31 USC 1535). In addition, direct costs and approved overheads are captured on a project-specific basis and automatically billed to ensure cost recovery.
- The work being performed is not a TVA core business and does not appear to align directly with TVA's Strategic Plan. Specifically, the work does not (1) involve the generation or transmission of electricity, (2) relate to environmental stewardship in the Tennessee Valley, or (3) help bring jobs to the Tennessee Valley through capital investment. RM stated the work is consistent with the spirit and historical enablement of the TVA Act and is implicitly included in and serves as an enabler for many parts of TVA's new Strategic Plan.

- The work being performed increases TVA's monetary, reputational, and environmental risks. RM stated, however, that they continue to improve the risk profile for the RM External Contractual Services' efforts through completion of high-risk projects, through their strategy on the nature of future work, and through actions and processes to mitigate financial risks, including purchasing insurance and incorporating written indemnity clauses in certain contracts.
- For five of the 14 projects reviewed, a contract could not be provided. In addition, key decisions required by RM policies and procedures were not documented, or documentation was incomplete.

We agreed with management's planned actions to: (1) eliminate chemical agent work once current contractual commitments expire and (2) direct RM officials to maintain adequate supporting documentation of projects and decisions made in regard to RSO&E policy, including maintaining contracts and proof of funding or Military Interdepartmental Purchase Requests.



"I am thankful to have the opportunity to work with my Inspections co-workers who are both talented and committed to helping TVA achieve its performance and financial goals."

– Gregory C. Jaynes, Deputy Assistant Inspector General, Inspections

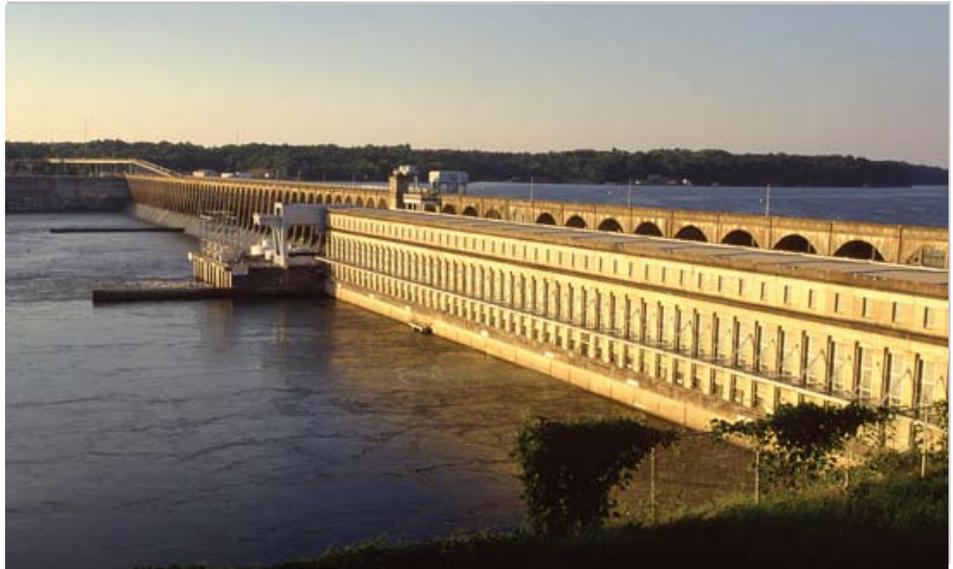
TVA CONTRACTOR PURCHASING CARD USAGE

We performed an inspection to determine whether TVA purchasing cards issued to contractors were used for a valid business purpose and in compliance with TVA VISA Purchasing Card Procedures. Purchasing cards are provided to TVA organizations for purchases of small-dollar materials and services when it is determined to be the best procurement vehicle for purchases, as a general rule, up to \$5,000. In addition to issuing purchasing cards to TVA employees, TVA has also issued purchasing cards in the names of TVA contractor employees.

We reviewed the use of TVA contractor purchasing cards from March 28, 2004, to March 28, 2007. For this period, we identified 21 contractors who incurred 35,605 TVA purchasing card transactions totaling about \$16.7 million. This included six contractors whose purchases each totaled more than \$1 million for the period. A review of documentation supporting selected transactions found instances of noncompliance with TVA's policy and procedures. Specifically, we found:

- Purchases that were, by policy, disallowed (e.g., computer equipment, computer software, fuel, rental of heavy equipment, and rental of vehicles).
- Transactions where it appeared the total charge was split to stay below the \$5,000 transaction limit and avoid obtaining additional approval.
- Transactions with no detailed receipt showing the description and quantity of items purchased.
- Transactions with no receipt.
- Transactions with illegible receipts.

We also noted areas where controls



over the use of TVA contractor purchasing cards could be improved. TVA management generally agreed with our findings and recommendations and has taken or plans to take corrective action.

TVA'S DAM SAFETY PROGRAM

We performed an inspection to determine whether the TVA dam safety inspection process met federal guidelines, was followed by Dam Safety inspection personnel, and was adequately supported by an information database. Under the TVA Act of 1933, as amended, TVA is authorized to construct, operate, and maintain dams in the Tennessee River basin. According to the National Inventory of Dams, TVA's dam inventory in 2007 included 49 main dams and 33 dikes and saddle dams. In keeping with its responsibility, TVA has maintained a dam safety program since its inception. In summary, our review determined:

- The inspection process met the Federal Emergency Management Agency (FEMA) guidelines for periodic dam safety inspection programs.
- Dam Safety inspection personnel appeared to adhere to the process

for identifying, monitoring, and correcting inspection deficiencies based on the five dams we reviewed.

- Information databases provided adequate support to manage the inspection process.

While we found the dam inspection process met FEMA guidelines and dam safety personnel corrected inspection deficiencies for the five dams we reviewed, we identified a control improvement opportunity. Specifically, (1) 57 out of 81 work orders/requests related to maintenance and repair (M&R) items identified by the dam safety inspections for the five dams we reviewed were not completed by the estimated due date stated on the inspection report, and (2) there is a historical trend of not completing M&R items by the estimated due date. TVA management stated that findings affecting personnel safety and items considered dam safety emergency repairs are corrected immediately. M&R items are routine activities required to keep the dam safety equipment in acceptable condition and are identified during dam safety inspections. TVA management agreed with our finding and recommendation and has implemented a prioritization and scheduling procedure to enhance timely completion of M&R items.



TVA COAL SUPPLIER CONTRACTS

We conducted three inspections to determine whether selected coal suppliers were in compliance with weighing, sampling, and shipping provisions of each respective contract. We performed tests to verify that shipment weight and coal test results documentation maintained at each mine supported the amounts used to (1) invoice TVA for tonnage shipped and (2) calculate coal-quality adjustments. We also used a consultant to assist in compliance testing of weighing, sampling, and shipping contract provisions and/or applicable standards.

In summary, our reviews found documentation maintained at the respective mine for ten randomly selected shipments agreed with the

information provided to TVA regarding tons shipped and coal-quality test results. Each supplier was also found to be in general compliance with the weighing, sampling, and shipping provisions in the contract and/or applicable standards. However, we also identified control improvement opportunities related to TVA's weighing and sampling of coal. TVA management generally agreed with our findings and recommendations and has taken or plans to take corrective action.

TVA PRESCRIPTION DRUG PROGRAM

TVA entered into a contract with a vendor to provide a fully integrated prescription drug program that included both retail and mail order prescription drug services. The

contractor was required to (1) maintain a Participating Pharmacy Network to provide retail pharmacy services, (2) provide base administrative services including processing and adjudicating TVA's prescription drug claims in accordance with TVA's plan design, (3) issue checks to participating pharmacies and/or claimants on TVA's behalf, and (4) implement and administer health management programs. As part of our annual inspection plan, we reviewed the costs billed and formulary rebates credited to TVA by the contractor. Specifically, our inspection covered:

- Claims payments by TVA to the contractor for the period December 22, 2001, through December 30, 2005.
- Base administrative fee payments made by TVA to the contractor for the period January 5, 2002, through December 5, 2003. There were no base administrative fee payments for CYs 2004 and 2005.
- Formulary rebates credited to TVA for claims adjudicated and billed from January 1, 2002, through December 31, 2005.

We found the contractor had generally billed costs in accordance with the contract terms and TVA plan provisions with the exception of certain Consumer Directed Health Plan (CDHP) claims. In addition, formulary rebates allocated to TVA exceeded the minimum guaranteed rebate amounts, when applicable, and nothing came to our attention during the limited testing of formulary rebates that would indicate TVA rebates were not determined in accordance with contract terms. TVA management generally agreed with our findings and recommendations and has taken or plans to take corrective action to resolve the issues identified regarding CDHP claims.



Audits and Inspections

During the past six months, we closed 121 investigations. These investigations were based on allegations received from a wide variety of sources, including TVA employees, former employees, ratepayers, concerned citizens, other agencies, and OIG Audits.

Highlights, as summarized below, include: the largest civil False Claims Act settlement in this office's history; the first payment under our Reward Program; sentencing of a TVA employee who failed to report receipt of over \$50,000 at the direction of a TVA contractor; two cases where individuals filed false workers' compensation claims; and environmental convictions in task force cases. In addition, we have programs underway to identify and prevent misuse of TVA credit cards, including data mining and joint investigations with the TVA Police on theft investigations. We also conducted several investigations of alleged employee misconduct and kept track of management's response to matters that came through the hotline as well as other referrals.

LARGEST CIVIL SETTLEMENT IN OIG HISTORY - \$25 MILLION

The U.S. Attorney's Office for the Southern District of Illinois negotiated the largest civil False Claims Act case

settlement in the OIG's history in a case we worked jointly with the FBI. We investigated whether TVA was defrauded by three Kinder Morgan limited partnerships (collectively "Kinder Morgan") that provided coal and other energy transportation and distribution services at two coal terminals. Kinder Morgan contracted with TVA and other private companies to handle and transport coal at the Cora and Grand River Terminals in, respectively, Illinois and Kentucky. TVA ordered large quantities of coal produced in the western U.S. The coal was shipped by rail to the terminals where it was offloaded, stored, and eventually loaded onto barges for delivery to TVA. On occasion, the coal was directly transferred from rail to barge, but more often the coal was placed in customer stockpiles to be later shipped out by barge. Our investigation showed Kinder Morgan took coal from TVA and other customer stockpiles and sold it under the name "Red Lightning" from 1997 through 2001.

Our investigation found coal was weighed by certified scales when it was loaded onto a train to be shipped to the terminals. However, that same coal when shipped from the Cora Terminal to the customer was weighed by barge draft. The barge draft method usually weighed two to three percent heavier than the certified scales, resulting in less coal being shipped from the terminal than received. The company exploited this weighing differential to show that it shipped out the same amount of coal as it had received. It

claimed the "excess" coal, therefore, belonged to it and it had the right to sell the coal and keep the profit. The company took the differential (unshipped customer coal or excess coal) and sold it as "Red Lightning" coal. At the Grand Rivers Terminal – where certified scales were used for both incoming and outgoing coal – our investigation showed Kinder Morgan simply took coal from the customer stockpiles.

Using this scheme, Kinder Morgan took and sold approximately 258,725 tons of coal attributable to TVA, which amounted to a loss for TVA of over \$6.5 million. The company agreed to pay back three times this amount for a total of over \$19.5 million. The company also agreed to reimburse other private customers in the amount of about \$5 million. TVA recovered its actual losses plus the cost of the investigation from the settlement amount, less a standard administrative fee collected by the DOJ, for a total of nearly \$8 million. This is the largest civil False Claims Act settlement in the history of the TVA OIG.

FIRST REWARD GIVEN TO TIPSTER

A tip led to the investigation of two coal terminals used by TVA, which in turn led to the largest settlement in a civil False Claims Act case in this office's history, as discussed above. The complainant reported a concern based on his/her belief that something was "not right." Although the specific allegation was not substantiated, the tip led to an investigation that

uncovered the practice that led to the civil settlement. In recognition of the complainant’s efforts, the OIG presented that person – who chose to keep their identity confidential – with a cash reward.

CONTRACT INVESTIGATIONS PRODUCE RESULTS

We continued our focus on contract fraud during this reporting period. In addition to the False Claims Act case discussed above, our investigative results included sentencing of a TVA employee who accepted over \$50,000 at the direction of a TVA contractor and a process improvement by which TVA would recover abandoned coal.

TVA Employee Sentenced—As we previously reported, a former manager at the Browns Ferry Nuclear Plant, John L. Symonds, pled guilty on August 3, 2007, to a felony charge of making a false statement on his 2002 financial disclosure report. Mr. Symonds failed to disclose that he had received over \$54,000 at the direction of a TVA contractor. On December 18, 2007, Mr. Symonds was fined \$5,000 and sentenced to 2 years’ probation and 150 hours of community service.

Abandoned-Coal Investigation—We investigated the amount of coal being left in barges after it was “unloaded” at a TVA fossil plant. Information provided by the barge company showed that from August 1, 2006, through July 31, 2007, TVA abandoned over 10,000 tons of coal per month. Based on the average cost per ton, including transportation costs, we estimated TVA lost over \$6 million annually. Management advised they would review the cost effectiveness of using a contractor to clean out barges at the fossil plant and they would issue an early request for proposals to attempt to negotiate language to provide for dedicated barges or clean out services.

WORKERS’ COMPENSATION INVESTIGATIONS HELP TVA SAVE MONEY

During this reporting period, we closed two investigations that showed individuals submitted false workers’ compensation claims. In both cases, TVA suspected the claims were false, referred them to the OIG for investigation, and successfully controverted the claims. TVA’s long-term avoided costs due to management successfully contesting these claims are projected to exceed \$1.78 million; our investigations confirmed the workers’ claims were false.

Pursuant to the FECA, TVA and other civilian federal employees receive compensation benefits for work-related injuries. TVA pays all the workers’ compensation charges for TVA employees. While the vast majority of people who receive

workers’ compensation are entitled to those benefits, there is a significant minority who are not.

The Office of Workers’ Compensation Programs (OWCP) administers FECA. Because FECA is intended to provide wage-replacement benefits to employees who cannot physically continue working, OWCP requires recipients to submit reports of earnings from employment or self-employment. OWCP uses those reports to assist in determining whether an individual has a continuing entitlement. While our workers’ compensation investigations generally focus on an individual’s lying about employment, we also look at other areas, such as claiming an injury occurred on the job when in fact it occurred elsewhere.

POTENTIAL COSTS OF WORKERS’ COMPENSATION PROGRAM FRAUD

Fiscal Year	Investigations Completed	Convictions	Recoveries	Avoided Cost	Total
2005	12	1	\$168,779	\$1,090,528	\$1,259,307
2006	13	2	544,265	1,801,426	2,345,691
2007	14	1	69,763	627,359	697,122
TOTALS:	39	4	\$782,807	\$3,519,313	\$4,302,120

At the end of FY 2007, there were about 1,757 individuals on TVA’s long-term rolls, and TVA paid about \$58 million in claims for that year alone. Individuals on the long-term roll who have one or more dependents receive 75 percent of their salary while those who have no dependents receive 67 percent. They receive these benefits, plus cost-of-living increases, tax-free for life; there is no reduction once an individual reaches retirement age.

For example, a married 40-year-old employee with a \$50,000 salary who is injured on the job would receive \$37,500 tax-free annually, or an estimated \$1.5 million over his/her lifetime, plus cost-of-living adjustments.

The chart above illustrates the long-term cost savings to TVA from our workers’ compensation investigations over the past three years.

RESULTS DURING THIS REPORTING PERIOD

We concluded two investigations where the evidence showed the employees submitted a false claim for workers' compensation benefits, as follows.

- On February 14, 2008, in federal court, a former laborer at a TVA fossil plant pled guilty to making a false statement in connection with a claim for workers' compensation benefits. TVA had challenged the claim, which OWCP denied, resulting in a projected cost savings of roughly \$847,957. TVA also terminated the employee. During our investigation, that individual acknowledged that in fact he had hurt himself while changing a tire off-duty, not at work.
- A truck driver in Transportation Services submitted a claim for workers' compensation based on an alleged work-related back injury. TVA also challenged that claim, and OWCP denied it. Our investigation found the employee submitted a false claim, and TVA accepted the employee's resignation in lieu of termination. Although the U.S. Attorney declined prosecution, management's actions resulted in a projected total cost avoidance of \$933,175.

ACTIVE INVOLVEMENT IN MULTI-AGENCY TASK FORCES LEADS TO RESULTS

We recognize the importance of sharing investigative resources and information with other federal agencies and task forces to focus enhanced law enforcement resources by applying the most effective criminal and civil statutes against individuals and companies who violate the law. During this reporting period, we provided investigative resources to the ECJTF, the JTTF, the Health Care Fraud

Task Force, and the Tennessee Drug Diversion Task Force. Results from the ECJTF -- which includes the TVA OIG, Environmental Protection Agency (EPA) OIG, EPA Criminal Investigations Division, U.S. Fish and Wildlife Service, Tennessee Department of Environment and Conservation, Tennessee Attorney General's Office, DOJ – Environmental Crimes Section, and the U.S. Attorney's Office for the Eastern District of Tennessee -- include the following.

Company Pleads Guilty to Clean Water Act Violations—Archer Daniels Midland Company (ADM) pled guilty in federal court to charges it negligently violated the Clean Water Act at its Southern Cellulose Plant in Chattanooga, Tennessee. ADM pled guilty to allowing contaminated process water to enter the Chattanooga Creek, a tributary of the Tennessee River, on four occasions between October 16, 2003, and September 25, 2004. Under the terms of the Plea Agreement, ADM will pay a \$100,000 fine and \$50,000 to the Tennessee Department of Environment and Conservation, \$25,000 to Chattanooga, and \$25,000 to the Southern Environmental Enforcement Network. ADM also made changes to plant management and spent more than \$350,000 to upgrade the Southern Cellulose Plant to avoid future violations.

Individual Pleads Guilty to Falsifying Reports—Paul William Perkins pled guilty to one count of violating the Clean Water Act by falsifying monthly operating and discharge monitoring reports at a Rockwood Sewage Treatment Plant. Those reports showed the wastewater being dumped into Black Creek had been tested for E. coli and other bacteria, although the discharge was not tested because the analyzing mechanism was inoperable. (Later

testing did not reveal the presence of E. coli in the plant's wastewater.) Mr. Perkins was sentenced to community service and two years' probation.

TVA Acts to Fix Duct Leaks But Does Not Report Them—In a joint investigation with the EPA Criminal Investigations Division, we found that installation of a Selective Catalytic Reduction system led to deterioration in the flue gas ductwork at a fossil plant. The deterioration caused extensive leaks that became progressively worse. In spite of the extent of the leaks, it appeared TVA gave little, if any, consideration to reporting them to regulatory authorities. While TVA patched the leaks as they occurred and eventually replaced large sections of the ductwork, we recommended management consult with the TVA Ethics and Compliance Officer to incorporate ethics and compliance considerations into daily operations at the fossil plants.

REVIEW OF CREDIT CARD EXPENDITURES PROTECTS TVA RESOURCES

We use data mining to review expenditures on Wright Express fuel cards, Visa Gold cards, purchasing cards, convenience checks, and Travel cards. We have identified numerous red flags we look for, and we then follow up with the employee and, as appropriate, his/her manager to verify the expenditure. We have identified several instances of misuse of the Travel cards and are reviewing numerous other expenditures.

Also during this period, two contractor employees at a TVA nuclear plant were indicted in state court for theft of TVA property. They allegedly used a TVA purchasing card to obtain property for their personal use.

MANAGEMENT RESPONDS TO EMPLOYEE MISCONDUCT FINDINGS

We also issued several reports during this reporting period on employee misconduct. Below we summarize our findings and management's response.

Manager Violates Ethics Rules and Makes False Statements to OIG

An interim report was issued to management that concluded the evidence developed to-date showed a TVA manager made false statements during an OIG interview and their explanations for those false statements in the manager's comments on a draft of the report were not credible. The evidence further showed the individual violated ethics regulations and raised serious questions about their treatment of a TVA contractor. We provided management an interim report because of the manager's position and the serious questions about their integrity. The TVA manager resigned. In addition, management instituted additional controls over the contractor and took steps to improve ethics training in these particular areas.

Leave Abuse Leads to Suspension

Investigation of allegations concerning leave abuse in a department at a TVA nuclear plant found only one issue that management had not already identified and corrected. One employee was absent from work for numerous days in 2006 without approved leave. The employee was suspended for 30 days and their days off were converted to unpaid leave.

TVA Employee Suspended for Four Weeks

Our investigation substantiated that a TVA employee made a hangman's noose and gave it to an African American TVA employee, who made statements to the OIG about being upset by the incident. The employee who made the noose, however, did not

know why the noose would offend anyone. Management suspended the employee for four weeks.

Allegation of Leave Abuse Leads to Control Improvements

We investigated an allegation of leave abuse in an organization at a TVA nuclear plant. While we did not find misconduct, we did find a lack of controls over the overtime reporting process. In response to our findings, management implemented a new overtime policy.

TVA Employees Accept Gratuities in Violation of Ethics Regulations

We investigated various allegations concerning a TVA contractor. While we found no criminal conduct, we found the contractor provided gifts and gratuities that several TVA employees accepted in violation of ethics regulations. The main recipient admitted accepting golf greens fees, meals, and Tennessee Titans tickets from a contractor representative. In response to our findings, management advised the contractor not to provide gratuities to TVA employees in the future and suggested additional TVA employees take ethics training.

Management Makes Control Improvements

We investigated an allegation that the supervisors on a team at a nuclear site were paying overtime for less than full days. Our investigation did not find wrongdoing, but did identify control weaknesses. Management implemented a new overtime policy that ended flex time and stopped employees from leaving early without taking leave. In addition, the new policy includes an overtime timesheet to be filled out and signed by each employee and

then entered by administrative or supervisory staff.

MANAGEMENT RESPONDS TO OIG REFERRALS

Many of the concerns the OIG received through e-mails, phone calls, letters, and the OIG-sponsored Empowerline reporting system (www.oigempowerline.com), in our view, fell within management's responsibility to initially review and take any appropriate action. Accordingly, we referred issues to the TVA Ombudsman, TVA Human Resources officials, supervisory and operations managers, and TVA Police administrators. In order to comply with best practices established for corporate ethics and compliance programs, we asked management to provide us with their disposition of the concerns we referred to them. TVA management continued to be responsive to our referrals of matters which ranged from workplace issues to citizen complaints about TVA activities affecting the public. Their responses indicated they reviewed appropriate documents, interviewed individuals, and took actions such as counseling, improving communications, and providing training. We also interacted with the TVA Ethics and Compliance Office in monitoring the types of concerns received TVA-wide and management's actions in response to them.



Investigations

Congressional Request and Summary of Legislation and Regulations

In a December 2007 letter addressed to the 63 federal Inspectors General, Congressman Henry Waxman asked them to summarize each unimplemented recommendation to their agency, estimate the cost savings and other benefits, and describe the investigation that prompted the recommendation.

CONGRESSIONAL REQUEST

"We want to see whether the IGs are doing their job and whether the agencies are doing theirs," Congressman Waxman said.

Our response indicates that of 1,734³ recommendations the TVA OIG has made, only 15 are past due, which is less than one percent of the total recommendations. Nearly 92 percent of the recommendations to TVA have been implemented since 2001 and about 7 percent are currently open.

A prominent example of a response that is still outstanding is the one to the June 2006 inspection entitled "Review of TVA's Role as a Rate Regulator." TVA has informed TVA OIG that they will provide a response to this report by August of this year.

LEGISLATION AND REGULATIONS

The OIG in fulfilling its responsibilities under the IG Act of 1978, as amended, reviews existing and proposed legislation and regulations that relate to the programs and operations of TVA. Although TVA's Office of the 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 economy and efficiency or waste, fraud, and abuse in TVA programs or operations.

Major pieces of legislation being followed by the TVA OIG include the "Inspector General Reform Act of 2008," S. 2324. The purpose of the bill is to strengthen the independence of federal Inspectors General.

Senate Bill 2324 would:

- Require Congressional notification of the removal of any IG and the reasons for the removal.
- Expand the reporting requirements for IG budgets.
- Require all IGs to have their own legal counsel.
- Establish an IG council on integrity and efficiency.
- Clarify that the subpoena authority of IGs extends to electronic documents, and require additional reports by IGs and the Government Accountability Office.
- Raise the annual salary level of 31 specified presidentially appointed IGs from Level IV to Level III of the executive schedule, plus an additional 3 percent; other IGs must receive compensation comparable to other senior level executives in the department.
- Prohibit payment of cash awards and bonuses to IGs.
- Broaden the requirement for the IG semiannual reports by making inspection and evaluation reports part of the semiannual reporting process.
- Require (1) all IG Web sites to be directly accessible from the home page of agency Web sites; and (2) all IG reports be posted on agency Web sites within three working days of their public release.

³ This includes inspection data which is excluded from audit data shown in Appendix 4.

Similar legislation, the Improving Government Accountability Act, H.R. 928, introduced in the House of Representatives by Congressman Jim Cooper (D-TN), passed the House of Representatives on October 3, 2007, received overwhelming bipartisan approval with a vote of 404-11.

We are in general support of this bipartisan legislation which we believe will enhance IG independence and improve OIG operations. IG Moore is a member of the PCIE Legislation Committee.

The OIG is also following Whistleblower legislation in the U.S. Senate and House of Representatives. In December 2007, the U.S. Senate passed the Federal Employee Protection of Disclosures Act (S. 274). Earlier in the year, the House passed its version of the law, i.e., the Whistleblower Protection Enhancement Act (H.R. 985). The House bill is more encompassing, as it includes protections for contractor employees and provides for federal jury trials, but each bill provides additional protection to federal employees who expose fraud, waste, and abuse. H.R. 985

passed the House by a vote of 331-94. S. 274 passed the Senate by unanimous consent. Whistleblower protection is important to the work of IGs.

Another piece of legislation the OIG is following is the Telework Enhancement Act of 2007 (S. 1000) and its counterpart in the House, the Telework Improvements Act of 2007 (H.R. 4106). The Senate version would make federal employees eligible for telework unless employers specifically show why they should not participate in the program. The House version would allow federal employees, with certain specified exceptions, to telework at least 20 percent of the hours worked in every two administrative workweeks. Both the Senate and House versions of the Bill require each federal agency to designate one full-time employee as a Telework Managing Officer to coordinate and promote teleworking in the agency. The Senate bill was approved by the U.S. Senate Homeland Security and Government Affairs Committee on November 14, 2007. The legislation went through markup in the House on March 13, 2008.

The Office of Personnel Management reports that a survey it conducted shows that about 44 percent of federal agencies provide telework training to employees. The TVA OIG provides such training.

A fourth piece of legislation the OIG is following is the Moratorium on Uncontrolled Power Plants Act of 2008. The bill places a moratorium on the issuance of permits, by either the EPA or the states, for new coal-fired electric generating units unless the permit requires the unit to use state-of-the-art control technology to capture and permanently sequester carbon dioxide emissions.

Appendices

APPENDIX 1

INDEX OF REPORTING REQUIREMENTS UNDER THE IG ACT

REPORTING	REQUIREMENT	PAGE
Section 4(a)(2)	Review of Legislation and Regulations	52-53
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	40-51
Section 5(a)(2)	Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	40-51
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	40-51
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 For Which No Management Decision Had Been Made By the End 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

APPENDIX 2

AUDIT REPORTS ISSUED

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
CONTRACT				
2007-11166 10/02/2007	Preaward Audit – Request for Proposal (RFP) 51507			\$28,700,000
2007-11182 10/19/2007	Bicentennial Volunteers, Inc.	\$ 63,755	\$ 44,855	
2007-11165-01 11/01/2007	Preaward Audit – RFP 51507			9,747,000
2007-11165-02 11/15/2007	Preaward Audit – RFP 51507			74,000
2007-11165 11/27/2007	Preaward Audit – RFP 51507			11,669,000
2007-11165-03 12/13/2007	Preaward Audit – RFP 51507			3,050,000
2007-11027 01/17/2008	Pinkerton Government Services	267,676		
2007-11189 01/28/2008	Bechtel Power Corporation – Subcontract with Stone & Webster	25,331		
2007-11340 01/28/2008	Preaward Audit – RFP 00002007			47,750,000
2007-11189-01 02/15/2008	Bechtel Power Corporation – Subcontract with Stone & Webster	417,715		
2007-11169 03/12/2008	University of Tennessee			
2007-024C 03/31/2008	Review of TVA's Contract Award Process			

APPENDIX 2 (continued)

AUDIT REPORTS ISSUED

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
FINANCIAL				
2007-11203 10/15/2007	Asset Retirement Obligation-Non-Nuclear – SOX 404 Readiness Testing			
2007-11161 11/02/2007	Gas-Physical – SOX 404 Readiness Testing			
2007-11133 12/12/2007	Review of FY 2007 Financial Statement Audit			
2007-11234 12/14/2007	Financial Trading Program – SOX 404 Readiness Testing			
2007-11294 12/20/2007	Perform Overhead//Benefits Allocation – SOX 404 Readiness Testing			
2007-11380 01/28/2008	Maintain Rate Structure – SOX 404 Readiness Testing			
2008-11503 02/05/2008	Lease/Leaseback Transactions – SOX 404 Testing			
2008-11507 02/26/2008	Costing Inventory – SOX 404 Testing			
2008-11499 02/28/2008	Commitments and Contingencies – SOX 404 Testing			
2008-11527 02/29/2008	Manage Taxes – SOX 404 Testing			
2008-11535 03/05/2008	Emissions Allowance-Transaction Execution – SOX 404 Testing			
2008-11534 03/19/2008	Managing Debt – SOX 404 Testing			
2008-11570 03/19/2008	U.S. Treasury Note-Issue and Redeem – SOX 404 Testing			

APPENDIX 2 (continued)

AUDIT REPORTS ISSUED

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
INFORMATION TECHNOLOGY				
2007-11191 10/24/2007	Power Billing System – SOX 404 Readiness Testing			
2007-11275 10/24/2007	Payroll Application – SOX 404 Readiness Testing			
2006-009T 11/08/2007	TVA Security Controls Related to the Personnel Access Data System (PADS)			
2007-11198 11/20/2007	Review of Risk Assessment Performed on Personally Identifiable Information			
2007-11276 12/03/2007	eWorkplace Application – SOX 404 Readiness Testing			
2007-11192 12/10/2007	Backup and Restore – SOX 404 Readiness Testing			
2007-11348-01 03/26/2008	IT Security Organizational Effectiveness			
2007-11348 03/27/2008	Information Services Organizational Effectiveness			
2007-007T 03/31/2008	Pre-implementation Review of TVA's New Electronic Access System			
OPERATIONAL				
2007-11330 10/26/2007	Agreed-Upon Procedures- TVA FY 2007 Performance Measures			
2007-030F 11/06/2007	Review of TVA Hospitality Expense			
2007-019F-01 12/17/2007	Review of Reportable Environmental Events at TVA Facilities			
2007-11229 02/29/2008	New Executive Orientation			
TOTAL:	38	\$774,477¹	\$44,855	\$100,990,000²

Note: On the OIG Web site, a summary or a full report can be found for some of the audits listed (<http://www.oig.tva.gov>).

¹ Questioned costs include \$417,715 for unreasonable or unnecessary expenditures not recoverable.

² Funds to be put to better use include \$28,700,000 identified in preaward audits of proposals for contracts that were not subsequently awarded.

APPENDIX 3

TABLE I: AUDIT REPORTS ISSUED WITH QUESTIONED COSTS

AUDIT REPORTS	NUMBER OF REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the period	1	\$42,704	\$0
B. Which were issued during the reporting period	4	\$774,477	\$44,855
Subtotal (A+B)	5	\$817,181	\$44,855
C. For which a management decision was made during the reporting period	5 ¹	\$817,181	\$44,855
1. Dollar value of recommendations agreed to by management	4	\$370,085	\$19,855
2. Dollar value of recommendations not agreed to by management	2	\$447,096	\$25,000
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

TABLE II: AUDIT REPORTS ISSUED WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

AUDIT REPORTS	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE
A. For which no management decision has been made by the commencement of the period	0	\$0
B. Which were issued during the reporting period	6	\$100,990,000
Subtotal (A+B)	6	\$100,990,000
C. For which a management decision was made during the reporting period	6 ²	\$100,990,000
1. Dollar value of disallowed costs	5	\$53,986,500
2. Dollar value of costs not disallowed	5	\$47,003,500
D. For which no management decision has been made by the end of the reporting period	0	\$0
E. For which no management decision was made within six months of issuance	0	\$0

¹ The total number of reports differs from the sum of C(1) and C(2) when the same report(s) contain both recommendations agreed to and others not agreed to by management.

² The total number of reports differs from the sum of C(1) and C(2) when the same report(s) contain both costs disallowed and others not disallowed by management.

APPENDIX 4

AUDIT REPORTS WITH CORRECTIVE ACTIONS PENDING

Final corrective actions stemming from two information technology 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
2005-039T 01/30/2006	eWorkplace Application, Access, and General Controls This report included recommendations to strengthen controls over the time reporting system. Weaknesses were identified in the areas of processing controls, direct data changes, logical access controls, change management, and backup and contingency planning. TVA management has completed action for all but two recommendations. TVA management is targeting September 30, 2008 for completion of remaining actions.
2006-035T 09/21/2006	Assessing TVA's Efforts to Protect Sensitive Information We identified four areas for improvement. Management agreed and is taking corrective action. The target completion date is September 30, 2008.

APPENDIX 5

INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS¹

REFERRALS	
Subjects Referred to U.S. Attorneys	19
Subjects Referred to State/Local Authorities	5
RESULTS ²	
Subject Indicted	4
Subjects Convicted	3

¹ These numbers include task force activities and joint investigations with other agencies.

² Results include referrals from prior periods.

APPENDIX 6

HIGHLIGHTS THIS SEMIANNUAL REPORT

	MAR 31, 2008	SEPT 30, 2007	MAR 31, 2007	SEPT 30, 2006	MAR 31, 2006
AUDITS					
AUDITS IN PROGRESS					
Carried Forward	35	36	16	20 ¹	24
Started	52	72	42	23	22
Canceled	(2)	(7)	(4)	(1)	(3)
Completed	(38)	(66)	(18)	(26)	(22)
In Progress at End of Reporting Period	47	35	36	16	21
AUDIT RESULTS (Thousands)					
Questioned Costs	\$774	\$4,635	\$1,252	\$1,411	\$774
Disallowed by TVA	370	3,324	1,429	782	1,122
Recovered by TVA	3,339	1,274	695	793	1,641
Funds to Be Put to Better Use	\$100,990	\$19	\$8,913	\$10,839	\$700
Agreed to by TVA	53,987	8,529	4,534	2,790	633
Realized by TVA	53,987	948	3,603	2,287	740
OTHER AUDIT-RELATED PROJECTS					
Completed	6	17	12	11	11
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$103	\$0	\$36
INVESTIGATIONS²					
INVESTIGATION CASELOAD					
Opened	155	113	73	70	80
Closed	121	121	50	105	71
In Progress at End of Reporting Period	174	140 ¹	148 ¹	113	148 ¹
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$25,262	\$27	\$332	\$643	\$2,966
Savings	4,137	575	88	1,039	1,625
Fines/Penalties	206	1	10	.5	6
MANAGEMENT ACTIONS					
Disciplinary Actions Taken (# of Subjects)	9	8	4	6	9
Counseling/Management Techniques Employed (# of Cases)	16	3	7	14	14
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred to U.S. Attorneys	19	5	6	3	5
Indicted	4	6	2	1	3
Convicted	3	2	2	1	3
INSPECTIONS					
Completed	8	16	7	20	14
Cost Savings Identified/Realized (Thousands)	\$0	\$15	\$15	\$0	\$0

¹ Adjusted from previous semiannual report.

² These numbers include task force activities and joint investigations with other agencies.

APPENDIX 7

GLOSSARY

Disallowed Cost – A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.

Final Action – The completion of all management actions, as described in a management decision, with respect to audit findings and recommendations. When management concludes no action is necessary, final action occurs when a management decision is made.

Funds to Be Put to Better Use – Funds, which the OIG has disclosed in an audit report, that could be used more efficiently by reducing outlays,

deobligating program or operational funds, avoiding unnecessary expenditures, or taking other efficiency measures.

Management Decision – The evaluation by management of the audit findings and recommendations and the issuance of a final decision by management concerning its response to such findings and recommendations.

Questioned Cost – A cost the IG questions because (1) of an alleged violation of a law, regulation, contract, cooperative agreement, or other document governing the expenditure of funds; (2) such cost is not supported

by adequate documentation; or (3) the expenditure of funds for the intended purposes was unnecessary or unreasonable.

Unsupported Cost – A cost that is questioned because of the lack of adequate documentation at the time of the audit.

ABBREVIATIONS AND ACRONYMS

The following are acronyms and abbreviations used in this report.

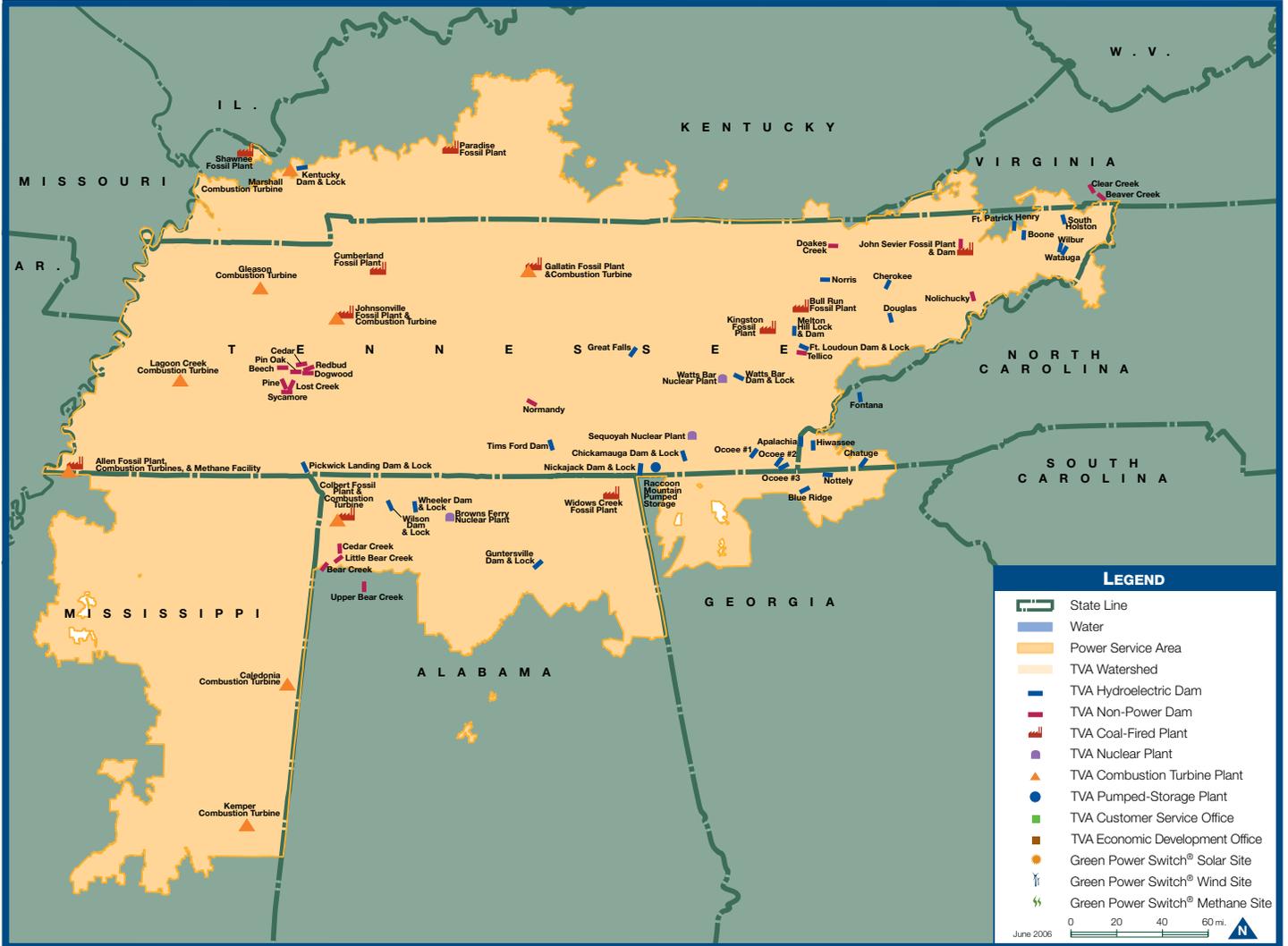
ADP Automated Data Processing
 ADM Archer Daniels Midland Company
 AIGAI Assistant Inspector General of Audits and Inspections
 CDHP Consumer Directed Health Plan
 CEO Chief Executive Officer
 CFO Chief Financial Officer
 CRS Concerns Resolution Staff
 CY Calendar Year
 DCOP Delivered Cost of Power
 DOD Department of Defense
 DOL Department of Labor
 DOJ U.S. Department of Justice
 eCAP Electronic Corrective Action Program
 ECIE Executive Council on Integrity and Efficiency
 ECJTF Environmental Crime Joint Task Force
 EER Environmental Event Reporting

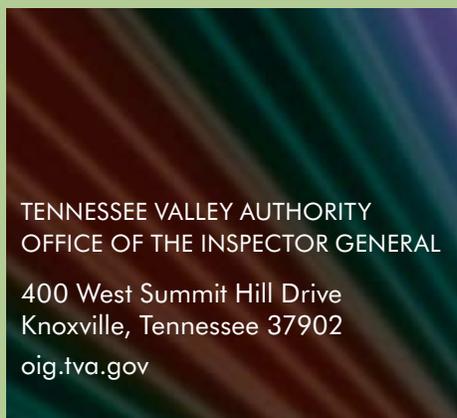
EPA Environmental Protection Agency
 EPC Engineering, Procurement, and Construction
 FBI Federal Bureau of Investigation
 FCA Fuel Cost Adjustment
 FECA Federal Employees' Compensation Act
 FEMA Federal Emergency Management Agency
 FISMA Federal Information Security Management Act
 FY Fiscal Year
 IG Inspector General
 IG Act Inspector General Act
 IS Information Services
 IT Information Technology
 ITSA Information Technology Security Assessment
 JTTF Joint Terrorism Task Force
 M&R Maintenance and Repair
 NRC Nuclear Regulatory Commission

OWCP Office of Workers' Compensation Programs
 OIG Office of the Inspector General
 PCBs Polychlorinated Biphenyls
 PCIE President's Council on Integrity and Efficiency
 PERs Problem Evaluation Reports
 PwC PricewaterhouseCoopers LLP
 REE Reportable Environmental Events
 RFP Request for Proposal
 RM Resource Management
 RSO&E River Systems Operation & Environment
 SOX Sarbanes-Oxley Act of 2002
 TBP Technology Brokering Program
 TVA Tennessee Valley Authority
 US United States
 USTD U.S. Treasury Department

APPENDIX 8

TENNESSEE VALLEY REGION MAP

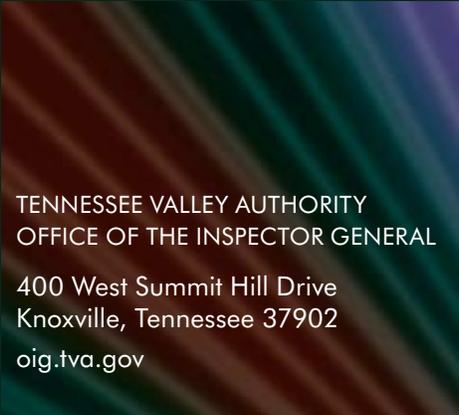




We invite you to take a tour of our newly updated Web site at oig.tva.gov. Our new video sheds light on fraud. A relatively new addition to the site is an automatic notification system for our audits and inspections, and other information placed on our Web page. You'll also find a news release section with the latest information released to the media.

Also, check out the latest edition of the *OIG Connection*, our e-publication to TVA employees filled with interesting information about our staff, tidbits on fraud, and an insightful look into how the work we do every day impacts TVA stakeholders.

Check us out at oig.tva.gov



TENNESSEE VALLEY AUTHORITY
OFFICE OF THE INSPECTOR GENERAL

400 West Summit Hill Drive
Knoxville, Tennessee 37902

oig.tva.gov