

# Creating an environment of change



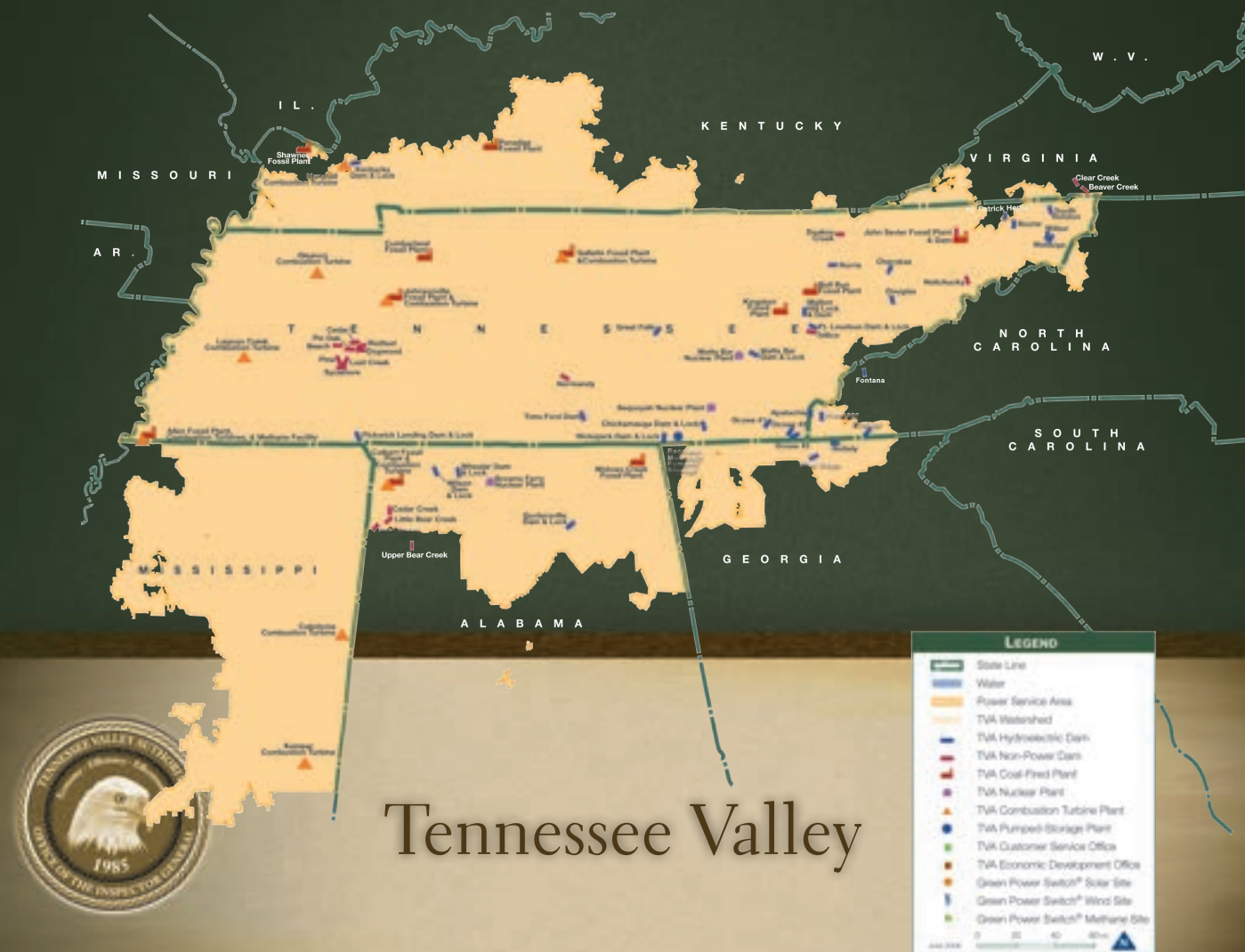
**OFFICE OF THE INSPECTOR GENERAL  
TENNESSEE VALLEY AUTHORITY**

**SEMIANNUAL REPORT  
APRIL 1 – SEPTEMBER 30, 2010**



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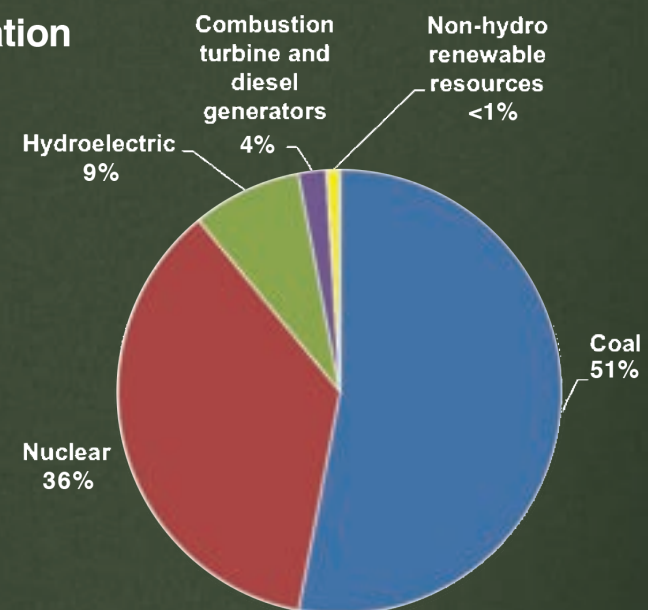




# Tennessee Valley

## TVA Power Generation (2010)

Coal - 74,590
Nuclear - 53,339
Hydroelectric - 14,013
Combustion turbine and diesel engines - 5,475
Non-hydro renewable resources - 4
(TVA Power Generation in millions of Kilowatt hours)



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## Message From The Inspector General

### Message from the Inspector General

*I am pleased to present our report for the period April 1, 2010, through September 30, 2010. The hard work of our TVA OIG employees resulted in almost \$20.5 million in recoveries, fines/penalties, potential savings, questioned costs, or funds which could be put to better use during this reporting period as well as numerous recommendations to improve TVA programs.*



We continue to monitor the progress TVA is making with both the Kingston coal ash clean-up efforts and TVA's overall record of environmental performance. Some of our reviews include:

- TVA's Environmental Performance Results
- Kingston Ash Spill Clean-Up and Recovery Efforts
- Long Term Environmental Recovery Plan for Kingston
- Peer Review of the Stability Analysis of Dike C at the Kingston Fossil Plant
- Peer Review of Dike C Buttressing at the Kingston Fossil Plant
- TVA's Plans for Offsite Transportation and Disposal of Ash from Kingston

Our report entitled "TVA's Environmental Performance Results" shows that TVA benchmarked against other utilities ranks in the middle on most environmental measures. This is the fourth in a series of benchmarking reports answering the question, "How is TVA doing."

In addition, our Investigations organization remains engaged in investigating significant allegations of criminal and administrative misconduct related to TVA personnel or programs.

TVA continues to do the hard work of rebuilding its reputation after the Kingston coal ash spill. In the feature article entitled "Creating an Environment of Change," we highlight TVA's road to redemption. Thus, our cover page is symbolic of TVA envisioning a brighter future on its journey to "2020."

I would like to thank Congress and the TVA Board for their continued support of our work. I look forward to working again with Director William "Bill" Sansom, and I welcome our new Board members, Barbara S. Haskew, Marilyn A. Brown, and Neil McBride to TVA.

Richard W. Moore  
*Inspector General*



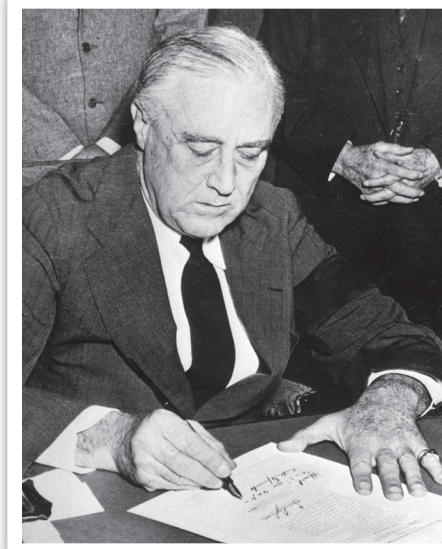


## An Environment of Change

### SPECIAL FEATURE

## Creating an Environment of Change

*When President Roosevelt signed TVA into life in May of 1933, along with its creation came thousands of jobs for an area ravished by the Great Depression, desperately needed flood control in the Tennessee Valley and the revitalization of over-farmed lands. TVA not only became a symbol of hope and prosperity, it became a living embodiment of such, even creating lakes that would provide years of family recreation and shared memories for generations to come. This is by now an oft-told story; TVA as a cultural icon credited with bringing “light” both literally and figuratively to the Valley.*



Even TVA’s critics recognize the emotional aura surrounding TVA that has resulted in a bank of goodwill from which TVA has drawn over many generations. Stop in at any crossroads in rural Tennessee and most graying denizens at the mention of TVA easily pull up vivid memories of a harsh life in the Valley before Mr. Roosevelt’s stroke of the pen. For many it’s like family; hackles rise when someone else criticizes your own. TVA, “warts and all,” is our own.

TVA has drawn heavily on the bank of goodwill over the years but nothing came as close to “breaking the bank” as the Kingston ash spill in December 2008. Friend and foe questioned whether TVA was a “good neighbor” or merely a once good idea gone bad. The tsunami of coal ash had the potential to turn TVA’s name to mud. The answer to the inevitable, “What went wrong?” is complicated and is still being sorted out at TVA today. One thing became clear,

however; this was more than bad engineering. This was fundamentally a reflection of what TVA had become. The symptoms had been there for years; multiple operational divisions operating in silos, mixed messages from rotating management, steadfast resistance to top-to-bottom standard processes, and a skeptical workforce of TVA leadership initiatives viewed as “flavors of the day.” The newly hired TVA employee was quickly schooled on “the TVA way.” Often that meant passively resisting compliance with management’s policies in favor of the one-off local plant “way we do things around here.” All of this resulted in a dysfunctional corporate personality of which the Kingston coal ash spill was merely a symptom too big to hide.

For simplicity’s sake, we call all of this “culture.” It is a label and like most labels susceptible to great mischief. That is so because any suggestion that TVA has one definable culture is flat wrong. Stick a probe in the

myriad of TVA operations and the cultural reading will be different. TVA is a hodgepodge of many cultures. Therefore, any culture dive at TVA must include the right metrics to establish a baseline and to measure change.

TVA will monitor progress through assessment tools called the (1) Organizational Health Index (OHI) and (2) “Pulse” employee surveys. The OHI will be used as the primary metric to track progress and will allow TVA to report an overall score externally and share details with the TVA Board. It is recommended that the instrument be run annually and compared against sector, national, and public/private benchmarks. TVA has also decided to use “Pulse” surveys to engage organizations and obtain regular feedback. Surveys, which are comprised of a small subset of questions from the OHI, will be conducted periodically and sent to a population of randomly selected



employees. TVA’s Vice President of Organizational Effectiveness stated, “These surveys will be conducted every two months to help us get a ‘pulse’ of how we are doing in our efforts to improve the organization.”

Prior to the Kingston ash spill, which provided the catalyst for TVA’s cultural review, Inspector General Moore had already charged his employees with the task of measuring TVA’s performance—environmentally and otherwise—in a way that it had never been measured before.

“I thought it was important to create a format that would allow us to effectively answer one basic question, ‘How is TVA doing,’ ” Moore noted. “This seemed to me a question that an IG’s office, which is charged with providing oversight to an agency, should be able to answer about that agency.”

He continued, “While all of our work should cumulatively answer that question, compiling the data in a series of basic reports would inform stakeholders about TVA’s performance in a clearer way. If the IG’s office can’t answer the basic question of ‘How is TVA doing,’ then I am not sure that we are truly doing our job.”

Consequently, a series of four benchmarking reports were conducted by the TVA Office of the Inspector General (TVA OIG) that provided comprehensive insight into “How TVA is doing.” The first performance report



DOUGLAS  
DAM

on TVA’s customer relations was featured in the spring 2009 edition of the TVA OIG semiannual report. Since that time, the remaining three reports on financial, operational, and environmental performance have been issued. All four reports are featured on the TVA OIG Web site at [www.oig.tva.gov](http://www.oig.tva.gov).

“The release of the environmental report is particularly significant in the aftermath of the Kingston spill as the review addresses what TVA has done to clean and restore the area affected by the release,” Moore said. “TVA committed to ‘make it right,’ and we found credible evidence that they have done what they said they would do.” Finally, the report analyzes TVA’s overall environmental record prior to the coal ash release.”

In light of the current Presidential administration’s focus on utilizing renewable energy sources to generate power while drastically reducing reliance on coal-powered plants, the release of this report could be viewed as timely. President Barack Obama has stated:

*“To finally spark the creation of a clean energy economy, we will make the investments in the next three years to double our nation’s renewable energy capacity... We will put Americans to work in new jobs that pay well—jobs installing solar panels and wind turbines; constructing energy efficient buildings; manufacturing fuel efficient vehicles; and developing the new energy technologies that will lead to even more jobs and more savings, putting us on the path toward energy independence for our Nation and a cleaner, safer planet in the process.”*

The TVA OIG’s environmental performance review suggests a noticeable gap between the aspirations of the President and TVA’s current performance. We assigned TVA a rating of “fair” for measures related to clean energy and renewable generation. This assessment is achieved primarily because of TVA’s hydro production efforts, but pending standards may remove the use of hydro production as counting toward a renewable generation source. Additionally, hydro production is not consistent due to fluctuating precipitation levels.

TVA fared better in its environmental performance related to maintaining certified clean marinas that meet federal pollution control standards and in recycling coal combustion products. In contrast, their performance lags in the amount of air pollutants their coal-fired plants produce. TVA, along with other utilities, is still a polluter based on the nature of its business.

Finally, the report names the five top environmental performance issues facing TVA including: (1) the increased environmental regulations related to sulfur dioxide, nitrogen oxide, mercury, carbon dioxide and coal combustion waste disposal; (2) the cleanup of the Kingston Fossil Plant ash spill; (3) the remediation of improving stability of the ash and gypsum impoundments at TVA fossil plants; (4) the mandated renewable portfolio standards; and (5) the ability to maintain TVA’s current low-cost of power while meeting environmental regulations.



TVA ELECTRIC CAR

## TURBULENT TIMES LEAD TO A CLEAR DIRECTION FOR TVA

TVA’s Chief Executive Officer (CEO) recently announced a new vision endorsed by the TVA Board on the heels of the Kingston ash spill. The questions raised by the Kingston ash spill necessitated TVA being able to articulate a clear vision. At the heart of the matter is a fundamental question, “What is TVA?” In market parlance, “Does TVA have a ‘brand?’” For example, the American automotive giant Ford has as its now well-known brand “Quality is Job 1.” If asked what TVA’s “brand” is, the proverbial “man on the street” is not likely to recall anything that evokes a clear statement of what TVA is. This is also true of TVA employees. It has been years since the organization was willing to commit itself to a publicly stated vision. Both the “man on the street” and TVA employees can be forgiven for not being able to recall anything resembling a vision at TVA.

But this is about more than coming up with a catchy slogan. This is about articulating clear goals and then meeting them. No branding or marketing of a vision will make much difference in the absence of performance to match. For Ford Motor Company, it has been the buying public who decided if quality really was “Job 1.” Thus, it will be for TVA. Whether TVA’s performance matches its stated vision will be judged by a wary public and will not turn on the marketing of the vision itself. Any “selling” of the vision will be viewed in the context of verifiable proof of better performance from TVA.

In the midst of economic uncertainty and on the precipice of the development of a national energy policy, TVA sees a lot of opportunity to become a national leader. To be specific, its leadership vision coined “2020 Vision” is to lead the nation in improving air quality and increasing nuclear production by the year 2020. Their vision doesn’t stop there though. They also expect to be a leader in the Southeast in energy efficiency.

TVA’s Inspector General, Richard Moore, sees a clear tie between TVA’s new vision and the efforts to change TVA’s culture. He said, “Ultimately, TVA’s vision is about performance. Only organizations with a healthy corporate culture are high performers

in the business world. Therefore, TVA's chance of realizing the goals of '2020 Vision' is directly related to how successful it is at changing its culture."

TVA CEO Tom Kilgore said at an August 20, 2010, board meeting,



"We want to be a leader in low-cost clean energy, but we want to be the leader in improving our air quality—the most improved. We want to be the nation's leader in increased nuclear production. That's because we see that as being the avenue both to clean air and to low cost."

Kilgore cautioned that TVA can't lose sight of its mission stating, "Our mission is about our rates, our reliability and our reputation. That is, if you think about any product, the thing you are concerned about most is cost and quality. That to us is rates and reliability." Kilgore continued that TVA's responsibility is measured by its reputation in how it's doing and how people perceive TVA is doing. "So these are the basics. We have to stay focused on that but as we do we want to tackle these new initiatives."

Kilgore detailed some of the steps TVA plans to take in accomplishing their vision starting with significantly increasing production from

low-emission electricity generators—reducing sulfur dioxides, nitrogen dioxides, mercury, particulate and carbon dioxide emissions from TVA plants.

"We've spent five billion dollars on this, and we can see the efforts succeed," Kilgore noted. "We had a recent report this week about how the air in the Smoky's is clearing up."

Moving on to the nuclear production piece of TVA's vision, Kilgore asked, "What is it we want to do? We want to lead the nation in new nuclear capacity," he answered.

Kilgore mentioned two of the steps TVA is taking toward completing this goal include "rehabbing" Browns Ferry Nuclear Plant and constructing its Watts Bar Nuclear Plant on time and on budget. "Our goal is to do this not because of jobs, not because of anything else other than low cost, cleaner energy—to achieve our vision," he said.

TVA is also planning to demonstrate the first small modular reactor in the United States. "We think we're in a good place to try to do that. "So, we're going to work with our partners—we've talked to ORNL, the lab near here, and others about trying to do something like this."

In addressing energy efficiency, Kilgore explained that TVA's initiative in this area involves helping consumers and businesses use energy more efficiently and save money.

"We say that we've got to change our attention from the rates to the bill. It's really about the bill...Most people can't tell you the rate they pay, but they can tell you how much they spent on electricity last month. So, that's what we have to look at—is what was the bill and how can we help them deal with that? In accordance with that, we set a goal. We said we want to be at 3.5 percent energy efficiency by 2015... that is leading the Southeast and then we would re-evaluate." The energy efficiency Kilgore referred to is in terms of energy efficiency savings from 2010 to 2015 as a percentage of sales.



ZERO ENERGY HOME

The second component to being a Southeastern leader in energy efficiency involves further educating energy consumers about time of use efficiency. "Sometimes they don't realize that if we can manage the demand, it'll off-set our need to build new nuclear capacity," Kilgore said.

"And then there's a third thing," he added, "and that is that we have to work on our internal production. What are our losses in transmission? What are our plant efficiencies? Are there ways that we can actually get better at that and we think there are." Following Kilgore at the August 2010 TVA Board meeting, Kim

Greene, Group President, Strategy and External Relations, discussed the role of TVA's integrated resource plan (IRP) in accomplishing TVA's vision for being a leading producer of low-cost, cleaner energy. The planning phase for the IRP began more than a year ago, she said, and is a common planning tool used in the utility industry to determine how to meet future energy needs in the most reliable and economic way.

TVA's IRP includes considering significantly reducing coal production while increasing nuclear, natural gas, renewable resources, energy efficiency and demand response.

THE FIRST STEPS THAT TVA STATES IT WILL TAKE TOWARD COMPLETING ITS VISION INCLUDE:

1. Idling approximately 1,000 megawatts of TVA's older, unscrubbed coal units
2. Completing the next planning phase of its Bellefonte Nuclear Project
3. Increasing TVA's energy efficiency budget

TVA plans to idle a total of nine coal units at Widows Creek, Shawnee and John Sevier fossil plants over the next four to five years. The nine units at these three plants do not have advanced emission-control equipment and, because they are among TVA's older units, can be more expensive to operate.

ALLEN FOSSIL PLANT



Robert Fisher, Senior Vice President of TVA's Fossil Power Group, says TVA is evaluating other units without advanced environmental controls at Gallatin, Shawnee, Allen, Colbert, John Sevier and Johnsonville to determine if it makes sense to install controls on those units or idle them. Among the considerations are each plant's condition and performance, as well as the impact of future regulatory challenges and the need for generation at particular locations in the TVA system.

TVA also states that its Bellefonte nuclear facility, located in Hollywood, Alabama, continues to be a viable option for TVA's energy future. Construction was halted in 1988, but studies indicate it may be a cost-effective addition to TVA's generating fleet, and construction could resume by 2012.

The fiscal year 2011 budget approved at the August 20 meeting includes \$248 million for Bellefonte. Engineering design, asset preservation, facilities preparation, and regulatory-framework development, as well as initial contracts for the procurement of long-lead-time components, will be funded with this budget allotment.

The budget, which includes no base rate increase for the fiscal year, also includes \$635 million for construction of the Watts Bar 2 nuclear facility in East Tennessee, scheduled for completion in 2013; \$314 million for construction of natural gas-fired

power generation at the John Sevier plant site near Rogersville, Tennessee; and \$351 million for environmental improvements at coal-fired plants, including converting wet ash storage facilities to dry. Additionally, the budget contains \$135 million for energy efficiency and demand-response programs as well as \$70 million for economic development.

In closing, Kilgore emphasized that this is the time to act. "We wanted to be focused and we wanted to act," he said. "We know that at least a 1,000 megawatts need to be looked at for idling. There could be more. We know that if we get all of the energy efficiency we can get, and we get all the affordable renewables, we're still going to need to increase baseload power if we're going to idle some of the older coal plants. To do that, we need to move ahead with Bellefonte. And, then energy efficiency speaks for itself. You can see that we are aggressive about that and I hope that we can become even more aggressive as the years go on."

TVA's history suggests that mission or vision statements like corporate slogans come and go. Whether the performance matches the rhetoric is susceptible to quantifiable proof. The TVA OIG will continue to issue reports aimed at answering the question, "How is TVA doing?"





## Noteworthy Undertakings

### NOTEWORTHY UNDERTAKINGS

## TVA OIG Fraud Video Wins a Gold Screen Award of Excellence from the National Association of Government Communicators

*The National Association of Government Communicators (NAGC) recognized the TVA OIG fraud video as one of the 2010 winning entries of the Blue Pencil & Gold Screen Awards Competition at an awards banquet in Bethesda, Maryland, on May 17th.*

The NAGC Blue Pencil & Gold Screen Awards Competition salutes superior communication efforts of government agencies and recognizes the people who create them. In10sity Advertising, Inc., of Knoxville, Tennessee, worked with the OIG to create the award-winning video located on the TVA OIG Web site at [oig.tva.gov](http://oig.tva.gov).

More than 440 entries in 51 categories were received and judged by a professional panel of experts from across the country, which recognized 164 entries as winning submissions. The NAGC is a national not-for-profit professional network of federal, state

and local government employees who disseminate information within and outside government. Its members are editors, writers, graphic artists, video professionals, broadcasters, photographers, information specialists and agency spokespersons.

“The variety of entries and the creativity shown at all levels of government has been an inspiration this year,” stated Maria VanderKolk, NAGC competitions chair. “From posters to podcasts and Web sites to Webinars, government communications continue to keep pace with ever-changing technology.”

Blue Pencil & Gold Screen Award categories are designed for writing, editing, photography, and published products, such as pamphlets, books, newsletters, and other related materials. Gold Screen Award categories recognize audio-visual and multimedia products, including broadcast and Internet-based products.



**TVA INSPECTOR GENERAL RICHARD MOORE PICTURED ABOVE RECEIVING THE BLUE PENCIL & GOLD SCREEN AWARD OF EXCELLENCE FROM NAGC PRESIDENT JENNIFER LOHR**



# The TVA OIG Web Site Gets a Makeover

We invite you to take a tour of our newly updated Web site at [oig.tva.gov](http://oig.tva.gov).

The Web site makeover was created to modernize the look of our site aligning it with the dynamic visual texture of award-winning corporate, non-profit and government Web sites. It is also designed to make our work more easily accessible for our stakeholders. The new [oig.tva.gov](http://oig.tva.gov) encompasses scrolling pictures, easy-to-navigate menu options and informative links to related Web sites.

Our award-winning fraud video highlights what TVA employees or other stakeholders can do if they suspect wrongdoing at TVA. You can also sign up for automatic notifications of any new updates to our site, and you'll find a newsroom or "press" section with the latest information released to the media. Rediscover us at the new and improved [oig.tva.gov](http://oig.tva.gov). We think you'll like what you see.



## Work Performance, Not Place, is What Matters at the TVA OIG



A TVA OIG EMPLOYEE WORKING AT A REMOTE LOCATION

Every part of the country has its own culture and the Southeast is no exception. Informally defined by its collective laid-back attitude, saturated with southern hospitality and a shared sense of community, East Tennessee remains steadfast in Southern tradition. Add to this the common stereotypes associated with government bureaucracy and you may have what looks like an anomaly at the Tennessee Valley Authority, TVA OIG. Headquartered in Knoxville, Tennessee, the TVA OIG is charged with overseeing TVA, the largest public power producer in the nation — providing electricity to nine million people and 650,000 businesses in seven states. To accomplish this significant mission, TVA OIG personnel are strategically located throughout TVA's seven-state region and the office has successfully pushed passed perception to evolve from a traditional government workplace into a highly functioning yet almost completely mobile workforce. TVA Inspector General Richard Moore has been leading this charge and is at the forefront of a teleworking movement that is touching businesses, organizations, and government entities throughout the nation.

Inspector General Moore's mantra is, "Work where you will be most productive." As a result, OIG personnel are routinely working outside of a traditional office setting. This arrangement originally presented a profound need to create an IT-generated virtual work environment that had never been built before. Today, this environment includes 24-hour-a-day videoconferencing

availability — which allows employees to "see" each other just as they would if they were in the office — as well as complete and secure access to e-mail and phones through TVA OIG's virtual private network.

"The key for us," Inspector General Moore explained, "is that we can measure the actual work our people do as opposed to merely taking roll and counting the traditional 'bodies in chairs.' All of us have been around long enough to know that just because people are 'present' doesn't mean that they are working. The nature of the work of an Office of Inspector General is such that it can be done from virtually anywhere. The core of our work is audits and investigations that are not in the office; the work is in the field, whether that is in northern Alabama or in western Tennessee. Most of us sit at a computer screen all day and where the computer screen is makes little difference. Across corporate America and within government agencies, the actual place work is done is becoming less important and the quality of the work matters more. That's just good business."

The results of a voluntary survey on telework which the TVA OIG conducted of its employees reflect Inspector General Moore's sentiments. Of the 86 employees, who participated in the survey, the majority indicated that they viewed telework as a success in the office. Employees noted, among other things, the flexibility telework provides and the enhanced ability to work without the usual office chatter.

TVA OIG Deputy Legal Counsel David Winstead said of telework, "With the advent of secure remote access to our servers, electronic filing systems and a myriad of ways to communicate, there is little that must be done in a traditional office setting. Telework is a boost to efficiency. I've reclaimed an hour a day which was once dedicated to commuting, and it is easier to focus on the work at hand by reducing the interruptions inherent in a world of cubicles."

Telework may be an option for private companies, but more federal agencies are now required by law to create a teleworking policy that allows eligible employees to telework. Congress has continued to emphasize the importance of federal agencies taking advantage of the benefits of telework. Section 359 of a statute [Public Law 106-346] passed by Congress in 2000 states:

*"Each executive agency shall establish a policy under which eligible employees of the agency may participate in telecommuting to the maximum extent possible without diminished employee performance."*

According to [teleworkexchange.com](http://teleworkexchange.com), a Web site dedicated to the topic of telework, employee productivity hasn't diminished, but has actually increased with the onset of telework. "The average office-bound worker spends the equivalent of 30 working days per year commuting, traveling or engaging in office chit chat," according to the Web site. "Converting some of this down time into productive time is a

clear win for employers. For example, IBM estimates that teleworking boosts employee productivity about 20 percent. British Telecom found productivity rose 31 percent among its 9,000 teleworkers, due to lack of disruptions, stress and commuting time. Dow Chemical reported teleworking increased productivity by 32.5%."



PRESIDENT OBAMA

President Obama is also promoting telework and spoke about it at the March 31 Workplace Flexibility Forum in Washington, D.C. The President commented that embracing telework and other flexible work policies is, "about attracting and retaining top talent in the federal workforce and empowering them to do their jobs, and judging their success by the results that they get—not by how many meetings they attend, or how much face-time they log, or how many hours are spent on airplanes. It's about creating a culture where, as Martha Johnson [Administrator of the U.S. General Services Administration] puts it, 'Work is what you do, not where you are.'"





# Executive Overview

## Executive Overview

*Following the Kingston ash spill, TVA’s legacy culture, which was identified as a primary contributor to the spill, has been extensively reviewed in our reports. Since our office began these reviews, TVA has publicly committed to changing its culture, but transforming a culture made up of more than 12,000 individuals with their own personal set of beliefs is a formidable endeavor. It is, however, one that TVA has taken on with some assistance from a national consulting company, McKinsey and Company.*

With McKinsey and Company’s guidance, TVA has successfully established a program called the Organizational Effectiveness Initiative, designed to create a cross-sectional approach to addressing five elements of major culture change including: realigning the organizational structure, creating a clear and transparent framework for governance and accountability, creating and implementing consistent policies and procedures, developing processes to continually identify and close skill gaps, and improving performance management to increase effectiveness and accountability.

While focused on monitoring measurable cultural change at TVA, our office has also been intensely involved in multiple reviews of TVA’s environmental performance, including TVA’s cleanup of the Kingston ash spill as well as several other reviews related to Kingston and a comprehensive inspection that

benchmark’s TVA’s environmental performance against other top utility providers in the nation. Our office has been and will remain committed to overseeing TVA’s culture-change initiative as an integral part of its operational performance and risk mitigation.

During this semiannual reporting period, our Inspections, Audits and Investigations teams successfully identified more than \$20.5 million in recoveries, fines, penalties, potential savings, questioned costs, or funds that could be put to better use, as seen in the chart below.

STATISTICAL HIGHLIGHTS	
April 1, 2010 – September 30, 2010	
Audit Reports Issued	41
Questioned Costs	\$2,713,300
Disallowed Costs	\$1,878,908
Funds Recovered	\$2,806,633
Funds to be Put to Better Use	\$13,695,565
Funds Realized by TVA	\$2,090,600
Investigations Opened	199
Investigations Closed	221
Recoveries/ Savings/Fines/Penalties	\$4,070,029
Criminal Actions	16
Administrative Actions (No. of Subjects)	15
Inspections Completed	9



## INSPECTIONS

The Inspections team completed nine reviews during this reporting period, including one which is the fourth in a series of benchmarking reports structured to answer the question, “How is TVA doing” regarding TVA’s environmental performance. In addition, multiple reviews were focused on various Kingston ash spill issues.



KINGSTON FOSSIL PLANT

The findings of these reports and others are included in the Inspections section of this report, beginning on page 25.

## FINANCIAL AND OPERATIONAL AUDITS

During this semiannual period, Financial and Operational Audits completed nine projects including reviews of counterparty credit risk, recreational land transactions, and capital projects.

In the review of recreational land transactions, we identified several processes that needed improvement. The results of the review are found beginning on page 33 of this report. The results of the counterparty credit risk and capital projects reviews are also found in the Financial and Operational Audits section of this semiannual report.

## INFORMATION TECHNOLOGY (IT) AUDITS

During this semiannual period, we completed three audits in the IT environment on: the final implementation phases of TVA’s new asset management system; the OIG’s biennial assessment of TVA’s controls to protect personally identifiable information (PII); and a survey of controls over TVA PII held by private third parties. The results of these reviews are found on page 37 of this report.

## CONTRACT AUDITS

Our Contract Audits group completed three preaward audits of cost proposals and seven compliance audits of contracts with expenditures totaling \$193 million. Our audits identified (1) \$13.7 million of inflated proposal costs, and (2) potential overbillings of \$2.6 million. The contract audits section begins on page 37 of this report.

## DISTRIBUTOR AUDITS

During this semiannual period, the OIG completed four reviews of TVA distributors including one distributor that TVA had granted retail rate setting authority in 2004. We looked at classification and metering issues as well as other contract requirements. We also examined use of electric funds and cash reserves being used for non-electric purposes. Additionally, our Distributor Audits team looked at distributor internal controls issues and identified opportunities for better oversight of distributors by TVA. The Distributor Audits section begins on page 39 of this report.

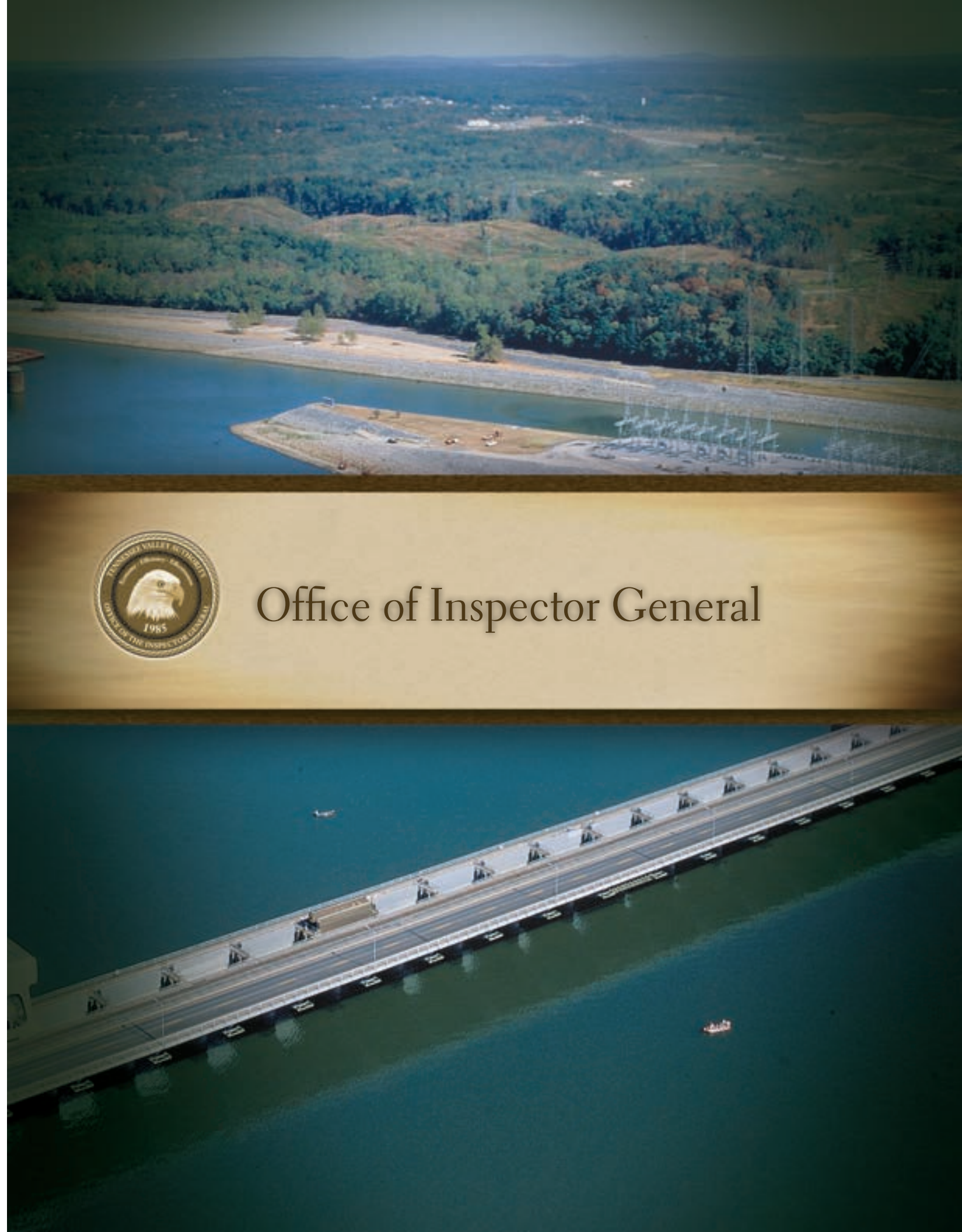
## INVESTIGATIONS

During this semiannual period, Investigations collaborated with Audits on contract-related issues. In this reporting period, we obtained two guilty pleas in a fraud case with overlapping issues of interest in a parallel audit. Investigations continued to focus on major fraud cases and continued working in partnership with various task forces.

We opened 199 cases and closed 221 cases during this period. We helped TVA to save or recover more than \$4 million, and our cases resulted in seven indictments, eight convictions, and a pretrial diversion. The highlights and results of our work can be found starting on page 43 of this report.



# Office of Inspector General





# Office of Inspector General

*The OIG’s most important resources are its people. Our team is made up of experienced auditors, investigators, and administrative staff. The OIG is an independent office within TVA and is headquartered opposite TVA in TVA’s East Tower, overlooking downtown Knoxville. Inspector General Richard Moore believes that in order to effectively provide oversight to TVA, we must be strategic in our placement of OIG employees. As such, the IG has worked to ensure that our office has a presence at or near all major TVA offices throughout the Tennessee Valley.*

The OIG has a major satellite office in the Edney Building in Chattanooga, Tennessee, where the Inspections unit and several investigators are located. There are also staffed field offices at the Watts Bar Nuclear Plant in Tennessee; and also in Nashville, Tennessee; Huntsville, Alabama; and Mayfield, Kentucky.

As of September 30, 2010, the OIG had a total staff of 104. The Audits and Inspections units are composed of 64 individuals, the Investigations unit includes 29 individuals, and the Administrative unit is comprised of 11 individuals.

The number of personnel located at each staffed office is as follows: Knoxville-78, Watts Bar Nuclear Plant-2, Chattanooga-17, Nashville-2, Huntsville-4, and Mayfield, Kentucky-1.


## ADMINISTRATION

The administrative section works closely with the IG, Deputy IG, and Assistant IGs to address the day-to-day operations of the OIG and to develop policies and procedures designed to drive and enhance productivity in achieving office goals. Responsibilities include operations for personnel administration, budget and financial management, purchasing and contract services, facilities, conferences, communications, and information technology.

## LEGAL

The OIG legal department monitors existing and proposed legislation and regulations that relate to the mandate, operations, and programs of the OIG and/or TVA. In addition, this group provides legal advice as needed for administrative, audits, inspections, and/or investigative projects. The OIG Legal Counsel also coordinates government relations for the office.

### AUDITS AND INSPECTIONS



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



**John H. Barrow III**  
Project Manager  
Emerging Issues



**Louise B. Beck**  
Audit Quality Manager

### MANAGEMENT TEAM



**Robert E. Martin**  
Assistant Inspector General  
Audits & Inspections



**Jill M. Matthews**  
Deputy Assistant Inspector General, Audits & Support



**Phyllis R. Bryan**  
Director, IT Audits



**Lisa H. Hammer**  
Director, Financial & Operational Audits



**David P. Wheeler**  
Director, Contract Audits

### TVA OFFICE OF THE INSPECTOR GENERAL



**Richard W. Moore**  
Inspector General



**Charles A. Kandt**  
Legal Counsel



**Ben R. Wagner**  
Deputy Inspector General



**W. David Winstead**  
Deputy Legal Counsel

### ADMINISTRATION MANAGEMENT TEAM



**Jill M. Matthews**  
Assistant Inspector General (Acting), Administration



**Stefanie D. Hoglund**  
Public Affairs Officer



**Kay T. Myers**  
Manager, Human Resources

### INVESTIGATIONS MANAGEMENT TEAM



**John E. (Jack) Brennan**  
Assistant Inspector General  
Investigations



**Paul B. Houston**  
Special Agent in Charge



**Nancy J. Holloway**  
Special Agent in Charge



AUDITS AND INSPECTIONS

The Audits and Inspections teams perform a wide variety of engagements designed to promote positive change and provide assurance to TVA stakeholders. Based upon the results of these engagements, Audits and Inspections make recommendations to enhance the effectiveness and efficiency of TVA’s programs and operations.

The teams use an impact- and risk-based approach to develop an annual work plan. The teams’ plan considers 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 the likelihood it will result in recommendations for cost savings or process improvements. The result of the OIG audits and inspections planning process is a focus on those issues of highest impact and risk of fraud, waste or abuse. This focus extends to the field of information technology and risk assessment related to a potential malicious or other intrusion of TVA’s IT infrastructure.

**The Audits team,** based in Knoxville, generates and oversees comprehensive financial and

performance audits of TVA programs and operations, providing a landscape view of the organization’s overall fiscal and operational health.

This dynamic team is made up of four departments—Contract Audits, Distributor Audits, Financial/Operational Audits, and IT Audits.

- Contract Audits has lead responsibility for contract compliance and preaward audits. In addition, this team performs reviews of TVA’s contracting processes and provides claims assistance as well as litigation support.
- Distributor Audits has lead responsibility for contract compliance reviews of TVA’s distributors. This group assesses compliance with the terms of the power contracts between TVA and its distributors. In addition, this group reviews TVA processes related to its regulatory responsibilities of distributors.
- Financial/Operational Audits has lead responsibility for oversight of TVA’s financial statement audit and related services performed by TVA’s external auditor, reviews of TVA’s internal controls related to financial reporting, operational efficiency, and compliance with laws and regulations as well as 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 team also performs operational reviews of the effectiveness of IT-related functions.

**The Inspections team,** based in Chattanooga, serves a unique function. This team was created when Inspector General Moore recognized the need for a team that could provide a quick, yet thorough review of TVA functions. We refer to our Inspections group as the “Light Cavalry.” By performing limited-scope reviews, this team can complete reviews quicker than traditional audits.

In accordance with the Quality Standards for Inspections, the objectives of the Inspections team 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 project. Issues can be generalized into specific categories depending on the type of engagement performed. The following graphic shows some representative examples of issues commonly reported.

TYPES OF AUDIT AND INSPECTION ISSUES



INVESTIGATIONS

**The Investigations team** is vigilant in its search for activity related to fraud, waste, and abuse in and of TVA programs and operations. This highly skilled team performs investigative activity in accordance with the Quality Standards for Investigations. The investigators maintain liaison with federal and state prosecutors and file a report with the Department of Justice whenever the OIG has reason to believe there has been a violation of federal criminal law. Our investigators partner with other investigative agencies and organizations on special projects and assignments, including interagency law enforcement task forces on terrorism, the environment, and health care. Our investigative workload includes the following major categories:

- CONTRACT FRAUD —** Defrauding TVA through its procurement of goods and services.
- THEFT OF GOVERNMENT PROPERTY AND SERVICES —** Theft of TVA property and “schemes to defraud...designed to deprive individuals, the people, or the government of intangible rights, such as the right to have public officials perform their duties honestly.”
- ENVIRONMENTAL CRIME —** Any act which violates an environmental protection statute.
- HEALTH CARE FRAUD —** The intentional misrepresentation of health care services, expenses, billings, needs, or coverage that results in unauthorized payments or other benefits.
- ILLEGAL HACKING INTO TVA COMPUTER SYSTEMS —** Accessing a computer without authorization or exceeding authorized access.
- WORKERS’ COMPENSATION FRAUD —** Includes employee fraud, medical fraud, premium fraud, and employer fraud, most often a false claim of disability to receive benefits.
- EMPLOYEE MISCONDUCT —** Generally includes misuse of TVA furnished equipment, travel voucher fraud, and a multitude of miscellaneous matters.





## Representative Inspections

### Summary of Representative Inspections

*During this period, Inspections completed nine reviews. Specifically, Inspections completed reviews related to the Kingston ash spill, including reviews of the clean-up and recovery efforts, transportation and disposal of ash, long-term environmental recovery plans for Kingston, the stability analysis of Dike C, and Dike C buttressing. It also completed reviews of TVA records retention and TVA's environmental performance. With the assistance of a contractor, Inspections performed a peer review of the safe use assessment of Wheeler Hydro Unit 1. Additionally, Inspections performed a benchmark study of the Inspector General Criminal Investigator Academy to assist the Council of Inspectors General on Integrity and Efficiency in improving its training program for investigators.*

#### REVIEW OF TVA'S ENVIRONMENTAL PERFORMANCE RESULTS

This review was the fourth in a series of reviews to benchmark TVA's performance in key areas and answer the question, "How is TVA doing in regard to environmental performance." In conducting this review, we assessed environmental performance, including key performance measures; evaluated TVA's performance relative to available benchmark information; and identified key management challenges that could affect how successful TVA is in achieving these strategic objectives.

As part of this review, OIG included a summary evaluation of TVA's response to the December 22, 2008, Kingston ash spill. The ash spill released 5.4 million cubic yards of coal ash containing a number of toxic substances into the environment. As we reported previously, the culture surrounding the management of coal ash at TVA reflected a culture that coal ash was unimportant and relegated to the status of garbage at a landfill. There was very little recognition of the potential hazard to the public and the environment. TVA is now taking steps to clean up the spill, assess the stability of other ash

ponds, and improve ash management practices. More importantly, TVA has taken effective steps to address the cultural problems that led to the spill, and TVA is currently engaged in initiatives to address culture issues that may impact every segment of TVA operations.

Since culture is a reflection of a collective corporate mindset, part of the culture change that is occurring at TVA involves a review of compliance processes, along with education of TVA employees designed to alter the corporate mindset. This change has implications for how TVA employees see environmental compliance issues and is perhaps TVA's single largest challenge in becoming a more responsible environmental steward.

Our review found that overall TVA's results in the area of environmental performance were mixed and can be summarized as follows:

- TVA recently changed its approach to measuring its environmental performance. It now measures 12 industry-accepted metrics identified by the Global Reporting Initiative and six measures for which there are not good industry benchmarks.

The Global Reporting Initiative framework specifies the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance.

- Through the production of energy by its coal-fired plants, TVA produces a large amount of air pollutants. While it has made advances in the reduction of air emissions over the last several decades, TVA, along with other utilities, is still a polluter based on the nature of its business. TVA has incurred high capital investments to comply with evolving environmental requirements, and the future costs of compliance and pending legislation addressing air pollution and climate change will continue to put upward pressure on power rates.

We assigned TVA a rating of "fair" for measures related to clean energy generation and renewable generation. This assessment is achieved in large part due to TVA's hydro production efforts. However, pending standards may eliminate the use of hydro production as a renewable generation source, and hydro production is not a consistent source of generation due to fluctuating precipitation.



Compared to its peers, TVA performs in the middle of the pack in measures such as number of “Reportable Environmental Events,” amount of environmental fines, generation of low-level radioactive waste, and office materials recycled. However, TVA lags other utilities in the removal of polychlorinated biphenyl equipment. TVA performs comparatively well in the categories of amount of coal combustion products recycled and percentage of certified clean marinas participating annually in the Tennessee Valley Clean Marina Initiative.

- Our report discusses the top five challenges that affect the area of environmental performance for TVA, including the (1) increased environmental regulations related to sulfur dioxide (SO2), nitrogen oxide (NOx), mercury, carbon dioxide (CO2), and coal combustion waste disposal; (2) cleanup of the Kingston Fossil Plant (KIF) ash spill; (3) remediation or improving stability of the ash and gypsum impoundments at TVA fossil plants; (4) mandated renewable portfolio standards; and (5) ability to maintain TVA’s current low-cost of power while meeting environmental regulations.



THE EMORY RIVER WHERE CLEANUP HAS OCCURRED AND THE RIVER REOPENED

REVIEW OF TVA’S KINGSTON ASH SPILL CLEAN-UP AND RECOVERY EFFORTS

On December 9, 2009, Richard W. Moore, TVA Inspector General, testified before the Subcommittee on Water Resources and Environment, U.S. House Committee on Transportation and Infrastructure, about our assessment of TVA’s Kingston ash spill clean-up and recovery efforts. In his testimony, Mr. Moore stated that the TVA OIG will measure and track TVA’s progress in addressing the findings and recommendations in our reports and committed to a follow-up review of reparations to victims.

The approximate one billion gallons of coal combustion waste slurry covered about 300 acres, of which eight were privately-owned lands not owned or managed by TVA. The impacts of the coal ash sludge and resulting tsunami destroyed and/or damaged the railroad adjacent to the plant, real and personal property, and community infrastructure—including roads and utilities. TVA took immediate and ongoing actions to address the needs of those affected, clean up the spill, and protect human health and the environment. TVA also took action and made commitments to restore the area and regain public confidence.

TVA is working with the Environmental Protection Agency (EPA) and the Tennessee Department of Environment and Conservation (TDEC) to manage the cleanup of the Kingston ash spill in accordance with the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The major recovery work necessary at Kingston is divided

into time critical (Phase I) and non-time critical (Phase II) activities. The time critical work of removing the ash from the Emory River’s main channel and from water directly east of the ash storage site was essential to: reducing the likelihood it would move downstream, restoring water flow, reducing flood risk and allowing recreation to resume in certain areas. The non-time critical ash consists of the ash in the embayments and on land west of Dike 2.

The objectives of this review were to assess TVA’s progress in: the cleanup of the ash, returning the area to its previous condition, reparations to victims, and restoration of the community. TVA’s actions to date indicate it is committed to cleaning up the Kingston ash spill and restoring the area to its pre-spill condition. TVA has also provided reparations to the victims and is making progress toward restoring the community to its previous state. We found clean-up efforts are proceeding judiciously, and specific TVA actions not only appropriately address restoration but also show a commitment to regain public confidence.

Specifically, we found comprehensive efforts have been completed and are still ongoing pertaining to clearing the spill. TVA is making significant progress in the cleanup and continues to consider human health and the environment in the recovery. We found that TVA (1) met its goal of removing the time critical ash necessary to reopen the Emory River by the end of May 2010, (2) implemented a removal plan for non-time critical ash in spring 2010 to facilitate a smooth transition between clean-up phases, (3) developed a good working relationship with the EPA and

TDEC to manage and facilitate the cleanup, and (4) coordinated with EPA and TDEC to provide continuous environmental monitoring.

We also found TVA has made a concerted effort to address restoration and regain public trust. Specifically, TVA immediately established a process to handle real and personal property, loss of business, and mileage claims. In addition, OIG found TVA’s adjudication of the claims was consistent and in accordance with approved processes and guidelines. Other actions TVA has taken to restore the community and regain public trust have included:

- Committing \$43 million to economic development in Roane County.
- Initiating projects to improve community infrastructure, lessen the impact of recovery operations on the public, and promote Roane County.
- Promoting information sharing on coal ash research.
- Implementing various mechanisms to improve communications, address inquiries, and provide information to the Kingston residents and media.
- Providing independent health screenings.

PEER REVIEW OF THE STABILITY ANALYSIS OF DIKE C AT THE KINGSTON FOSSIL PLANT

In response to the KIF ash spill, TVA contracted with Stantec Consulting Services, Inc. (Stantec) to conduct a stability analysis of the remaining dike (Dike C) at Kingston. The TVA OIG retained Marshall Miller & Associates,

Inc. (Marshall Miller) to conduct a peer review of the report entitled “Report of Geotechnical Exploration and Slope Stability for Dike C” (Dike C Report) prepared by Stantec.

In summary, it is Marshall Miller’s opinion that Stantec generally performed a reasonable scope of investigation for the portion of Dike C covered by its report and applied appropriate investigative methods and evaluation techniques. However, Stantec applied site-wide characterization and application of shear strength parameters even though areas of significantly weaker material were identified. In addition, there was a lack of information on seepage and material conditions nearer the downstream toe of Dike C, which caused additional uncertainty about the Stantec study, its associated conclusions and opinions about the Dike C conditions.

The in-situ and laboratory testing programs applied appropriate and complementary suites of laboratory tests to characterize the dike fill, native foundation soils, and ash materials in the primary areas of interest for Dike C. The available body of site-specific data was considerable; however, Stantec applied a site-wide perspective in the characterization and application of shear strength properties for their analyses of the five evaluated slope stability sections along thousands of feet of containment dike.

The Stantec approach underutilized the exploration data and may have masked the existence and/or diminished the significance of weak soil layers, in particular, critical reaches of the dike system. Consequently, Marshall Miller

contended that Stantec’s evaluations overstated the factor of safety for global slope stability along more critical reaches of the dike system and were more a representation of the site-wide average conditions. Marshall Miller was not suggesting that a stability failure was imminent under the existing conditions, but rather that the margin of safety along certain sections of the dike system was less than suggested by the Stantec-calculated factor of safety of around 1.5 for deep-seated failures. The significance of this observation is dependent on the approach and conservatism that is applied in the design of more immediate stability enhancements to the dike system (i.e., the interim stability enhancements that might be designed based on drained analyses).

To address this report, TVA management requested Stantec and AECOM review and respond to the findings of the Marshall Miller report. TVA management and its contractors disagreed with many of the findings and recommendations in the report. Marshall Miller provided additional comments in response to AECOM and Stantec responses.

In summary, Marshall Miller stands by the findings in its report and disagrees with some of the methodologies used by Stantec to evaluate Dike C. However, Marshall Miller surmised that the Dike C improvement planned actions referenced in the Stantec and AECOM responses address or will address most of their findings and recommendations. The remaining findings and recommendations not fully addressed were not considered substantial and should not affect the stability of the dike.



PEER REVIEW OF DIKE C BUTTRESSING

In response to the KIF ash spill, TVA contracted with Stantec to conduct a stability analysis of the remaining dike (Dike C) at Kingston. After the analysis was conducted, Stantec developed a multi-stage stabilization plan that generally consisted of constructing an aggregate buttress against the riverside of Dike C.

The OIG retained Marshall Miller to conduct a peer review of the Stantec stability calculations and construction documents for the Stage 1 Construction–Segment “D” portion of the Dike C Buttress at the KIF. It is Marshall Miller’s opinion that the planned Stage 1 Construction – Segment “D” portion of the Dike C Buttress produces stability enhancements that are sufficient based on Stantec’s drained slope stability analyses.

Marshall Miller also contends that the Stage 1 Construction will satisfactorily address issues of “piping”/internal erosion, surface erosion, and scour over those Dike C areas that will be covered with an aggregate filter and be buttressed. However, Marshall Miller found that the specific design bases/criteria, relative improvement in stability, and reasoning for certain variations in the buttress configuration were not well documented in the materials supplied for review.

Marshall Miller’s key observations from reviewing the documents related to the Segment “D” portion of the Dike C Buttress at the KIF are as follows:

- A direct comparison of slope stability factors of safety for the existing and buttressed dike configurations at

critical sections was not performed, so the relative improvement in stability afforded by the Stage 1 Buttress Construction was not clearly documented.

- The design shows a transition to steeper configuration of the outslope of the buttress between two points that will diminish the stabilization benefits of the buttress.
- The Stage 1 Buttress Construction was only evaluated presuming drained conditions, so the stability situation under possible load cases that could prompt undrained behavior of the dike and foundation materials (rate of construction, rapid drawdown, and earthquake/seismic cases) is unknown at this time.

Marshall Miller stated that the planned Stage 1 Buttress Construction produces stability enhancements and also addresses issues of “piping”/internal erosion, surface erosion, and scour in buttressed areas. Therefore, the significance of the above Marshall Miller observations and recommendations is dependent on the approach and conservatism that is applied in the design of the final closure plan.

TVA management agreed with our findings and recommendations and plans to take corrective actions.

REVIEW OF TVA’S PLANS FOR OFFSITE TRANSPORTATION AND DISPOSAL OF ASH FROM KINGSTON

A contract was awarded to the Arrowhead Landfill in Perry County, Alabama, for disposal of ash from the KIF ash spill. The TVA OIG

hired Marshall Miller to review the Transportation and Disposal Plans prepared by TVA in response to the ash spill. In addition, Marshall Miller was asked to determine if appropriate steps were being taken to minimize the environmental impacts and if regulatory requirements were being met.

In summary, Marshall Miller found that TVA was taking appropriate steps to minimize the environmental impacts of transporting ash from KIF to the Arrowhead Landfill in Perry County, Alabama. Furthermore, no significant deficiencies in documents reviewed, regulatory requirements, or in the landfill operations were found.



THE REMOVED ASH IS LOADED TO RAIL CARS FOR TRANSPORT TO A LANDFILL

Specifically, Marshall Miller found at the Arrowhead Landfill that the (1) ash removal and rail car wash systems and procedures appeared to be adequate for minimizing the potential for residual ash to enter the nearby surface water; (2) storm water management practices appeared to be effective for segregating and managing storm water runoff; (3) roads, work, and vegetated areas appeared to be maintained such that sediment runoff is minimized; (4) surface water features in the immediate vicinity did not exhibit signs

of excess sedimentation, debris build-up, or other potential adverse impacts that could be associated with a landfill; and (5) leachate (the liquid produced in a landfill from decomposition of waste) management and disposal practices appeared to minimize, to the extent practicable, the potential for off-site exposure from ash constituents.

While Marshall Miller did not find significant deficiencies in the operation of the landfill, several areas were noted where improvements could be made, including the following:

- The Rail Yard and Landfill Best Management Practice Plans did not effectively describe and document the actual activities, procedures, equipment and operations that were observed during Marshall Miller’s site visit on April 21, 2010.
- The Spill Prevention Control and Countermeasures Plans appeared to provide adequate protection; however, the plans did not include spill volume estimates for certain spill scenarios, secondary containment for mobile tankers, and locations for spill kits and equipment.
- Marshall Miller noted one of the National Pollutant Discharge Elimination System discharge points was located at a point that could be affected by runoff from land that was not part of the landfill. This issue had already been identified and was currently being addressed by the landfill owner.

TVA management agreed with our findings and recommendations and has taken or plans to take corrective actions.

REVIEW OF THE LONG TERM ENVIRONMENTAL RECOVERY PLAN FOR KINGSTON

Marshall Miller was engaged by the TVA OIG to review the adequacy and completeness of environmental recovery plans prepared by TVA in response to the Kingston ash spill. On May 11, 2009, TVA entered into an Administrative Order and Agreement on Consent with the EPA Region IV, which directed all response activities under CERCLA.

The Administrative Order and Agreement on Consent imposed requirements for TVA to develop short and long-term plans for mitigating off-site spill impacts through a process of continued investigation, analysis, and evaluation to determine the extent of affected media (media includes air, water, and sediment) and assess potential impacts to humans, plants, and animals. The Administrative Order and Agreement on Consent also required that TVA address the short and long-term management of the coal ash, including TVA’s clean-up of ash from off-site areas and final containment within the original confines of the KIF facility.

Generally, Marshall Miller found no significant deficiencies in any of the proposed alternatives, including the selected alternative for the removal of non-time critical ash. The documents prepared by TVA appear to be substantially in compliance with applicable regulatory requirements stated in the Administrative Order and Agreement on Consent between TVA and the EPA and meet the removal action objectives outlined in the Non-Time Critical Removal Action Embayment/Dredge Cell Engineering

Evaluation/Cost Analysis or more commonly known as, the EE/CA.

The non-time critical ash consists of the ash in the embayments and on adjacent land. The time critical ash consisted of ash in the Emory River’s main channel and in the waters directly east of the site’s ash-storage area and was designated time critical because removing it quickly reduced the chance that the ash would move downstream, restored flow, reduced flood risk, and allowed for recreation to resume in certain areas. There were some discrepancies noted in the Human Health Risk Assessment, with regard to certain selected input parameters, such as toxicity and exposure factors. However, since the selected alternative included the removal of all ash, any risk associated with leaving the ash in place was reduced, and revisions to the risk assessment were not necessary. TVA has committed to incorporating the findings in future human health risk assessments.

KINGSTON FOSSIL PLANT



The selected alternative called for all ash to be excavated from the embayment and disposed onsite within the Dredge Cell, which would be closed in place. This alternative included closure of the ash pond concurrent with closure of the Dredge Cell. Marshall Miller reviewed each of the proposed remediation alternatives for compliance with the removal action objectives outlined in the Administrative



Order and Agreement on Consent. The objectives addressed the long-term protection of the environment by minimizing the possibility for exposure of humans, plants, animals, and water (ground and surface) to the ash.

While Marshall Miller found no significant deficiencies in any of the proposed alternatives, the following observations were noted:

- Both the EE/CA and Non-Time Critical Removal Action Embayment/ Dredge Cell Action Memorandum (Action Memorandum) were intended to provide only a conceptual design of each of the three alternatives. Since an alternative had been selected, a more detailed design would be needed, along with revised sampling plans for monitoring potential environmental impacts during excavation of the ash and closure of the Dredge Cell. Additionally, the EE/CA provided limited detail on the long-term monitoring of various media for potential environmental impacts.
- A more detailed understanding of groundwater flow and associated contaminant migration from the Dredge Cell to adjacent surface water would be required in order to properly establish locations for long-term monitoring of wells.

TVA management agreed with our findings and recommendations and has taken or plans to take corrective actions.

REVIEW OF TVA RECORD RETENTION

At the request of TVA’s CEO, we initiated a review of records retention policies and practices at TVA. TVA Records Management Program is conducted in accordance with guidance issued by the National Archives and Records Administration.

TVA is required by 44 U.S.C. § 3101, titled “Records management by agency heads; general duties,” to “prepare and preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency and designed to furnish the information necessary to protect the legal and financial rights of the government and of persons directly affected by the agency’s activities.” As a federal agency, TVA is responsible for ensuring that any information providing official documentation of TVA programs and activities is identified, maintained, stored, and disposed of lawfully.

The objectives of our review were to determine whether records were being maintained in accordance with TVA policies and procedures and if opportunities existed to improve records retention and disposal activities in light of office space consolidation initiatives. Our review found TVA complied with TVA records management policies, practices, and procedures. We also found through sample testing that records were maintained in accordance with the National Archives and Records Administration approved record schedules. However, we noted some areas where compliance could be strengthened.

In addition, we found that TVA plans to replace its current electronic management system, which should increase the efficiency and effectiveness of records management. However, areas for improvement existed in the TVA Chattanooga Office Complex (COC) in records management, records retention, disposal of records and material, the maintenance and upkeep of office space, and the identification of records. Specifically, we found:

- Business units were keeping records in hardcopy format with long retention times that could possibly be kept more efficiently off site or in electronic format. In addition, material not part of the official record was often kept beyond its useful life.



BOXES NOTED DURING WALKDOWNS OF THE CHATTANOOGA OFFICE COMPLEX

- TVA’s current document management system hampers electronic record retention and disposal due to its limited capabilities and the information technology structure.
- Organizations were sometimes unaware of the content of files and boxes. Many work areas in the COC were cluttered and disorganized and contained unauthorized items.

Additionally, another area was found to have unlocked cabinets which included PII.

TVA management agreed with our findings and recommendations and plans to take corrective actions.

INSPECTOR GENERAL CRIMINAL INVESTIGATOR ACADEMY (IG ACADEMY)

The Council of Inspectors General on Integrity and Efficiency (CIGIE) was statutorily established as an independent entity within the executive branch of the federal government by “The Inspector General Reform Act of 2008,” P.L. 110-409, to:

- Address integrity, economy, and effectiveness issues that transcend individual government agencies.
- Increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the offices of Inspectors General.

The CIGIE has as one of its core missions to “maintain one or more academies as the Council considers desirable for the professional training of auditors, investigators, inspectors, evaluators and other personnel of the various offices of Inspector General.” While CIGIE is in the process of now establishing academies for audit and mission support since being given the statutory authority to do so, the IG community has had a criminal investigator academy serving the needs of its special agents since 1994.

The IG Academy was officially established in February 1994 by a Memorandum of Understanding between the Federal Law Enforcement Training Center (FLETC) and the President’s Council on Integrity and Efficiency (PCIE), which was the predecessor to CIGIE. The training academy is located at FLETC in Glynco, Georgia. CIGIE inherited the IG Academy from the PCIE.

The Professional Development Committee of CIGIE initiated a staffing review of the IG Academy which the TVA OIG conducted. The review benchmarked the CIGIE IG Academy against other law enforcement academies and found a great disparity in the resources being provided to the CIGIE IG Criminal Investigator Academy as compared to other law enforcement training facilities. We found, for example, a definite lack of resources for the IG Academy, which impacts the learning methodologies utilized and the overall quality of the programs being delivered. We also noted the gaps between the FLETA (Federal Law Enforcement Training Accreditation) standards and the current resources and programs at the CIGIE IG Academy if CIGIE should seek accreditation. We concluded that the IG Academy must be provided with human capital and infrastructure resources, including instructional, information technology, curriculum, and administrative support to sustain a quality program. We recommended



CIGIE consider the following resource needs, among others, for the IG Academy:

- Staffing or access to staffing to conduct timely updates of curricula and lesson plans, assist in instructional systems design, and teach courses.
- IT and administrative support as well as a means to address a legal support deficiency.
- An electronic learning management system which provides, among other benefits, program administration, including document management and storage; tracking and reporting of training programs; a medium for providing classroom and online events, including e-learning programs, and sharing of training content.

Remarkably, the IG Academy has been able to provide training to investigators, who consistently give very positive feedback, despite the lack of resources identified in the report. Our review revealed a small but dedicated staff achieving far more than the bare statistics suggest should be possible. The director and staff are to be congratulated for holding together a program that enjoys the support of the majority of the IG community and continues to provide a valuable service.





## Representative Audits



## Summary of Representative Audits

*During this reporting period, the OIG completed 41 audits which identified more than \$16 million in questioned costs and funds which could be put to better use. The OIG also identified numerous opportunities for TVA to improve program operations. Audits completed this period included: (1) financial and operational; (2) contract preaward and compliance; (3) distributors of TVA power; and (4) information technology.*

### FINANCIAL AND OPERATIONAL AUDITS

#### RECREATIONAL LAND TRANSACTIONS

Since 1933, the TVA dam and reservoir construction program has acquired approximately 1.3 million acres of land for the creation of 34 reservoirs in five of the seven states in the Tennessee Valley. Approximately 470,000 of these acres were flooded as part of the construction and operation of the reservoir system, some 508,000 acres were transferred or sold primarily to other federal and state agencies for public use, and 293,000 acres are currently owned by TVA and managed to meet development needs as well as improve the quality of life in the Tennessee Valley.

These reservoir properties, together with adjoining private lands, have been used for public parks, industrial development, commercial recreation, residential development, and a variety of other uses associated with local communities and government. Section 4(k)(a) of the TVA Act gives TVA the power “to convey by deed, lease, or otherwise, any real property in the possession of or under the control of the Corporation to

any person or persons, for the purpose of recreation or use as a summer residence, or for the operation on such premises of pleasure resorts for boating, fishing, bathing, or any similar purpose.”

According to TVA’s Land Policy, as approved in November 2006, TVA may consider leasing or granting limited easements for commercial or public recreation purposes. Commercial recreation is defined as “recreation with facilities that are provided for a fee to the public intending to produce a profit for the owner/operator”; whereas public recreation is defined as “recreation on publicly owned land with facilities developed by a public agency (or its concessionaire) and provides amenities open to the general public.”

The Land Policy limits commercial recreational property usage to water-based recreation while retaining restrictions against residential use as well as prohibiting long-term accommodations or individually owned units. The Land Policy also contains restrictions against residential use, cabins, or other overnight accommodations (except campgrounds), unless the property is



HOLSTON LAKE

part of a state park system that allows overnight accommodations.

TVA’s Environment and Technology (E&T), Land and Shoreline Management (L&SM), is responsible for management of reservoir lands. Within L&SM, seven watershed teams are located throughout the TVA region to perform stewardship functions and serve as the primary customer interface. Watershed teams are responsible for providing the general public information and support in the areas of land use, water quality improvement, permitting for construction activities, recreation, and natural resource management and protection.

In February 2010, the Senior Vice President of Environment and Technology approved the



Commercial Recreation Management Guidelines, based on a consultant’s recommendations. These guidelines address agreement terms, rental fees, renewals, administrative costs, and documentation requirements by the commercial operator. They also provide for centralized administration and management of commercial recreation agreements to focus solely on public and commercial recreation agreements and permits.



BOATING ON FORT LOUDOUN LAKE

As part of our annual audit plan, we assessed the process for entering into recreational land transactions and monitoring and enforcement of these transactions as of August 26, 2009. In addition, our review included information related to the valuation of campgrounds and marinas. As a result of our review, we identified several areas needing improvement. Specifically, we determined:

- TVA’s Stewardship Guidelines did not include adequate criteria to provide for consistency in awarding recreational land agreements.
- Licenses had been used for long-term encumbrances of recreational lands.
- No formal process was in place to track changes in campground or

marina ownership, which could affect fees charged.

- Reevaluations of annual fees had not been consistently performed.
- Reviews of monthly invoicing for campground and marina operators could be inadequate.
- TVA did not have an accurate listing of recreational properties which could hinder adequate monitoring.
- No process was in place for identifying data errors or noncompliance issues related to agreement terms other than “visual” violations on the properties.
- TVA did not exercise its right of reentry for properties sold under Section 4(k)(a) when the properties were used in violation of the deed.
- Structures had been built on TVA properties without TVA approval.
- Sporadic usage of “approvable actions” (i.e., permits were issued after construction or changes had been made to the property without TVA approval).

TVA management agreed with our findings and recommendations and is taking corrective action.

COUNTERPARTY CREDIT RISK

In 1997, TVA created a credit department in response to a Federal Energy Regulatory Commission order which promoted wholesale competition within the public utility industry. Initially, the department was responsible for reviewing counterparties



PICKWICK LAKE

to transmission service contracts, but the following year, its responsibility increased to reviewing creditworthiness of procurement contract counterparties. However, it was not until 2001 that TVA adopted a formal credit policy after incurring a \$3.7 million loss as a result of a counterparty bankruptcy. The policy charged the credit department with managing credit exposure and monitoring creditworthiness of all TVA customers, suppliers, and vendors as well as outlined the types of business activities and level of credit support provided. According to TVA Treasury’s Corporate Credit (CC) personnel, TVA has averted a total of \$75 million in losses since 2001.

Subsequent to approval of the Policy, CC began conducting creditworthiness reviews (also known as credit analyses) of industrial and direct-served power, gas, fossil, and International Swap Dealers Association counterparties.

The Enterprise Risk Council (ERC) approved a revised credit policy on June 22, 2010. The policy was transitioned to a TVA Standard Programs and Processes (SPP) entitled

“TVA Corporate Credit Policy,” effective August 13, 2010, and it has been approved by the CEO, six of his direct reports, and the Chief Risk Officer.

In a recent Enterprise Risk Management update presentation to the ERC, TVA defines counterparty credit and performance risk as “the exposure to economic loss that would occur as a result of a counterparty’s nonperformance of its contractual obligations to TVA.” Because the risk rating for counterparty credit risk was classified as “high,” we reviewed the process for assessing counterparty credit risk as part of our annual audit plan. Our objective was to evaluate the process for ensuring that counterparty credit analysis was performed and monitored. We reviewed counterparty credit analysis as well as monitoring activities from October 1, 2008, through March 31, 2010, in addition to reviewing the draft policy at the request of TVA Treasury.

In summary, we found:

- CC has historically lacked authority to determine which counterparties require a credit analysis and when performance assurance is required.
- Because of the lack of a central, governing body, the process has become siloed, with business units (BUs) establishing their own criteria for requiring a credit analysis and deciding to implement CC’s recommendations. As a result, we identified counterparties that met the BU guidelines or CC expectations of requiring a credit review, but the BU did not request a credit analysis.

- Due to a lack of documentation, we were unable to assess the adequacy of the credit analysis process and determine if the results of the analysis were communicated to the BU. We also noted insufficient documentation was available to demonstrate monitoring.
- CC relies heavily on commercial credit ratings in both initially determining and monitoring counterparty’s creditworthiness.
- The credit analysis, performance assurance, and monitoring processes were not always performed timely. Specifically, we identified: BU requests for credit analysis made less than one week prior to or after the contract start date, credit memos dated after the contract date, financial analyses conducted with outdated financial statements, contracts executed with outdated credit memos, and contract-required performance assurance not obtained in a timely manner.
- Active counterparties are not being consistently monitored for continuous creditworthiness.

TVA management agreed with our findings and recommendations and is taking corrective action.

POSTPONED/CANCELLED CAPITAL PROJECTS PROCESS

Each year, TVA initiates a wide variety of capital and operations and maintenance (O&M) projects. In that regard, TVA’s project justification process is designed to ensure that such projects are aligned with TVA’s vision,

goals, and strategic plan objectives. As defined by TVA’s Project Justification Process, the process consists of identifying project initiatives, coordinating and completing project reviews, receiving funding, approving projects, and executing projects which include project postponement, cancellation, and closure. Projects are initiated, owned, managed, and executed by the respective Strategic Business Unit (SBU).

As part of our annual audit plan, we reviewed the process for postponing and cancelling capital projects. Our review specifically focused on the processes for the Nuclear Power Group, Power System Operations, Fossil Power Group, and River Operations. Our audit objectives were to determine whether fiscal years (FYs) 2007 and 2008 project postponements and cancellations were properly approved, effectively communicated, and monitored to prevent inappropriate charges. We determined there were a total of 589 postponed capital projects and 87 cancelled capital projects in FYs 2007 and 2008.

While all sampled capital projects reviewed were approved by the appropriate levels of authority and contained a capital classification designated by Fixed Asset Accounting (FAA), we found:

- Not all project documentation was updated with changes in project status as required.
- Some cancelled projects contained a cancellation date occurring prior to the SBU’s approval for cancellation which may have been due to timing issues.





- Cancellation of projects was not always communicated to FAA as required.
- Some projects contained travel costs which were split among projects.
- One business unit lacked criteria related to (1) allocating capital and O&M costs to a project, (2) allocating costs among projects, and (3) borrowing funds from other projects.
- Project documentation was not retained in accordance with retention guidelines.
- Control weaknesses existed that could allow business units to manipulate project costs in order to meet budget goals. Specifically, communication and monitoring controls were not adequately designed to mitigate the risk that project costs were (1) accurately and timely communicated for recording on the financial statements, (2) appropriately classified as capital costs rather than O&M costs, and (3) appropriately and accurately charged to the projects.
- Projects were cancelled due to a duplicate scope within another project.

TVA management agreed with our findings and recommendations and is taking corrective action.

## IT AUDITS

During this semiannual period, we completed three audits in the IT environment on the final implementation phases of TVA's new asset management system; the OIG's biennial assessment of TVA's controls to protect PII; and a survey of controls over TVA PII held by private third parties.

- Pre-implementation audits are performed to evaluate and test the proposed control environment in new systems. During this reporting period, the OIG completed the pre-implementation audit for the new asset management system. The results of our review for the first phase were reported in the previous semiannual. For the final phases of implementation, we found implementation plans and processes were generally adequate regarding application access controls, system security, system testing, data verification, and general controls included in our audit scope; however, we noted two areas of concern related to (1) inadequate system testing documentation and (2) outdated system authorization documentation.
- PII is defined by the Office of Management and Budget in Memorandum 07-16 and refers to information which can be used alone to distinguish or trace an individual's identity, such as their name, Social Security number, biometric records, or when combined with other personal/identifying information which is linked or linkable to a specific individual, such as date and place of birth or mother's maiden name. The OIG conducted this audit as an independent review of TVA's use of PII in accordance with privacy

provisions of the Consolidated Appropriations Act of 2005. In 2007, the OIG completed the first independent review of TVA's Privacy Program and privacy protection practices. While TVA had generally improved its privacy program since our review two years ago, we found several program and compliance controls (including controls over PII data held by third parties) that needed to be strengthened to reduce potential PII compromise.

We also issued a summary report on TVA's backup and recovery processes, the details of which we reported in the previous semiannual report, and completed 14 audits in support of TVA's FY 2010 efforts to comply with the Sarbanes-Oxley Act of 2002. TVA management agreed with our findings and is taking corrective action to implement the recommendations.

## CONTRACT AUDITS PREAWARD CONTRACT REVIEWS

To support TVA management in negotiating procurement actions, we completed three preaward audits of cost proposals submitted by companies proposing to provide (1) engineering and maintenance services for TVA's nuclear operations and (2) dredging services. Our audits identified \$13.7 million resulting from inflated proposed costs due to overstated (1) labor costs, (2) indirect cost recovery rates, (3) equipment billing rates, and (4) fees. TVA management uses the findings from our preaward audits to negotiate better cost provisions in awarded contracts.

- ### CONTRACT COMPLIANCE REVIEWS
- During this semiannual period, we completed seven compliance audits of contracts with expenditures totaling \$193 million and identified potential overbillings of \$2.6 million. Highlights of our completed compliance audits follow.
- We audited \$4.27 million of costs that a contractor billed to TVA for providing preemptive full structural weld overlays on Sequoyah Nuclear Plant Units 1 and 2. We found the contractor had billed TVA \$320,700 in unsupported and ineligible costs, including \$271,200 of unsupported delay costs and \$49,500 of ineligible billings for the cleaning and handling of equipment that was contaminated before it was shipped to TVA. We recommended TVA management recover the \$320,700 in unsupported and ineligible costs. TVA management plans to require the contractor to refund \$271,200, unless it can provide supporting documentation for the delay charges, and recover the \$49,500 of ineligible billings.
  - We audited \$61.92 million in costs that a contractor billed to TVA for performing engineering services from October 2004 to December 2008, and we found TVA had been overbilled \$683,122 as follows:
    - \$70,838 because labor costs were billed using hourly rates instead of the cost reimbursable terms required by the contracts;
    - \$558,463 in ineligible and excessive temporary living costs because short-term daily travel rates were paid to employees



instead of (lower) long-term temporary living allowances, and unauthorized local mileage costs were paid to personnel receiving temporary living allowances:

- An estimated \$40,034 in travel costs due to overstated mileage reimbursement rates, meal costs for unidentified personnel, unallowable rental car expenses, and daily travel costs in excess of daily limits; and
- \$13,787 because an ineligible markup was added to certain subcontractor costs, and an incorrect billing rate for other direct costs was used.

The contractor generally disagreed with most of the audit findings and stated its billings to TVA were correct, fair, reasonable, and in accordance with the plain language of the contracts it had with TVA. However, since the contractor did not provide additional evidence or documentation to support its claims, we recommended TVA management take action to recover the overbilled and excessive costs.

- We audited \$59.5 million that a contractor billed to TVA for supplying ammonia and urea for TVA’s Selective Catalytic Reduction systems from April 1, 2004, through June 19, 2009. We found: TVA overpaid the contractor \$188,231 due to invoice payment errors and the contractor’s use of incorrect unit prices, TVA paid \$12.4 million for certain charges that could not be validated because of inadequate or missing compensation provisions in the contract, and site

personnel at a fossil plant processed payments for ammonia before the ammonia had been received. Additionally, the quantities of ammonia billed to TVA at this fossil plant were not independently verified.

TVA management subsequently recovered the \$188,231 and revised its receiving procedures as well as provided training to the site personnel on material payment processes. Management also determined the ammonia prices paid prior to 2006 had been negotiated in a competitive model among multiple suppliers on a monthly basis.

- We audited \$19.1 million in costs that a contractor billed to TVA for performing diving services between November 2003 and September 2009. We determined TVA had paid \$643,700 in inflated labor costs as described below:
  - The contractor misrepresented its actual costs when it provided breakouts of its proposed billing rates for divers and diver tenders prior to the contract award. We estimated TVA had paid \$623,000 in inflated labor costs since the inception of the contract because the billing rates were not supported by the contractor’s actual costs.
  - TVA was billed \$20,700 in inflated labor costs because the contractor could not support the higher billing rates that were used for diver coating applicators.

Although the contractor disagreed with the audit findings, stating the

billing rates in its contract had been competitively bid, TVA and the contractor subsequently agreed to a \$100,000 settlement to resolve the issues identified by the audit.

- We audited \$9.5 million of costs that a contractor billed to TVA for providing assistance in implementing a power system optimization project. We found the contractor overbilled TVA \$234,406, including \$227,763 in overstated subcontractor costs and \$6,643 in unsupported subcontractor costs. The contractor acknowledged it had not billed in accordance with the contract provisions for subcontractors but stated the rates it had billed were the same as those being charged to TVA by a previous supplier or were reasonable because the subcontractor employees were acting as employees of the contractor. TVA management agreed with our findings and plans to recover the overbilled costs.
- We audited \$3.3 million in payments TVA made to a contractor for geotechnical services between January 2003 and July 15, 2009. We determined the contractor overbilled TVA \$395,479 as follows:
  - \$216,865 in labor costs, including \$110,016, due to the use of hourly billing rates instead of actual wages and markup as specified in the contract compensation section; \$98,681 for overtime costs the company did not incur; and \$8,168 for miscellaneous duplicate and unsupported charges;

- \$66,071 in estimated travel costs, because the contractor did not bill actual expenses as required by the contract;
- \$55,524 in estimated drilling, sampling, and equipment costs, due to incorrect billing rates and unsupported costs;

The contractor agreed it should reimburse TVA at least \$173,162 for certain overbillings but requested TVA take into consideration certain extenuating circumstances in determining the total reimbursement amount. TVA management agreed with our findings and plans to recover the overbilled costs.



- \$51,224 in vehicle charges, because the contractor billed both daily rates and mileage rates for certain vehicles and could not document the accuracy of the billing rates it used for mileage; and
  - \$5,795 in subcontractor costs, because the contractor billed more than its actual costs for the subcontracts.
- We audited \$35.07 million that a contractor billed to TVA for providing quality control inspections and nondestructive examinations under two contracts. We found TVA was overbilled \$159,662 under one of the contracts, including \$136,030 in overstated payroll taxes, insurance, and related performance fees, \$18,228 in ineligible labor costs, as well as \$5,404 in duplicate fees. The contractor agreed with our findings and plans to reimburse TVA for the overbilled costs.

## DISTRIBUTOR AUDITS

TVA has 155 distributors — municipalities and cooperatives — that resell TVA power to consumers across the Tennessee Valley and power sales to these distributors comprise about 84 percent of TVA’s operating revenue. The Distributor Audits group evaluates these distributors to assess compliance with key power contract provisions, including: accurate reporting of electric sales by customer class to facilitate proper revenue recognition and billing by TVA; nondiscrimination in providing power to members of the same rate class; and use of power revenues. In addition, Distributor Audits also makes recommendations to TVA management to help improve their oversight role of the distributors.

During this semiannual period, the OIG completed four reviews of distributors including one distributor that TVA had granted retail rate setting authority in 2004. The following describes the issues noted in one or more of the four completed distributor reviews.

### CLASSIFICATION AND METERING

We noted instances where: customers were not classified properly; similar customers were not classified the same; customers were not metered for demand; demand meters did not measure a component of demand (kVa); and multiple zero usage readings occurred during the audit period. The impact of these issues, where we had adequate information to estimate, was not significant; however, there were



some instances where we did not have enough information to estimate the impact. Generally, the distributors agreed with our findings and have already corrected or are taking action to correct these issues. We also noted one of the billing agencies used by a large group of TVA distributors corrected their programming logic to more accurately comply with the power contract.

OTHER CONTRACT REQUIREMENTS

We found distributors were not complying with certain other contract requirements. Specifically, we noted: (1) contracts were not in place for all customers whose demand exceeded 1 megawatt; and (2) cost allocation for joint use of property and services agreed to with TVA were not being applied; instead, other allocation methods not approved by TVA were used, and/or allocations were applied improperly; (3) accounts were not classified in accordance with Federal Energy Regulatory Commission requirements; and (4) co-mingling of electric department funds with those of other city departments. Generally, the distributors agreed and have already corrected or are taking action to correct these issues.

USE OF ELECTRIC REVENUES

We found two distributors reviewed had more than enough cash on hand to fund planned/actual capital expenditures and provide a cash reserve

exceeding the minimum guidelines of 5 to 8 percent, and one distributor used electric department funds for non-electric businesses without obtaining appropriate written agreements.

**CASH RESERVES**— While TVA has established guidelines to determine if a distributor has adequate cash reserves (a cash ratio of 5 to 8 percent), TVA has not established guidelines to determine if a distributor’s cash reserves are excessive. Two of the four distributors reviewed had cash ratios exceeding the minimum guidelines of 5 to 8 percent, and one distributor had a cash ratio of 2 percent, which is below the 5 to 8 percent minimum guidelines. TVA has agreed to define criteria for determining when a distributor’s cash reserves are excessive.

**USE OF FUNDS FOR NON-ELECTRIC PURPOSES**— One of the four distributors reviewed used electric department funds for non-electric businesses without obtaining appropriate written agreements with TVA. The distributor obtained TVA approval to use electric funds to finance the telecommunications department for expenses exceeding the bond funds that were obtained; however, after the first three years, any electric funds used to finance the telecommunications department were to be repaid with interest accrued at the same rate as the telecommunication bonds. TVA and the distributor agreed to take corrective action.

DISTRIBUTOR INTERNAL CONTROL ISSUES

At each of the distributors audited, we identified areas where internal controls could be strengthened to improve completeness, accuracy and validity of the billing data. The following issues were noted at one or more of the distributors reviewed: (1) lack of agreement between contract demand per the contract and contract demand in the billing system; (2) lack of formal policies for charitable contributions; (3) incorrect calculations for demand and reactive power billed to customers; (4) lack of logging of manual changes to key fields in the billing system and review by management; (5) lack of documentation certifying a customer met the manufacturing service schedules qualifications; (6) lack of identity of customer account or location in the customer’s contract; (7) lack of clear identity of the applicable retail rate classification in the customer’s contract; and (8) manual calculation of the customer’s bill outside the billing system. Generally, the distributors agreed and have already corrected or are taking action to correct these issues.

OPPORTUNITIES FOR TVA OVERSIGHT IMPROVEMENTS

We found new opportunities for TVA to enhance oversight of the distributors. Specifically, we found TVA should: clarify that the Standard Industrial Classification (SIC) code used to determine eligibility for the manufacturing schedules should be the SIC code of the customer’s facility located in the distributor’s

service area and not the SIC code of the headquarters or facility in another location; and require eligibility verification for customers receiving certain credits. Generally, TVA agreed to take action on these issues.

ONE OF FOUR DISTRIBUTORS GRANTED AUTHORITY TO SET OWN RETAIL RATES

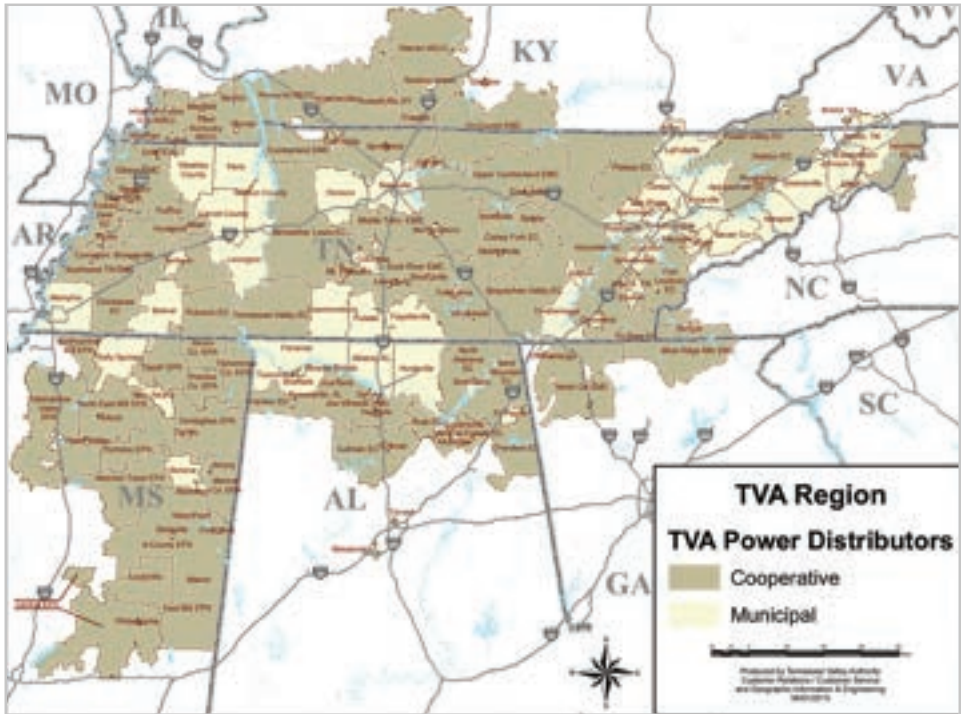
In 2002, TVA’s Board of Directors approved six wholesale power contract flexibility options for distributors, including terminating TVA’s contract authority and obligations regarding the distributor’s retail rates. Four distributors were granted this authority and can determine the retail rates charged to customers with no or limited oversight by TVA.

The TVA Board, however, did not relinquish the responsibility to ensure power purchased is sold and distributed to the ultimate consumer without discrimination among consumers of the same class; and no discriminatory rate, rebate, or other special concession can be made or given to any consumer. According to agreements with three of the four distributors, the options were provided because the electric utility industry was undergoing changes and restructuring and to prepare for the prospect of legislation further altering the industry as well as the relationship between TVA and its distributors. The decision previously made by the TVA Board to allow the four distributors to regulate their own retail rates significantly increases the reputational risk to TVA surrounding their role as a regulator. The OIG will address this

issue separately after additional reviews are undertaken.

In this semiannual period, we reviewed one of the four distributors with authority to set its own retail rates and noted, among other things, the following issues: (1) a specialized industrial rate was provided to only one customer, and the rate was not publicly listed on the distributor’s Web site; (2) wholesale fuel cost adjustments and wholesale rate increases and decreases were not passed on to all customers; (3) certain retail rate increases were implemented without distributor board approval; and (4) the distributor’s board did not formally document and approve rate schedules for retail customer classifications. These issues could impact the distributor’s ability to ensure

nondiscrimination in providing power to customers. The distributor agreed and is taking action to correct some of these issues, but either disagreed or did not address other issues in their response. In addition, we recommended TVA develop and provide guidance on controls over designing, approving, and implementing retail rates for distributors with authority to set its own retail rates. TVA indicated it could not implement these recommendations because TVA no longer regulates the distributor’s resale rates. TVA also indicated that at TVA’s request, the distributor had agreed to evaluate reinstatement of the retail rate regulation provisions in the power contract.







## Representative Investigations

### Summary of Representative Investigations

*During this reporting period, Investigations collaborated significantly with Audits on contract-related issues. In this reporting period, we obtained two guilty pleas in a fraud case with overlapping issues of interest in a parallel audit. Investigations continued to focus on major fraud cases and continued working in partnership with various task forces.*

We opened 199 cases and closed 221 cases during this period. We helped TVA to save or recover more than \$4 million, and our cases resulted in seven indictments, eight convictions, and a pretrial diversion.

#### CRIMINAL CASES WITH JUDICIAL ACTION

##### FORMER TVA SUBCONTRACT MANAGER AND ACCOMPLICE PLEAD GUILTY TO FRAUD

A former manager of Shaw Field Services, then a wholly owned and operated subsidiary of Shaw Group, Inc., and later Analytic Stress Relieving, pled guilty in federal court to a charge of wire fraud (18 U.S. Code, Sec. 1341) along with a related forfeiture count. Shaw Field Services and Analytic Stress Relieving provided heat stress work related to welding at a number of TVA facilities. The guilty plea was in connection with a scheme in which fraudulent purchase requests and invoices were produced and provided to the parent companies, which passed the related costs on to TVA.

The fraudulent documentation showed purchases of insulating materials by a third party vendor, when in fact the

vendor was a straw company utilized by the former manager's accomplice. The manager's co-conspirator was also indicted on May 26, 2010, on five counts of mail fraud (18 U.S. Code, Sec. 1341 and 1342) based on his involvement in the scheme, and pled guilty to one of those counts on August 25, 2010. Both individuals are awaiting sentencing. Based on the results of this investigation, TVA's Supply Chain Vice President sent a fleet-wide directive along with a press release issued by the United States Attorney's Office for the Northern District of Alabama to ensure indicia of such conduct are immediately reported to the OIG.

##### FORMER TVA ECONOMIC DEVELOPMENT PROJECT MANAGER SENTENCED

As reported in our last semiannual report, a former TVA Economic Development project manager pled guilty in January 2010 to two counts of violating a federal criminal conflict of interest statute (18 U.S. Code, Section 208(a)). While working for TVA as a technical services project manager, the former Economic Development project manager's duties included overseeing environmentally-friendly development projects and approving invoices

submitted by contractors who performed work on the TVA project he supervised. The former manager admitted that in the course of performing official duties, he personally approved two invoices to TVA from the Center for Economic Development and Resource Stewardship (CEDARS). Prior to the approval of these invoices, he personally loaned \$2,500 to CEDARS as "start up" money and loaned the organization \$5,000 on behalf of Engenuity Development Group, LLC, of which he was a managing member. The former project manager admitted knowledge of a financial interest in CEDARS and violated the federal conflict of interest statute by approving the invoices. After the TVA OIG issued a management alert, the former project manager resigned from TVA in April 2008 and was sentenced on July 23, 2010, to one year probation.

##### OPERATOR OF CHELATION CENTER IN NASHVILLE INDICTED

The operator of Advanced Wellness Systems, a chelation center in Nashville, Tennessee, that provided services to TVA-insured individuals, was indicted in June 2010 in Tennessee State court for charges of insurance fraud. Advanced Wellness was



performing chelation treatments, a process where metals are flushed from the blood, at clinics located near TVA facilities and in union halls. Advanced Wellness allegedly billed for chemicals that were not being provided to the patients and provided unnecessary treatments.

FORMER TVA EMPLOYEE  
PLEADS GUILTY TO FRAUD

As reported in our last semiannual report and in connection with a worker’s compensation claim, a former Widows Creek Fossil plant employee was indicted in February 2010 on two counts of making false statements in violation of 18 U.S. Code, Section 1001. The former employee pled guilty in May 2010 in federal court in Birmingham, Alabama, to one count of 18 U.S. Code Section 1920, knowingly and willfully making a false, fictitious, and fraudulent statement in connection with application for compensation, benefits, and payment. In September 2010, the former employee was sentenced to 18 months probation and ordered to pay restitution. Previously, the employee was terminated from TVA in August 2009 as a result of our investigation.

FORMER TVA EMPLOYEE  
AND OFFICE OF WORKERS’  
COMPENSATION PROGRAMS  
(OWCP) RECIPIENT PLEADS  
GUILTY TO THEFT

As reported in our last semiannual report, a former TVA employee and OWCP recipient was indicted in February 2010 in Tennessee State court to theft of property after an OIG investigation determined his

daughter was collecting and cashing his compensation benefits checks while he was incarcerated on an unrelated felony charge, which is a violation of OWCP regulations. The charged individual pled guilty in June 2010 to one count of theft of property during this semiannual period and was sentenced to five years probation as well as required to pay restitution of \$7,994. As a result of the conviction, the former employee was removed from the OWCP, resulting in future savings to TVA of \$411,108.

FORMER TVA EMPLOYEE  
PLEADS GUILTY TO THEFT

As previously reported, on May 8, 2007, a grand jury in Knoxville, Tennessee, indicted a former TVA Yard Equipment Technician for theft in connection with personal use of stolen TVA gasoline credit cards. The former employee pled guilty August 16, 2010, and is scheduled for sentencing in October 2010. This case was conducted jointly with the TVA Police.



WATTS BAR NUCLEAR PLANT

OTHER  
INVESTIGATIONS

DATA MINING PROJECT  
LEADS TO LONG-TERM  
SAVINGS FOR TVA

The OIG initiated an investigation as a result of a data mining project that identified OWCP recipients who received benefits while earning an income in excess of 25 percent of the compensation benefits. A former employee, who was vocationally rehabilitated, was earning wages greater than the current pay for the job the individual had at TVA when injured. Therefore, the individual was no longer eligible to receive benefit payments, and as a result of the OIG’s investigation was removed from the OWCP. This will result in a long-term savings to TVA of more than \$435,000. This case was not referred for prosecution because it was not a criminal violation. Income was reported correctly by the former employee on the forms submitted to OWCP.

EMPLOYEE MISCONDUCT  
ISSUES

TVA OIG investigated a number of employee misconduct matters, including unethical practices related to procurement, falsifying TVA records, abuse of position, misuse of government vehicles and computers, and nepotism. Actions by TVA management based on OIG’s investigations and recommendations included policy revisions and personnel actions, including dismissal from TVA employment.

INAPPROPRIATE MATERIAL  
PLACED ON TVA COMPUTER  
AT WATTS BAR

The OIG received anonymous reports indicating that inappropriate and crude material, some of which resembled extremist information, had been placed in a Watts Bar Nuclear Plant employee’s shared network folder. We reviewed the material and referred the matter to the Federal Bureau of Investigation. After conducting a joint interview of the employee, it was determined that the individual did not appear to have any connection to extremist activity. Given the nature of some of the material, the OIG issued a report to management recommending that all information resource practices be in accordance with TVA policies. Based on the recommendations, the employee was coached on appropriate use of TVA computers.

CONTRACTOR RECEIVING  
PREFERENTIAL TREATMENT

We received a complaint through our Empowerline alleging that a TVA manager at Marshall Combustion Turbine (CT) Plant, had an inappropriate relationship with a TVA contractor. The manager was allegedly giving the contractor preferential treatment by awarding contracts based on a personal relationship with the owner of the company. In addition, it was alleged that the manager allowed the contractor to use TVA equipment for personal business. Our investigation substantiated these allegations and revealed that the contractor received a majority of the outside contract work at the Marshall CT plant, totaling more than \$300,000 from April 2007 to September 2008. In addition, the owners of the contract company also owned a used car business. We determined that on two occasions the TVA manager accepted the use of a vehicle from the business at no charge, in violation of TVA’s Code of Conduct.

Our office issued a report to TVA management who discussed the applicable TVA policies and procedures with the manager. Following this discussion, the manager resigned from TVA and an employment restriction flag was placed in the manager’s personnel security record to ensure the results of this investigation are taken into account should the individual seek TVA reemployment. In addition, TVA placed the contractor on the Supply Chain Clearance List and agreed to reinforce, while training contract managers and procurement agents, the importance of reporting any unusual or odd behavior or gifts from the contractors. Two

additional employees were counseled concerning taking gifts from the contractors.

FISH KILL AT OCOEE CAUSED  
BY TVA RELEASE OF WATER

The OIG conducted an investigation of a significant fish kill on the Ocoee River, thought to be caused by sediment washed downstream when TVA released water from Ocoee Dam No.3. Reportedly, TDEC told TVA

Ocoee No. 3  
FACTS AND FIGURES

Construction of Ocoee Dam No. 3 began in 1941 and was completed in 1942.

The dam is 110 feet high and stretches 612 feet across the Ocoee River.

Ocoee No. 3 provides 24 miles of shoreline and 360 acres of water surface.

Water is diverted from generation and sluiced from the dam on selected days to provide for whitewater recreation downstream of the dam and through the 1996 Olympic whitewater course.

The hyrdoelectric power plant at Ocoee Dam No. 3 consists of one generating unit.

not to open the gates to release water from the dam because of the sediment issues. TVA reportedly was also advised of the chemical constituents that were in the sediment upstream of the dam. Allegedly, TVA ignored TDEC, claiming they did not need a permit to release water for routine maintenance. As a result, TDEC issued TVA a Notice of Violation. Our investigation did not substantiate criminal negligence on the part of any particular TVA employee



relating to the intentional release of anoxic sediment from the Ocoee Dam No. 3 reservoir into the lower Ocoee Dam No. 2 reservoir. However, incidents such as the sediment release at Ocoee Dam No. 3 pose a significant risk to TVA’s reputation as an environmentally conscientious government entity. Our office issued a report to TVA management recommending they consider revising existing policies and procedures to address water releases from the Ocoee Dam No. 3 reservoir. TVA management agreed with the OIG recommendations and initiated “Best Management Practices for Drawdown Operations at Ocoee 3.” This plan addresses the recommendations in the OIG report, by spelling out the process for conducting all future drawdowns at Ocoee Dam No. 3, including prescribed flow rates, reservoir elevation, and notification requirements.

ALLEGATIONS OF WASTE AND ABUSE INVOLVING BROWNS FERRY NUCLEAR PLANT (BFN) FIRE PROTECTION GROUP WORK SCHEDULING

We investigated an allegation that waste and abuse was occurring in the Fire Protection Group (FPG) at BFN, the primary cause of which was a dysfunctional work package scheduling system. The complainant alleged the FPG scheduled its own work and the individual responsible for scheduling work had stopped scheduling corrective action and maintenance packages and was not being held accountable by the FPG Manager. As a result, a backlog of fire protection maintenance work had not been addressed and a Nuclear



BROWNS FERRY NUCLEAR PLANT

Regulatory Commission (NRC) inspection found two quality assurance violations. In response to the NRC findings, BFN has contract employees working, at great expense, around the clock to fix the problems. However, had normal scheduling of corrective action occurred these problems would have been corrected within the normal work hours and course of business at the FPG. As a result of our investigation and recommendations, TVA management agreed to add a head fire protection foreman position to the FPG staff that reports to the FPG manager. In addition, a policy will be implemented requiring an FPG member to be present at all scheduling and review group meetings.

CONTRACT ISSUES RELATED TO WHOLESALE BILLING CREDITS

During an OIG audit of Murphy Electric Power Board (Murphy), a billing issue was identified which resulted in Murphy receiving an additional \$174,451 in wholesale credits. It was determined the billing issue occurred because of a difference between Murphy’s retail contract with a customer and Murphy’s wholesale

contract with TVA. The contracts included a Competitive Index Rate (CIR) credit which gave the customer a more competitive rate as an incentive to remain within Murphy’s system. As approved by the TVA Board, the rate used to calculate a CIR credit should be adjusted when the competing system’s rates change. Terms of the Murphy retail contract included a fixed rate for a five year period, but the wholesale contract allowed for this rate to be adjusted. TVA Contract personnel were unaware the retail contract included a fixed rate; however, TVA Customer Service personnel were aware the rate was fixed. A former TVA Customer Service manager received an email from a Contracts and Pricing representative stating the five-year fixed rate should not be included in the retail contract. During our investigation, the Customer Service manager did not recall reading the email.

After the customer went out of business, TVA’s Office of the General Counsel (OGC) was consulted to determine if TVA could recover the money from Murphy. OGC advised that TVA Customer Service’s knowledge of the fixed rate in the retail contract would make it difficult to recover any funds.

We issued a report to management recommending that in all future applications of the CIR program, a procedure be put in place allowing TVA Contract personnel or OGC to review the distributor’s corresponding retail contract with the end use customer to ensure there are no conflicts with the distributor’s wholesale contract with TVA.

CONTRACT SAVINGS

During the course of an investigation into misconduct of a TVA vendor, it was determined that the vendor was being awarded a new multi-million dollar contract for work at a TVA nuclear plant. As a result of information provided to TVA management by the OIG, TVA management disqualified the initial bid winner based on this vendor’s previous misconduct. The contract was awarded to another vendor for a cost of \$3,163,537 less than what TVA would have paid the initial contract bid winner. The vendor that ultimately received the award was determined to have offered the best pricing and was found to have the necessary expertise available to provide a satisfactory product.

INVESTIGATIONS AND AUDITS TEAM MEMBERS

FOCUS ON COLLABORATION

Inspector General Moore has tasked TVA OIG groups with leveraging the broad knowledge base of our office components through proactive collaborative efforts. “It’s critical that we know what we know, that information gained in one area is not lost in another,” Inspector General Moore said. “The success of the office requires our employees to maintain a broad perspective while executing their individual assignments.” This semiannual report reflects shared successes. For example, parallel efforts by a special agent and an auditor led to federal felony convictions of two individuals in Alabama, and the recovery of more than \$1 million identified by the audit. While the agent addressed six instances of fictitious invoice submissions passed through to TVA, the auditor uncovered and followed up on numerous duplicate and triplicate charges for labor and equipment as well as a number of other unsupported charges.

In another instance, a contract audit revealed charges to TVA on a fixed price basis rather than the contractual cost reimbursable basis. The matter was referred to Investigations for review, and a parallel investigation was initiated, which led to the conclusion that the contractor knowingly charged TVA an errant rate resulting in overcharges of \$2.2 million. The parallel efforts led to the recovery of the full amount under the audit.

In a third example, an OIG Special Agent received an anonymous complaint that a TVA technical contract manager (TCM), had received funds from a contractor, laundered through another corporation to a limited liability corporation that the TCM created. Investigators and auditors worked closely together and established that the contractor improperly influenced the TCM in performing a public contract.

The collaborative effort led to a felony conviction in federal court in the Eastern District of Tennessee for false statement because of failing to report the proceeds from the contractor on the financial disclosure form completed by the TCM. Additional administrative actions are pending against the contractor.







## Legislation and Regulations

## Legislation and Regulations

*In fulfilling its responsibilities under the IG Act of 1978, as amended, the OIG follows and reviews existing and proposed legislation and regulations that relate to the mandate, operations and programs 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 of TVA programs or operations.*

The TVA OIG has been tracking the following major pieces of legislation during the past six months:

### **P.L. 111-203 – THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT**

This legislation was signed into law on July 21, 2010. Although the Act focuses primarily on the financial services sector, it contains two provisions that are relevant to all IGs. First, section 989C amends the IG Act to require IGs to report the results of peer reviews conducted and those received in each semiannual period. Second, section 1505 requires GAO to conduct a study of the relative independence, effectiveness, and expertise of all IGs. The report must also assess how amendments to the IG Act made by Dodd-Frank will impact the independence of each affected agency's OIG.

### **H.R. 5983 – THE JAVITS – WAGNER – O'DAY ACT**

This legislation would require federal agencies to procure products and

services from non-profit agencies for the blind and for people with certain other significant disabilities, and would establish an IG with authority to investigate federal agency compliance with the Act in consultation with other IGs.

### **H.R. 5815 – THE INSPECTOR GENERAL AUTHORITY IMPROVEMENT ACT**

This legislation encompasses several initiatives in support of Inspectors General. H.R. 5815 would exempt IGs from provisions of the Paperwork Reduction Act that would restrict the collection of information during an investigation, audit, evaluation or other review. The bill would also exempt IGs from certain restrictions in the Privacy Act of 1974 that forbid the use of computer matching programs to compare federal records with other federal records and non-federal records, in order that IGs be able to identify weaknesses that make a program vulnerable to fraud, waste, or abuse and to detect improper payments and fraud. This legislation would also clarify that IGs post all audit, inspection, and evaluation reports on their Web

sites. H.R. 5815 additionally grants testimonial subpoena authority to IGs. Finally, this legislation requires agencies to take corrective action in response to any questioned costs, any recommendation that funds be put to better use, or any significant problems, abuses, or deficiencies identified by IGs.

### **S. 372 – THE WHISTLEBLOWER PROTECTION ENHANCEMENT ACT**

This legislation was introduced in February 2009 and reported out of committee in July 2009. Section 120(a) of the bill as it is currently written requires IGs to designate a Whistleblower Protection Ombudsman to educate, advise and advocate for agency employees. CIGIE has objected to the placement of a whistleblower ombudsman within the OIG offices because of the conflict that could arise with the IG mandate to operate independently and objectively from its agency. Recently the Homeland Security and Government Affairs Committee proposed an amendment that would remove the advocacy role from Section 120(a).



**P.L. 111-204 – THE  
IMPROPER PAYMENTS  
ELIMINATION IMPROVEMENT  
ACT**

This legislation was signed into law on July 22, 2010. This legislation amends the Improper Payments Information Act of 2002 by requiring agencies to periodically identify and review all programs and activities susceptible to significant improper payments and to report on actions to reduce or recover improper payments. The legislation would require IGs to annually determine whether their agencies have complied with seven requirements in the Act and submit reports with their findings to the head of their agency, the Government Accountability Office, the Senate Committee on Homeland Security and Government Affairs, and the House Committee on Oversight and Government Reform. This legislation provides five percent of amounts collected through recovery audits may be made available to IGs to carry out the Act.

**S. 139 AND S. 1490 – DATA  
BREACH NOTIFICATION ACT**

This bill was reported out of the Senate Judiciary Committee in September, and would require federal agencies to notify individuals and certain law enforcement agencies of security breaches of PII. As currently written, the bill would supersede any other federal law concerning notification of PII, including the Federal Information Security Management Act which requires agencies to notify their respective IGs in the event of a security incident. All of S. 139's provisions have been incorporated into S. 1490, The Personal Data Privacy and Security Act. Both bills are currently awaiting action in the full Senate.



**WIDOWS CREEK FOSSIL PLANT**





Appendices

REPORTING	REQUIREMENT	PAGE
Section 4(a)(2)	Review of Legislation and Regulations	49-50
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	25-47
Section 5(a)(2)	Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	25-47
Section 5(a)(3)	Recommendations Described in Previous Semiannual Reports in 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 and Inspection Reports	Appendix 2
Section 5(a)(7)	Summary of Particularly Significant Reports	25-47
Section 5(a)(8)	Status of Management Decisions for Audit and Inspection Reports Containing Questioned Costs	Appendix 3
Section 5(a)(9)	Status of Management Decisions for Audit and Inspection Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 3
Section 5(a)(10)	Summary of Audit and Inspection Reports Issued Prior to the Beginning of the Reporting Period for Which No Management Decision Has Been Made	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
Section 5(a)(14)	Appendix of results of any peer review conducted by another Office of Inspector General during the reporting period, and if none, a statement of the date of the last peer review.	Appendix 7
Section 5(a)(15)	List of outstanding recommendations from any peer review conducted by another Office of Inspector General, including a statement describing the status of the implementation and why implementation is not complete.	None
Section 5(a)(16)	List of peer reviews conducted of another Office of the Inspector General during the reporting period, including a list of any outstanding recommendations made from any previous peer review that remain outstanding or have not been implemented.	Appendix 8



Report Number and Date	Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
CONTRACT AUDITS				
2009-12687 04/05/2010	Welding Services, Inc.	\$320,700	\$271,200	\$0
2008-12047 05/26/2010	Sargent & Lundy	\$683,122	\$0	\$0
2009-12670 06/10/2010	Terra Industries, Inc.	\$188,231	\$0	\$0
2009-12840 06/21/2010	Underwater Construction Corporation	\$643,700	\$643,700	\$0
2009-12558 07/12/2010	KEMA, Inc.	\$234,406	\$234,406	\$0
2009-12878 08/02/2010	S&ME, Inc.	\$395,479	\$75,611	\$0
2009-12349 08/05/2010	National Inspection & Consultants, Inc.	\$159,662	\$141,434	\$0
2010-13292 08/09/2010	Preaward Review – Proposal to Provide EPU Services at Browns Ferry Nuclear Plant	\$0	\$0	\$2,546,613
2010-13387 08/20/2010	Preaward Review – Proposal to Provide Facilities and Maintenance Services at Bellefonte Nuclear Plant	\$0	\$0	\$0
2010-13212 09/27/2010	Preaward Review – Proposal to Revise Contract Rate Structure	\$0	\$0	\$11,148,952
DISTRIBUTOR AUDITS				
2009-12593 07/26/2010	Chattanooga Electric Power Board	\$0	\$0	\$0
2009-12510 08/10/2010	Scottsboro Electric Power Board	\$88,000	\$0	\$0
2009-12594 09/09/2010	Lenoir City Utilities Board	\$0	\$0	\$0
2010-13022 09/29/2010	Dickson Electric System	\$0	\$0	\$0
FINANCIAL AND OPERATIONAL AUDITS				
2009-12291 04/09/2010	Postponed/Cancelled Capital Projects – Nuclear	\$0	\$0	\$0
2009-12291-02 04/16/2010	Postponed/Cancelled Capital Projects – Power System Operations	\$0	\$0	\$0
2009-12291-03 05/24/2010	Postponed/Cancelled Capital Projects – Fossil	\$0	\$0	\$0
2009-12291-04 05/24/2010	Postponed/Cancelled Capital Projects – River Operations	\$0	\$0	\$0
2010-13223 06/01/2010	Performance of Agreed Upon Procedures for CRS Green-E Energy	\$0	\$0	\$0
2009-12968 08/02/2010	Follow-up Review of Contractor Tool Program for Watts Bar Nuclear Plant Unit 2 Construction Project	\$0	\$0	\$0
2009-12916 08/26/2010	Review of Bechtel’s Management of Subcontractors	\$0	\$0	\$0
2009-12728 09/15/2010	Review of Recreational Land Transactions	\$0	\$0	\$0
2010-13108 09/29/2010	Review of Counterparty Credit Risk	\$0	\$0	\$0

Report Number and Date	Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
INFORMATION TECHNOLOGY AUDITS				
2009-12650 05/19/2010	Use and Protection of Personally Identifiable Information	\$0	\$0	\$0
2008-11792-01 05/25/2010	Pre-Implementation Review of Enterprise Asset Management System Post Phase 1 Implementation	\$0	\$0	\$0
2009-12338 06/04/2010	Enterprise Backup and Recovery	\$0	\$0	\$0
2010-13208 07/14/2010	SOX Primary Testing – F.57 CXL	\$0	\$0	\$0
2010-13209 07/19/2010	SOX Primary Testing – F.58 GasPro	\$0	\$0	\$0
2010-13156 07/26/2010	SOX Primary Testing – F.24 HRIS	\$0	\$0	\$0
2010-13157 07/26/2010	SOX Primary Testing – F.19 Power Billing	\$0	\$0	\$0
2010-13162 07/26/2010	SOX Primary Testing – DS.12 Manage the Physical Environment	\$0	\$0	\$0
2010-13154 07/28/2010	SOX Primary Testing – F.28 eWorkplace	\$0	\$0	\$0
2010-13160 07/28/2010	SOX Primary Testing – F.20 MV90	\$0	\$0	\$0
2010-13155 07/29/2010	SOX Primary Testing – A.I6 Manage Changes	\$0	\$0	\$0
2010-13159 07/29/2010	SOX Primary Testing – A.I7 Install and Accredited Solutions and Changes	\$0	\$0	\$0
2010-13161 07/29/2010	SOX Primary Testing – F.42 Maximo	\$0	\$0	\$0
2010-13152 07/30/2010	SOX Primary Testing – DS.5 Ensure Systems Security	\$0	\$0	\$0
2010-13153 07/30/2010	SOX Primary Testing – F.15 CWMi	\$0	\$0	\$0
2010-13158 07/30/2010	SOX Primary Testing – DS.11 Manage Data	\$0	\$0	\$0
2010-13083 08/24/2010	Protection of TVA Personally Identifiable Information Held by Third Parties	\$0	\$0	\$0
2010-13162-01 09/08/2010	Process Improvements – DS.12 Manage the Physical Environment	\$0	\$0	\$0
Total Audits (41)		\$2,713,300	\$1,366,351	\$13,695,565



Appendix 3

OIG INSPECTION REPORTS ISSUED DURING THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2010

Report Number and Date	Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
2009-12651-01 05/11/2010	Peer Review of Power Engineering's Safe Use Assessment of Wheeler Hydro Unit 1	\$0	\$0	\$0
2008-11829 06/02/2010	Review of TVA Records Retention	\$0	\$0	\$0
2009-12910-01 08/02/2010	Peer Review of the Stability Analysis of Dike C at the Kingston Fossil Plant	\$0	\$0	\$0
2007-11402 08/03/2010	Review of TVA's Environmental Performance Results	\$0	\$0	\$0
2008-12283-06 09/21/2010	Review of the Long Term Environmental Recovery Plan for Kingston	\$0	\$0	\$0
2009-12915 09/21/2010	Inspector General Criminal Investigator Academy	\$0	\$0	\$0
2008-12283-08 09/22/2010	Review of TVA's Plans for Offsite Transportation and Disposal of Ash from Kingston	\$0	\$0	\$0
2010-13034 09/22/2010	Review of TVA's Kingston Ash Spill Clean-up and Recovery Efforts	\$0	\$0	\$0
2009-12910-02 09/23/2010	Peer Review of Dike C Buttressing	\$0	\$0	\$0
Total Inspections (9)				

**Note:** A summary of or link to OIG reports may be found on the OIG's Web site at [www.oig.tva.gov](http://www.oig.tva.gov)

TABLE I TOTAL QUESTIONED AND UNSUPPORTED COSTS

AUDITS

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	\$175,094	\$0
B. Which were issued during the reporting period	8	\$2,713,300	\$1,366,351
Subtotal (A+B)	9	\$2,888,394	\$1,366,351
C. For which a management decision was made during the reporting period	9 <sup>1</sup>	\$2,888,394	\$1,366,351
1. Dollar value of disallowed costs	8	\$1,878,908	\$681,217
2. Dollar value of costs not disallowed	4	\$1,009,486	\$685,134
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

<sup>1</sup> The total number of reports for which a managment decision was made during the reporting period differs from the sum of C(1) and C(2) when the same report(s) contain both recommendations agreed to by management and others not agreed to by management.

TABLE I TOTAL QUESTIONED AND UNSUPPORTED COSTS

INSPECTIONS

Inspections Reports	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the period	0	\$0	\$0
B. Which were issued during the reporting period	0	\$0	\$0
Subtotal (A+B)	0	\$0	\$0
C. For which a management decision was made during the reporting period	0	\$0	\$0
1. Dollar value of disallowed costs	0	\$0	\$0
2. Dollar value of costs not disallowed	0	\$0	\$0
D. For which no management decision has been made by the end of the reporting period	0	\$0	\$0
E. For which no management decision was made within six months of issuance	0	\$0	\$0



TABLE II TOTAL FUNDS TO BE PUT TO BETTER USE AUDITS

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	1	\$148,600
B. Which were issued during the reporting period	2	\$13,695,565
Subtotal (A+B)	3	\$13,844,165
C. For which a management decision was made during the reporting period	1	\$148,600
1. Dollar value of recommendations agreed to by management	1	\$148,600
2. Dollar value of recommendations not agreed to by management	0	\$0
D. For which no management decision has been made by the end of the reporting period	2	\$13,695,565
E. For which no management decision was made within six months of issuance	0	\$0

TABLE II TOTAL FUNDS TO BE PUT TO BETTER USE INSPECTIONS

Inspections 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	0	\$0
Subtotal (A+B)	0	\$0
C. For which a management decision was made during the reporting period	0	\$0
1. Dollar value of recommendations agreed to by management	0	\$0
2. Dollar value of recommendations not agreed to by management	0	\$0
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

AUDIT AND INSPECTION REPORTS WITH CORRECTIVE ACTIONS PENDING

As of the end of the semiannual period, final corrective actions associated with six audits and five inspections were not completed within one year of the final report date. Presented below for each audit and inspection are the report number, date, a brief description of the open recommendation(s) and the date management expects to complete final action, if available.

Audit Report Number and Date	Report Title and Recommendation(s) for which Final Action is Not Complete
2007-11216 06/02/2008	<b>Review of TVA Actions to Protect Social Security Numbers and Eliminate Their Unnecessary Use</b>  TVA agreed to implement protective measures for applications and reports containing social security numbers (SSN) and remediate and incorporate into the Enterprise Information Management strategy identification of SSN usage in documents, databases, and other electronic files. Management is targeting final action to be completed by December 31, 2010.
2007-11348-01 03/26/2008	<b>IT Security Organizational Effectiveness</b>  TVA agreed to review and align Information Technology (IT) Security policies and procedures and establish and manage IT Security performance metrics. Management is targeting final action to be completed by November 30, 2010.
2007-11388 08/21/2008	<b>Sequoyah Nuclear Plant – Cyber Security Assessment</b>  TVA agreed to implement protective measures to address the weaknesses identified for the plant and business networks. Management is targeting final action to be completed by June 30, 2011.
2008-11942 11/20/2008	<b>TVA Telework Initiatives</b>  TVA agreed to work with other intercompany organizations to determine which jobs and functions are conducive to telework and consider a pilot program that would inform future decisions about telework. Management is targeting final action to be completed by November 19, 2010.
2008-11965 02/04/2009	<b>Contractor Workforce Management (CWM) – Access and General Control Review</b>  TVA is currently undergoing a request for proposal process to either replace or upgrade the existing CWM system. TVA plans to have the new system in place by March 31, 2011.
2008-12127 09/24/2009	<b>Hydroelectric Plant Automation – General, Physical, and Security Controls Review</b>  TVA agreed to implement the new access control system at all sites and further restrict access to key components and develop a process to evaluate audit findings and recommendations to ensure findings are addressed across all systems. Management is targeting final action to be completed by June 1, 2013.

Inspection Report Number and Date	Report Title and Recommendation(s) for which Final Action is Not Complete
2005-5181 08/31/2005	<b>Review of Physical and Environmental Controls for the Chattanooga Data Center</b>  TVA agreed to replace the Chattanooga office complex telephone system with a system operating on the Internet protocol to eliminate three control issues identified during the review. Implementation of the new communication system has been delayed by management due to what is considered higher priority projects. Management is targeting final action to be completed by December 31, 2012.
2005-5221 06/13/2006	<b>Inspection of TVA’s Role as a Regulator</b>  TVA agreed to formalize procedures for reviewing distributor financial information and business plans for the use of electric system revenues for non-electric purposes. Management is targeting final action to be completed by November 30, 2011.
2007-11443 09/30/2008	<b>Review of Contractor Background Checks Applicable to the Watts Bar Nuclear Plant Unit Two Construction Completion Project</b>  TVA agreed to determine what changes are necessary to the background checks for WBN Unit 2 and if any changes are required to TVA policy. We identified some TVA policy compliance issues and opportunities to strengthen the background check process. Management is targeting final action to be completed by December 31, 2010.
2008-12007 05/13/2009	<b>Distributor Review of Monroe County Electric Power Authority</b>  TVA agreed to (1) recommend to the TVA Board of Directors to increase the threshold for requiring customer contracts to one Megawatt, (2) consider feasibility of a comprehensive guideline for permissible expenditures, (3) recommend to the Board that additional financial metrics, including when cash reserves become excessive, be implemented in the rate setting process, and (4) work with Tennessee Valley Public Power Authority to develop recommendations on common meter testing criteria. Management is targeting final action to be completed by November 30, 2011.
2008-12040 05/13/2009	<b>Distributor Review of Lewisburg Electric System</b>  TVA agreed to (1) recommend to the TVA Board of Directors to increase the threshold for requiring customer contracts to one Megawatt, (2) consider feasibility of a comprehensive guideline for permissible expenditures, and (3) recommend to the Board that additional financial metrics, including when cash reserves become excessive, be implemented in the rate setting process. Management is targeting final action to be completed by November 30, 2011.

INVESTIGATIVE REFERRALS AND PROSPECTIVE RESULTS<sup>1</sup>

Referrals	
Subjects Referred to U.S. Attorneys	51
Subjects Referred to State/Local Authorities	2
Results	
Subject Indicted	7
Subjects Convicted	8
Pretrial Diversion	1
Referrals Declined	34

<sup>1</sup>These numbers include task force activities and joint investigations with other agencies.



	SEPT 30, 2010	MAR 31, 2010	SEPT 30, 2009	MAR 31, 2009	SEPT 30, 2008
AUDITS					
AUDIT STATISTICS					
Carried Forward	60	44	70	28	47
Started	28	46	46	59	53
Cancelled	(7)	(4)	(6)	(3)	(2)
Completed	(41)	(26)	(66)	(14)	(70)
In Progress at End of Reporting Period	40	60	44	70	28

AUDIT RESULTS (Thousands)					
Questioned Costs	\$2,713	\$980	\$6,744	\$1,226	\$3,609
Disallowed by TVA	1,879	2,255	2,799	829	1,802
Recovered by TVA	2,807	2,999	909	644	676

Funds to Be Put to Better Use	\$13,696	\$9,703	\$50,570	\$0	\$28,653
Agreed to by TVA	149	8,853	4,723	0	28,120
Realized by TVA	2,091	480	4,395	0	26,460

OTHER AUDIT-RELATED PROJECTS					
Completed	27	10	16	8	7
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$0	\$0	\$0

INSPECTIONS					
Completed	9	2	21	4	16
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$0	\$0	\$0

INVESTIGATIONS <sup>1</sup>					
INVESTIGATION CASELOAD					
Opened	199	168	194	171	161
Closed	221	198	223	91	135
In Progress at End of Reporting Period	167	189 <sup>2</sup>	251	280	200

INVESTIGATION RESULTS (Thousands)					
Recoveries	\$36.2	\$41.8	\$20.6	\$10,725.3	\$632.6
Savings	4,028	0	472.1	0	0
Fines/Penalties	5.8	5.9	.4	352.7	1.6

MANAGEMENT ACTIONS					
Disciplinary Actions Taken (# of Subjects)	15	7	6	3	15
Counseling/Management Techniques Employed (# of Cases)	31	25	10	1	6

PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred to U.S. Attorneys	51	16	45	18	7
Referred to State/Local Authorities <sup>3</sup>	2	2	6	—	—
Indicted	7	4	3	4	14
Convicted	8	3	3	3	3
Pretrial Diversion	1	2	0	0	1

<sup>1</sup> These numbers include task force activities and joint investigations with other agencies.

<sup>2</sup> Adjusted from the previous period.

<sup>3</sup> Category added in semiannual period ended September 30, 2009.

PEER REVIEWS OF THE TVA OIG

AUDITS PEER REVIEW

Audit organizations are required to undergo an external peer review at least once every three years. The TVA OIG audit organization’s 2010 peer review is in progress and scheduled to be completed during the next semiannual period. The Corporation for National and Community Service (CNCS) OIG completed the audit organization’s most recent peer review on December 18, 2007. TVA OIG received an unqualified opinion from CNCS OIG in which it reported “the system of quality control for the audit function of TVA OIG in effect for the year ended September 30, 2007, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a federal government audit organization and was complied with during the year ended September 30, 2007, to provide TVA OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.” No significant weaknesses were identified by CNCS OIG in its review and accordingly, no letter of comment was issued. The 2007 peer review report can be found on the TVA OIG Web page at <http://oig.tva.gov/peer-review.html>.

INVESTIGATIONS PEER REVIEW

Investigative organizations undergo an external peer review (Quality Assessment Review) at least once every three years. The TVA OIG Investigative Operations’ 2010 peer review is in progress and scheduled to be completed during the next semiannual period. The United States Railroad Retirement Board (USRB) OIG completed the most recent peer review of our investigative operations on August 28, 2007. The USRB OIG reported the system of internal safeguards and management procedures for the investigative function of the TVA OIG in effect as of July 2007 were compliant with the quality standards established by the PCIE and the Attorney General guidelines. There are no outstanding recommendations from this peer review. The 2007 Quality Assessment Review report can be found on the TVA OIG Web page at <http://oig.tva.gov/peer-review.html>.

PEER REVIEW PERFORMED BY THE TVA OIG

At the request of the Special Inspector General for Afghanistan Reconstruction (SIGAR), the Chair of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), requested that the chairman of the CIGIE Audit Committee (Jon Rymer) and the chairman of the CIGIE Investigations Committee (Richard Moore) lead a multi-agency team to conduct audit and investigative operations peer reviews and a management and operations review of SIGAR. The normal practice is to wait until at least the third year of an IG’s existence before a peer review is conducted; however, the SIGAR requested the review about 19 months into the organization’s existence to assist in identifying needed improvements.

Rymer and Moore led a team comprised of representatives from the TVA, Federal Deposit Insurance Corporation, Department of Defense, Department of the Interior, Department of State, U.S. Department of Agriculture, and U.S. Agency for International Development offices of the Inspectors General (OIG) to perform the reviews. The audit peer review was led by the FDIC OIG and those results will be reported in the FDIC OIG semiannual report to Congress. The management and operations review was an evaluation, based on the team’s collective knowledge and experience, as to whether SIGAR’s practices aligned with the *Quality Standards for Federal Offices of Inspector General* (Silver Book) and to what extent SIGAR had implemented those practices. This review focused on activities not subject to the audit and investigative peer reviews and provided observations and suggestions for improvement.

On July 14, 2010, a team led by the TVA OIG completed the investigative operations peer review. The review resulted in a determination that the system of internal safeguards and management procedures for the investigative function of SIGAR in effect for the period

ended April 16, 2010, was not in compliance<sup>1</sup> with the quality standards established by the PCIE/ECIE, the CIGIE, and relevant Attorney General guidelines. The opinion was based on ten reportable findings which represented weaknesses and opportunities for improvement in the areas of policies and procedures, training, training records, planning, case prioritization, and electronic file and information management systems. The safeguards and management procedures in this organization did not provide reasonable assurance of conforming with professional standards in the conduct of its investigations from the inception of the office of the SIGAR to April 16, 2010.

The immediate consequence of this determination was that Inspector General Richard Moore, chairman of the CIGIE Investigations Committee, forwarded the report to the Attorney General of the United States to consider whether SIGAR’s law enforcement powers should be suspended, pending correction of the identified deficiencies. The investigative peer review team stated that these deficiencies, while significant, could be remedied by SIGAR over time, given the commitment of SIGAR’s investigative staff to implement the required policies and procedures. SIGAR generally concurred with the findings included in the peer review report. The investigative operations peer review report is posted on SIGAR’s Web site at [http://www.sigar.mil/pdf/peer\\_review/Section5.pdf](http://www.sigar.mil/pdf/peer_review/Section5.pdf)

The ten reportable findings are listed below with remediation status as reported by SIGAR. There has been no independent verification of the remediation reported by SIGAR but an on-site review to confirm what SIGAR has reported to the TVA OIG is anticipated in the near future.

1. Investigations Directorate Policies and Procedures:  
In sum and substance, there were nearly no official

investigative policies and procedures in place prior to March 2010, and therefore no investigative activities in compliance therewith. Policies and procedures found in the *SIGAR Agent Manual* were almost entirely verbatim copies of policies and procedures borrowed from the Special Inspector General for Iraq Reconstruction (hereafter SIGIR). Many of these borrowed policies and procedures bore watermarks (evidently as received from SIGIR) indicating they were in draft form. Policies not coming from the SIGIR manual were largely formulated and formally adopted in the weeks immediately preceding the QAR, and were virtual mirrors of the QAR standards which lacked implementation processes. This finding covers the period prior to March 25, 2010, and applies to every aspect of the standardized CIGIE *Qualitative Assessment Review Guidelines for Federal Offices of Inspector General* (May 2009) (Appendices B and C-1).

**Remediation status according to SIGAR:** SIGAR-specific policies and procedures have been formally drafted, adopted, codified and disseminated to affected personnel.

2. The *Attorney General Guidelines for Offices of Inspector General With Statutory Law Enforcement Authority* (2003) (Section IV(A)) require that OIGs certify that individuals exercising law enforcement powers have completed Basic Criminal Investigator Course at Federal Law Enforcement Training Center (FLETC) or a comparable course of instruction. SIGAR’s Investigations Directorate effectively began in early 2009 with two investigators and later, in the fall of 2009, an Acting Assistant Inspector General (Investigations) (A-AIGI). One of the two investigators had received academy-level training. Neither the other investigator nor the A-AIGI, both experienced licensed attorneys, had received such training. This is considered worthy of note in the context of the truncated period of review. In effect, half of the investigators for roughly half the operational duration

of the agency’s existence (seven months) did not meet the law enforcement training requirements set forth in the *Attorney General Guidelines for Offices of Inspector General With Statutory Law Enforcement Authority* (2003) (Section IV(A)). The QAR team did note, however, that all of the more recently hired investigators have had academy-level training and are generally very experienced criminal investigators. SIGAR’s current practice and recently adopted policies do comply with this requirement.

**Remediation status according to SIGAR:** As noted in the finding, hiring policies and practices complying with the Attorney General Guidelines were in place at the time of the onsite review. SIGAR continues to hire in compliance with the Guidelines.

3. The *Attorney General Guidelines for Offices of Inspector General With Statutory Law Enforcement Authority* (2003) (Section IV(A)) also require that the OIG provide periodic refresher training to its agents. SIGAR’s Investigations Directorate had no infrastructure which captured specific training received during the review period and, as such, there were insufficient training records to substantiate agency-wide compliance with this standard. No clear anecdotal evidence mitigated this finding.

**Remediation status according to SIGAR:** Periodic refresher training is being afforded agents in compliance with the Attorney General Guidelines, and a system of records retention has been implemented to capture and maintain documentation of such training.

4. The *Attorney General Guidelines for Offices of Inspector General With Statutory Law Enforcement Authority* (2003) (Section IV(B)) require that eligible individuals receive initial and periodic firearms training and recertification in accordance with FLETC standards. SIGAR’s Investigations Directorate had no infrastructure which captured firearms training

<sup>1</sup> Noncompliant. A rating of non-compliance indicates a breakdown in practices, programs and/or policies that had an actual notable adverse impact on, or has a likelihood of materially affecting, the integrity of the investigative process (e.g., planning, conducting, reporting) or law enforcement operations (i.e., powers conferred by the IG Act). A reportable finding is defined as a material failure to conform to applicable standards—the Attorney General Guidelines for Statutory Law Enforcement Authority and/or the PCIE/ECIE Quality Standards for Investigation. A reportable finding can result from a material failure in one critical area as well as a series of weaknesses across multiple areas that have a cumulative adverse impact on the organization’s ability to adequately comply with the PCIE/ECIE QSI and/or Attorney General Guidelines.



received during the review period, and as such there were insufficient training records to substantiate agency-wide compliance with this standard. No clear anecdotal evidence mitigated this finding.

**Remediation status according to SIGAR:** Periodic firearms training and recertification is being afforded agents in compliance with the Attorney General Guidelines, and a system of records retention has been implemented to capture and maintain documentation of such training.

5. The *Attorney General Guidelines for Offices of Inspector General With Statutory Law Enforcement Authority* (2003) (Section IV(C)) require that OIGs receive training on and adopt Department of Justice deadly force policy. SIGAR’s Investigations Directorate had no infrastructure which captured training received relating to the DOJ deadly force policy during the review period. As such there were insufficient training records and no clear anecdotal evidence to substantiate agency-wide compliance with this standard.

**Remediation status according to SIGAR:** SIGAR has adopted the Department of Justice deadly force policy as required by the Attorney General Guidelines, and all agents receive training on the subject. A system of records retention has been implemented to capture and maintain documentation of such training.

6. The *Quality Standards for Investigations*, Qualitative Standards, Section A, p. 8, require that OIG investigative organizations establish organizational and case specific priorities and develop objectives to ensure that individual case tasks are performed efficiently and effectively. SIGAR’s Investigations Directorate

lacked an adopted, documented and agency-wide prioritization document during nearly all of the review period.

**Remediation status according to SIGAR:** SIGAR has formally adopted organizational and case specific priorities, as well as objectives to ensure case tasks are performed efficiently and effectively. SIGAR’s Investigations Directorate has adopted an agency-wide prioritization document.

7. The *Quality Standards for Investigations*, Qualitative Standards, Section A, p. 8, also require a basic, single-source planning document that presents the organization’s goals, allocation of resources, budget guidance, performance measures, and a guide for managers to implement these plans. SIGAR had not, at the time of onsite review, adopted such a planning document in the form of a Strategic Plan or other similar instrument.

**Remediation status according to SIGAR:** SIGAR has adopted a single-source planning document that presents the organization’s goals, allocation of resources, budget guidance, performance measures, and a guide for managers to implement these plans.

8. The *Quality Standards for Investigations*, Qualitative Standards, Section D, p. 12, 13, require that an organization have an organizational component responsible for record maintenance and specific procedures to be performed. SIGAR did not, prior to the review, have such a component identified. This standard is in the context of information management standards which dictate that investigative data be stored in a manner allowing effective retrieval, cross-referencing, and analysis. Prior to late November

2009, files were practically maintained in raw form in Afghanistan. In November 2009, a simple but generally effective and efficient case management system was developed at SIGAR’s headquarters. Though no policy was put in place at the time, a practice did develop which sufficiently centralized information management functions. The most debilitating variable in this regard noted by the peer review team, and shared by SIGAR management, is the lack of an electronic file maintenance system. The team noted that SIGAR management is aggressively pursuing the identification of such a system, and information management issues are likely to diminish rapidly following adoption and deployment.

**Remediation status according to SIGAR:** SIGAR has identified and tasked an organizational component with the responsibility of record maintenance and specific procedures to be performed. Though SIGAR’s system of records and file maintenance remains in hard copy, continuous efforts have been made to identify, acquire and deploy a suitable electronic system.

9. The *Quality Standards for Investigations*, Qualitative Standards, Section D, p. 13, 14, require that an organization’s management information system collect the data needed to assist management in performing its responsibilities, measuring its accomplishments, and responding to external customers. SIGAR’s Investigations Directorate information management system did not exist in any identifiable capacity until approximately late November 2009. While the file management system created in November 2009, is adequate for day-to-day operations, the system at the time of review lacked the power to assist management in the conduct of its responsibilities. As noted above,

the peer review team universally agreed that the adoption and deployment of a functional electronic information system would reduce SIGAR’s information management related issues.

**Remediation status according to SIGAR:** Continuous efforts have been made to identify, acquire and deploy a suitable electronic system. The hard copy system currently in place has been refined to assist management in carrying out its responsibilities.

10. The *Quality Standards for Investigations*, Qualitative Standards, Section D, p. 14, require that case files be established immediately upon the opening and assignment of investigations. SIGAR’s Investigations Directorate file management system was not in place until November 2009. As such, beyond “working files” maintained by investigators in the field, it was impossible for the peer review team to independently validate compliance with this standard. However, the peer review team did note that practices in place by the time of the onsite review did comply with this requirement.

**Remediation status according to SIGAR:** SIGAR’s file management system in place at the time of the review was, and remains, in compliance with the *Quality Standards for Investigations*. As noted above, efforts continue to identify, acquire and deploy a suitable electronic system.

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

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

THE FOLLOWING ARE ACRONYMS AND ABBREVIATIONS WIDELY USED IN THIS REPORT.

BFN .....	Browns Ferry Nuclear Plant	IT.....	Information Technology
BU.....	Business Units	KIF .....	Kingston Fossil Plant
CC .....	Corporate Credit	L&SM.....	Land and Shoreline Management
CEDARS .....	Center for Economic Development and Resource Stewardship	Marshall Miller.....	Marshall Miller & Associates, Inc.
CEO.....	Chief Executive Officer	Murphy .....	Murphy Electric Power Board
CERCLA .....	Comprehensive Environmental Response, Compensation and Liability Act	NAGC.....	National Association of Government Communicators
CIGIE .....	Council of Inspectors General on Integrity and Efficiency	NRC.....	Nuclear Regulatory Commission
CIR.....	Competitive Index Rate	OGC .....	Office of the General Counsel
COC .....	Chattanooga Office Complex	OHI.....	Organizational Health Index
CT .....	Combustion Turbine	OIG .....	Office of the Inspector General
EE/CA.....	Engineering Evaluation/Cost Analysis	O&M .....	Operations and Maintenance
E&T .....	Environment and Technology	OWCP .....	Office of Workers’ Compensation Programs
EPA .....	Environmental Protection Agency	PCIE .....	President’s Council on Integrity and Efficiency
ERC .....	Enterprise Risk Council	PIL.....	Personally Identifiable Information
FAA.....	Fixed Asset Accounting	SBU.....	Strategic Business Unit
FLETA .....	Federal Law Enforcement Training Accreditation	SIC .....	Standard Industrial Classification
FLETC .....	Federal Law Enforcement Training Center	SPP .....	Standard Programs and Processes
FPG.....	Fire Protection Group	Stantec .....	Stantec Consulting Services, Inc.
FYs .....	Fiscal Years	TCM.....	Technical Contract Manager
IG .....	Inspector General	TDEC.....	Tennessee Department of Environment and Conservation
IG Academy .....	Inspector General Criminal Investigator Academy	TVA.....	Tennessee Valley Authority



TENNESSEE VALLEY AUTHORITY  
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The OIG is an independent organization charged with conducting audits, inspections, and investigations relating to 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.

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# Our 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.



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