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OFFICE OF THE INSPECTOR GENERAL

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SEMIANNUAL REPORT

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OCTOBER 1, 1999 ~ MARCH 31, 2000

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

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

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

**TVA  
INSPECTOR  
GENERAL**

**Hotline**

Call toll free:  
**1-800-323-3835**  
423-632-3550 (Knoxville)

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



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

George T. Prosser  
Inspector General

April 28, 2000

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This semiannual report describes the accomplishments of our office for the six-month period ending March 31, 2000.

During this reporting period, I was returned by the TVA Board of Directors to my duties as the Inspector General. I look forward to continuing my tenure as Inspector General and working with the TVA Board of Directors to help TVA move into the 21st century. The OIG's vision is to be a "catalyst for excellence," and I intend to renew our efforts to focus the office on achieving this vision.

During this reporting period, OIG audits, investigations, and special projects continued to identify opportunities for TVA to save or recover money or to make process improvements, and TVA continued to respond favorably to OIG recommendations. I am proud to be associated with so many qualified and dedicated employees.

Sincerely,

A handwritten signature in black ink, appearing to read "George T. Prosser".

George T. Prosser

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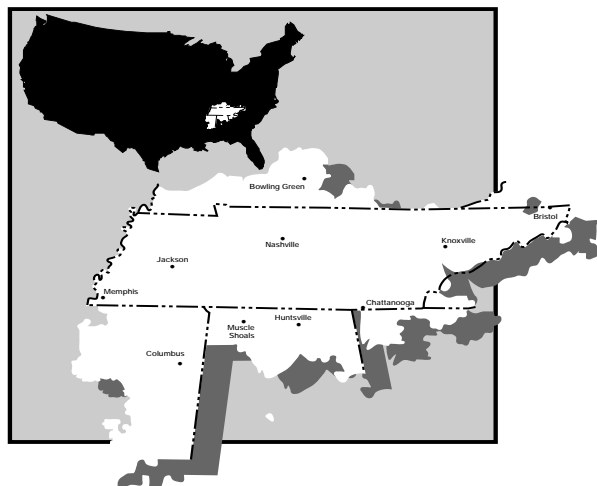
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## ■ EXECUTIVE SUMMARY

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<p><i>This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending March 31, 2000.</i></p>	<p>We continued our efforts to support TVA by providing quality audits, investigations, and special projects. During this reporting period, our reviews identified over \$11 million in recoveries, potential savings, questioned costs, or funds which could be put to better use. Management took numerous actions in response to our recommendations.</p>	<p>(7) aspects of TVA's safety program for hazardous materials. Representative special projects include: (1) a review of TVA's compliance strategy for Phase II emissions reductions, (2) a review of contractor's proposed fee for medical benefits administrative services, and (3) participation in a review of the supply chain business processes.</p>
	<p>We completed 45 audits and 12 special project reviews. We identified over \$950,000 in questioned costs and more than \$5.6 million in funds that could be used more effectively. Representative audits included the following areas: (1) preaward and postaward contract audits, (2) TVA performance measures under the Government Performance and Results Acts, (3) TVA's year 2000 readiness, (4) TVA credit card programs, (5) effectiveness of TVA's environmental audit program, (6) combustion turbine incremental cost calculations, and</p>	<p>We closed 111 investigations which led to over \$4.7 million in savings and recoveries, administrative or disciplinary action taken against 13 individuals, and other corrective action in 5 cases. Matters we investigated included an attempted bombing, workers' compensation fraud, environmental crimes, contractors' fraudulent claims for temporary living expenses, health care overpayments, and employee conduct issues. Our investigations led to six subjects being indicted and nine convicted.</p>



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

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

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

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

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

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

*TVA's 13,253 employees serve an 80,000-square-mile region spanning seven states.*

## Organization

The OIG consists of two major operational units—Audit and Investigative.

The OIG's Audit Operations unit consists of three departments. One is devoted to contract-related audits, both preaward and postaward reviews; the two other departments focus, respectively, on (1) performance and special projects and (2) financial and ADP-related issues.

The OIG's Investigative Operations unit consists of two investigative departments—Financial Investigations and Internal Investigations. Both departments work a variety of cases, including employee integrity and environmental issues. Financial Investigations focuses on contract and workers' compensation cases, while Internal Investigations focuses on employee conduct issues and benefits and entitlement programs. In addition, an Investigative Services and Hotline group reports to the Assistant Inspector General for Investigations.

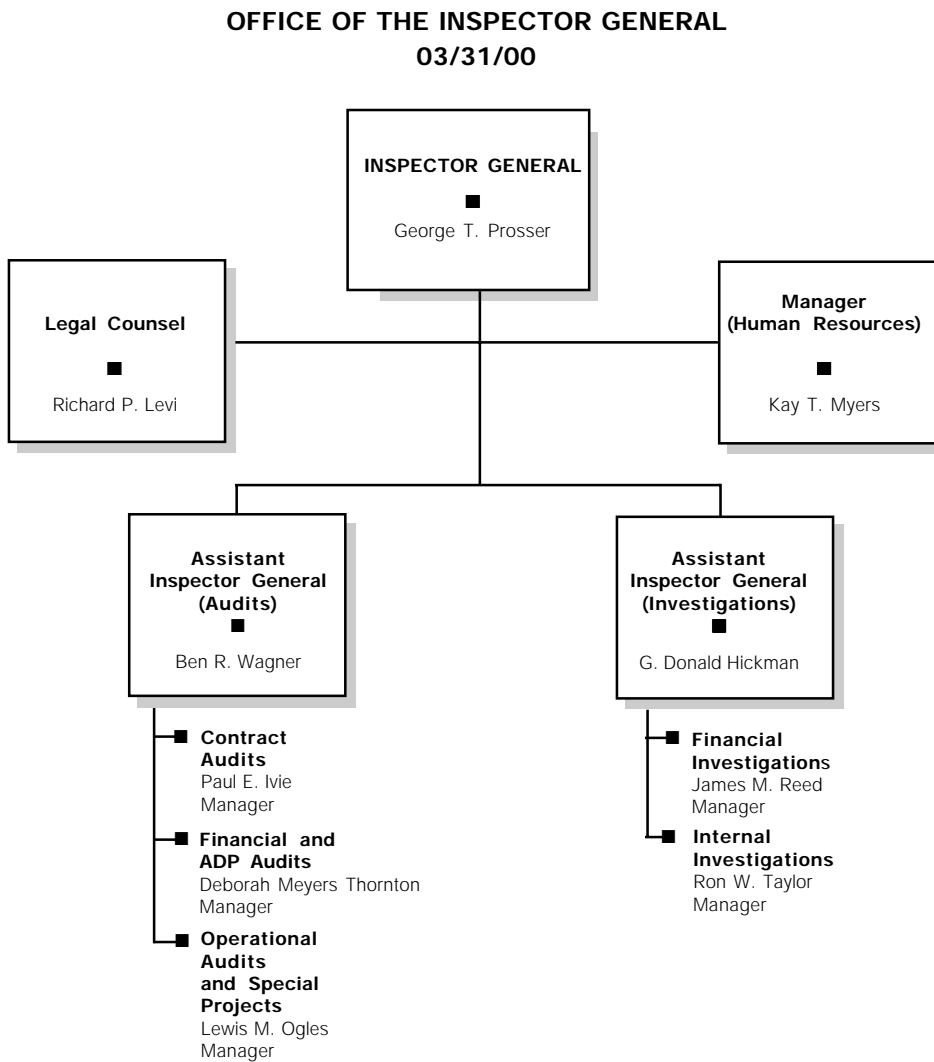
## Office Authority

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

## Staffing and Budget

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

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





## Joint Projects Produce Results

During this reporting period, we conducted numerous joint projects which led to significant results. Our joint efforts included pairing auditors and investigators and working with other organizations. Some of our joint projects are described more fully below.

### **ATTEMPTED BOMBING OF TVA SUBSTATION—INDICTMENT**

On or about October 27, 1993, an explosive device, consisting of dynamite and a homemade timer, was found affixed to a breaker at a TVA substation in Erin, Tennessee. Although the device malfunctioned and failed to detonate, had it exploded, it would have resulted in a significant regional electric power outage, equipment destruction, and environmental damage.

After an extensive joint OIG and TVA Police investigation, a Clarksville, Tennessee, man was indicted in federal court on four charges of destruction of government property by means of an explosive device.

### **TOOL THEFT CONSPIRACY—SENTENCING**

During a previous reporting period, as a result of a joint investigation/audit, two individuals formerly assigned to key

positions in TVA's Tool Management Program as well as the brother of one of the individuals pled guilty in federal court to conspiring to steal TVA industrial power and pneumatic tools valued at over \$737,000.

During November 1999, one of the former managers and his brother were sentenced to 18 months in federal prison, and both were ordered to pay restitution of \$100,000 to TVA.

During March 2000, the remaining individual, who cooperated with our investigation, was sentenced to 12 months' incarceration in federal prison. In addition, he was ordered to make restitution to TVA of \$75,000.

### **PRODUCT SUBSTITUTION—GUILTY PLEAS/SENTENCING**

During an earlier reporting period, our audit and investigative efforts revealed that a Tennessee coal corporation fraudulently supplied TVA a blend of coal and petroleum coke (petcoke), which was prohibited by contract. (Petcoke is similar in appearance to coal but contains a higher sulfur content, among other differences.)

During this reporting period, the corporation pled guilty to one count of mail fraud and one count of major fraud against the United States. Additionally, the corporation's owner pled guilty to theft.

The corporation and its president are awaiting sentencing; however, under a plea agreement, the corporation agreed to pay TVA \$40,000 in restitution—the estimated amount of its profit from using petcoke in TVA's coal shipments.

### **ENVIRONMENTAL CRIMES JOINT TASK FORCE (ECJTF)**

During this reporting period, we continued our participation in ECJTF, which is comprised of members from numerous state and federal agencies, including the Federal Bureau of Investigation, Environmental Protection Agency (EPA), Department of Justice (DOJ), and TVA's OIG.

ECJTF focuses enhanced law enforcement resources against individuals and companies involved in environmental crimes and prosecutes those individuals and companies by applying the most effective federal and state criminal and civil statutes. Highlights of the task force's work during this reporting period include the following.

#### **\$2,750,000 Recovery**

In part because of an ECJTF criminal investigation, a *Fortune* 500 chemical company located in Tennessee settled an administrative enforcement action for alleged violations of the Resource Conservation and Recovery Act (RCRA).

The Consent Agreement and Consent Order (CACO) required the company to pay a civil penalty of \$2,750,000 to the United States Treasury.

Federal and state regulations required the company to measure the composition and monitor the hourly flow rate of hazardous waste delivered to seven boilers which burn a combination of hazardous waste and coal to generate energy. This requirement is designed to ensure the company does not burn hazardous waste in excess of specified maximum quantities set for each boiler. (Although the company is allowed to burn hazardous waste generated during its production process, the amount which can be burned is limited and must be closely monitored.)

The Administrative Complaint, which accompanied the CACO, alleged the company failed to accurately monitor the amount of hazardous waste burned in seven boilers from December 1995 through August 1996. Further, the company failed to notify the Tennessee Department of Environment and Conservation of the noncompliance until December 1996. A major penalty was pursued because of the extended period of noncompliance and the company's five-month delay in notification.

Other provisions in the agreement included that EPA acknowledged the company satisfactorily demonstrated the alleged violations were remedied, the company did not admit liability in connection with the allegations, and the company was not released of criminal liability.

#### **Criminal Misuse of Pesticide**

The Tennessee Wildlife and Resources Agency requested ECJTF's assistance after observing a group of dead wild and domestic animals in Warren County, Tennessee. Investigation found chicken meat, laced with aldicarb, hanging on a fence near the dead animals' location. (Aldicarb is an extremely toxic and highly regulated soil pesticide with limited legal uses.)

Investigation revealed a nearby landowner had engaged an individual to eradicate coyotes on his property. That individual was found to have illegally laced the chicken with aldicarb and pled guilty to a violation of the Federal Insecticide, Fungicide, and Rodenticide Act.

The individual was sentenced in federal court to 300 hours' community service and two years' probation. Additionally, he was ordered to pay a \$2,000 fine.

#### **Littering a Tennessee Waterway**

A father and son allegedly stockpiled used tires and other refuse on their property, which is adjacent to a tributary of Cherokee Lake. It was reported that following heavy rain, numerous tires washed into the lake bed.

The son pled guilty to criminal littering in Tennessee State court. He was ordered to remove all tires and related debris from the area, to the satisfaction of TVA, and to pay court costs. As a result of the investigation, TVA avoided paying an estimated \$4,288 in labor and equipment that would have been required to clean the area.

#### **Illegal Transport of Hazardous Material**

It was alleged that an environmental services business (licensed hazardous waste transporter) made a practice of mixing hazardous and nonhazardous waste, then moving the mixture as nonhazardous waste to disposal facilities in the Southeastern United States. (The RCRA states that blending hazardous and nonhazardous waste makes the entire mixture hazardous, and it must be transported and disposed of as such.)

Specifically, investigation revealed the company contracted to supply and dispose of carburetor cleaner. Although an appropriate EPA waste manifest was

required to pick up the waste, the company did not meet that requirement. Further, the company did not properly dispose of or recycle the waste.

The use of microtaggants by investigators revealed the company mixed the hazardous carburetor cleaner with nonhazardous paint waste, then disposed of the resulting mixture as if it were nonhazardous. Additionally, the company's president misled investigators by stating the material had been shipped to a reclamation site when it had not.

The company and its president pled guilty in United States District Court to two counts of violating the RCRA. The company and its president are awaiting sentencing.

### CONGRATULATIONS TO TVA FOR Y2K SUCCESS

Congratulations are in order for the many TVA employees involved in the efforts to ensure a smooth transition into the 21st century. TVA is the largest producer of public power in the country. Over seven million people and businesses in seven states rely on TVA for their electric power—a critical component of the region and country's infrastructure. Therefore, it was no small task for this \$6 billion dollar government corporation to get ready for the Year 2000 rollover. A

system failure could result in anything from small customer inconveniences to electric power plant shutdowns affecting millions of customers.

TVA management recognized the importance of being prepared for the Year 2000

rollover and, in 1996, established a Year 2000 Project Office. The Project Office, through its Year 2000 program,

sought to ensure TVA would operate safely, avoid business disruption, continue critical business processes, ensure accuracy of electronic information, and maintain business interfaces with customers and vendors. The program of the Project Office eventually involved employees from all TVA organizations, TVA's business partners (including 159 distributors), and mission critical suppliers. Guidance and oversight of the program were enhanced through an external assessment of TVA's Year 2000 plans and multiple organizations, including independent reviews by the OIG.



TVA Year 2000 Project Team

We began our review of TVA's Year 2000 plans in 1997. At that time, we found that TVA's Year 2000 plans were well underway and meeting General Accounting Office's guidelines. In 1998, TVA's



OIG Year 2000 Auditing Team (from left to right)  
 Dave Willis, Phyllis Palmer, Deborah Thornton, Greg Strach, John Barrow, Linda Folks, Rick Taylor, Jill Matthews, Andy Pearson, Kristi Underwood

Chief Information Officer, with OIG assistance, contracted with a third party to assess TVA's Year 2000 program and progress. We reviewed the

third party's report and developed an audit plan to address areas of documentation and business continuity plans. Furthermore, our audit plan included follow-up on concerns that the feeder systems to TVA's general ledger were not Year 2000 compliant.

The following are highlights of our Year 2000 work:

- TVA identified 20,000 mission critical items that had to be addressed for Year 2000 compliance. We assessed mission critical items reported as closed to ensure they were supported by appropriate closure documentation. In addition, at the request of TVA

management, we reviewed other significant items which were reported as open in July 1999.

- We reviewed the Year 2000 business unit continuity and contingency plans for mission critical business unit risks. This review ensured these plans included a description of the resources required, staff roles, procedures, and a timetable for implementation.
- We reviewed TVA's Year 2000 business continuity plans to ensure sufficient actions were taken to coordinate those plans with the external parties identified as being necessary for the plan's implementation.
- We verified the Year 2000 readiness of information systems that provide information to TVA's financial reporting system.

Throughout our audits, we worked closely with TVA management to facilitate timely closure of all findings and recommendations. This working relationship proved to be a key element of success for both the OIG and TVA. In the final analysis, January 1, 2000, came and went quietly.

Audits are initiated from (1) the OIG annual workplan, (2) issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, or (4) concerns raised by TVA management or others. During this reporting period, we issued 45 audit reports which identified over \$950,000 in questioned costs and more than \$5.2 million in funds which could be put to better use (see Appendix 1).

## Summary of Representative Audits

Our audits included performance reviews of TVA programs, processes, and systems, as well as preaward and postaward audits of TVA contractors.

### RECOMMENDATIONS FOR POTENTIAL COST SAVINGS IN CONTRACT NEGOTIATIONS

We conducted six preaward audits to assist TVA management in negotiation of procurement actions. These audits identified opportunities for TVA management to negotiate savings totaling about \$4.7 million. Our preaward findings included suggestions for adjusting proposed markup rates for fringe benefits and general and administrative costs to actual costs.

During this reporting period, TVA management successfully negotiated total savings of \$5 million as a result of audits issued during this and previous reporting periods. TVA management is continuing negotiation of other contracts we audited during this reporting period.

### CONTRACT COMPLIANCE AUDITS

We completed 19 contract compliance audits and questioned \$912,000 in overbillings and excessive costs to TVA and identified opportunities for additional savings of at least \$473,000. Our audit findings included questioned costs related to:

- Overhead and payroll tax rates applied to inappropriate labor rates.
- Overrecovery of payroll taxes, insurance, and fringe benefit costs.
- Unsupported labor costs.
- Overstated material costs.

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

### VISA PURCHASING CARD PROGRAM

TVA uses Visa purchasing cards for small-dollar purchases, including supplies and materials. At the end of fiscal year 1998, TVA had over

1,340 cardholders with annual purchases of about \$29 million. We reviewed the Visa purchasing card program to assess controls and compliance and found:

- Various program controls were effective, and some had been enhanced since our last purchasing card review.
- Other program controls such as retaining records when cardholders transfer or terminate and ensuring cards are canceled when requested were less effective.
- Forty-nine percent of cardholders did not comply with one or more control tests related to monthly verification, approval, and documentation of charges.

Accordingly, we recommended and TVA agreed to (1) further improve program controls and (2) reemphasize program requirements for documentation and review to improve cardholder compliance.

#### VISA GOLD CARD PROGRAM

TVA uses Visa Gold cards for executive travel, hospitality, and incidental expenses. At the end of fiscal year 1998, TVA had over 320 cardholders, spending about \$3 million annually, primarily for lodging and meals. We assessed program controls and compliance and found:

- TVA improved controls by improving program automation and transferring to a preferred supplier program.
- Program controls were ineffective in several critical program areas, including monthly payments, program guidelines, record retention, disputed charges, and travel expenses for other employees.
- About three-fourths of the cardholders did not comply with one or more controls for verifying, approving, and documenting charges.

We recommended that TVA improve program controls, enhance process automation, and revise program guidelines. TVA management agreed to initiate additional control measures to address most of the recommendations and is further considering some additional controls.

#### GOVERNMENT PERFORMANCE AND RESULTS ACT OF 1993

TVA developed 24 performance indicators as part of the annual performance plan submitted to Congress in response to the Government Performance and Results Act of 1993 (GPRA). During this semiannual reporting period, we completed three audits pertaining to GPRA performance indicators.

The three indicators audited were:  
 (1) Shipper Savings Performance (SSP),  
 (2) Bond Rating (BR), and (3) Total Debt Outstanding (TDO). The objective of each audit was to determine if the (1) information systems that provide source data for the indicator are reasonably accurate and reliable and (2) indicator is reported correctly. We found the information used to support the BR and TDO indicators was accurate and reliable, and the indicators were reported correctly. In addition, we found TVA did not maintain sufficient documentation to verify the SSP. TVA management has agreed to develop the necessary policies and procedures to ensure sufficient documentation will be maintained in the future for the SSP indicator.

#### **EFFECTIVENESS OF TVA'S ENVIRONMENTAL AUDITS PROGRAM**

At the end of 1994, TVA implemented a new process-based environmental compliance auditing system. We reviewed the effectiveness of the program for fiscal year 1998, including the scope of activities covered by the program.

In summary, we found TVA's efforts related to regulatory compliance auditing and contractor risk assessments were effective. We also found TVA could improve the auditing process by authorizing the environmental auditing organiza-

tion to (1) conduct environmental management system audits and (2) follow up on corrective actions and assess corresponding closure decisions.

TVA management generally agreed with our findings and said the environmental audit process would be reviewed prior to any final decisions being made.

#### **COMBUSTION TURBINE INCREMENTAL COST CALCULATIONS IMPROVED**

TVA utilizes Combustion Turbines (CT) to generate electricity during peak periods of demand. CT are TVA's highest cost source of generation. In order to make the correct dispatching decisions of whether to generate electricity using CT versus purchasing electricity from other utilities, Transmission Power Supply (TPS) personnel compare the CT incremental production cost to the market price of purchasing electricity.

As part of our annual audit plan, we reviewed the CT incremental costs to determine if the costs are a fair representation of CT incremental costs and can be relied upon by TPS personnel to make dispatching decisions.

We found that TVA had understated the cycle cost component of the CT incremental cost by less than



four percent. This understatement was not significant to affect dispatch decisions.

TVA management agreed that improvements were needed to the calculation due to more frequent use of the CT units and availability of after market parts. Management has taken appropriate actions to improve estimates of the CT incremental costs.

**OIG REVIEWS TVA'S SAFETY PROGRAM RELATED TO THE MANAGEMENT OF MATERIAL SAFETY DATA SHEETS**

TVA has established a safety program designed to help the agency conduct all of its programs and operations in a manner which protects the safety and health of its employees. TVA's safety program must meet applicable regula-

tions issued by the Occupational Safety and Health Administration (OSHA) as required by Executive Order. We conducted a review of one aspect of the safety program—the handling of material safety data sheets (MSDS). MSDS contains critical information regarding the handling of chemicals in the event of an accident. Specifically, we reviewed the internal controls associated with MSDSs to ensure TVA (1) maintains and updates MSDSs and (2) allows employee access to MSDSs, as required by OSHA regulations. We found the internal controls were not functioning properly in the areas of written hazard communication programs and MSDS accessibility. Management has agreed to take corrective action.

During the last six months, we substantiated allegations in 29 of the 111 investigations we closed—over 26 percent. Our investigations resulted in over \$4.7 million in savings and recoveries, six subjects indicted, and nine convicted. In addition to investigations discussed previously in the special feature, other representative investigations are highlighted below.

## Summary of Representative Investigations

### FALSE CLAIMS—TEMPORARY LIVING EXPENSES (TLE)

We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible TLE paid to TVA contractor employees. During this reporting period, our TLE investigations led to recoveries of \$130,743. Highlights of these investigations follow.

- A federal grand jury indicted a former contractor employee on 40 counts related to submitting false claims to receive TLE. The first count of the indictment charged the individual falsely asserted he incurred property tax expenses on an Ohio home which, in fact, he neither owned nor paid taxes on. The second count charged him with producing fraudulent documentation to substantiate the property tax claim. The remaining 38 counts of the indictment charged the former contractor with making false claims for per diem submitted on monthly travel vouchers for TLE. According to the indictment, the individual fraudulently acquired over \$38,000 in TLE.
- As a result of our investigations, three former contractor employees at Watts Bar Nuclear Plant (WBN) entered into agreements with the DOJ to settle all civil and administrative claims against them, as described below.
  - Investigation revealed a former contractor employee falsified TLE certifications by stating he was entitled to TLE because he maintained a permanent home in Mississippi while stationed at WBN. Our investigation found the Mississippi structure was actually a fishing cabin which had never been used as a permanent residence by anyone. We found the individual altered a lease agreement and rental receipts to support his claim. The former contractor employee agreed to pay the government \$54,000 in restitution and penalties.
  - Another individual claimed he supported a permanent South Carolina residence maintained by

his adult daughter while he worked at WBN. Investigation revealed, however, the contractor employee did not pay rent, utilities, or any expenses for the South Carolina home. The individual agreed to pay a \$5,000 penalty.

- A third subject claimed he maintained a permanent Missouri residence while stationed at WBN. Investigation revealed the individual had owned the residence but had used a real estate management firm to rent it to others since 1989. Additionally, the former contractor employee (1) sold the residence in May 1995 but continued to receive TLE based on his purported expenses in maintaining that home and (2) purchased a residence in the WBN area during 1993, before executing his first WBN certification for TLE reimbursement. The individual agreed to pay TVA \$26,767.50—the amount of TLE he received during his TVA employment.

### **FALSE CLAIMS—OFFICE OF WORKERS' COMPENSATION PROGRAMS (OWCP)**

To receive benefits through the Federal Employees' Compensation Act (FECA), recipients must periodically submit forms to OWCP that require the recipient to report all employment activities (including self-employment). OWCP uses the forms to determine a recipient's continuing eligibility for FECA benefits. Failure to disclose employment information to OWCP violates state and federal laws. During this reporting period, our FECA fraud investigations led to recoveries and long-term savings of \$915,000. Highlights of investigative results follow.

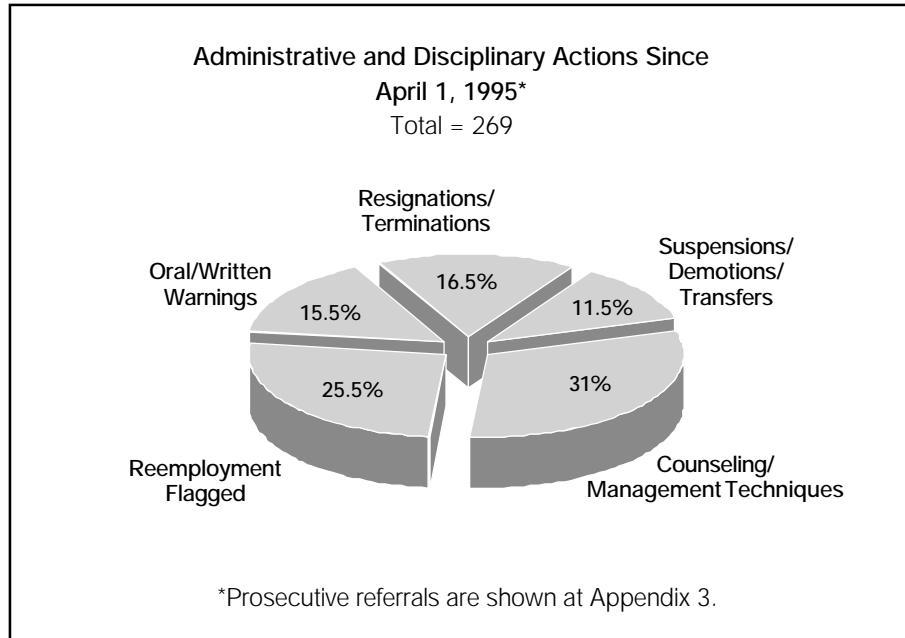
- A federal judge sentenced a former TVA laborer to four months' home detention and three years' probation during this reporting period. (The individual pled guilty to one count of mail fraud and one count of making false statements to receive FECA benefits during an earlier period.) The former TVA laborer also was ordered to make immediate restitution to TVA of \$16,000. (Our investigation found the laborer did not report harvesting and selling mussels while receiving permanent total disability benefits.)
- A former TVA pipefitter pled guilty to four counts related to making false statements to receive OWCP benefits.

Although the individual disclosed no employment activities to OWCP as required, our investigation revealed he was employed by three different businesses performing welding, fabricating, mechanic work, and general labor—including operating mowers and tractors—while he was receiving total temporary disability benefits. OWCP has terminated his benefits, creating a long-term savings to TVA exceeding \$800,000. The former pipefitter is awaiting sentencing.

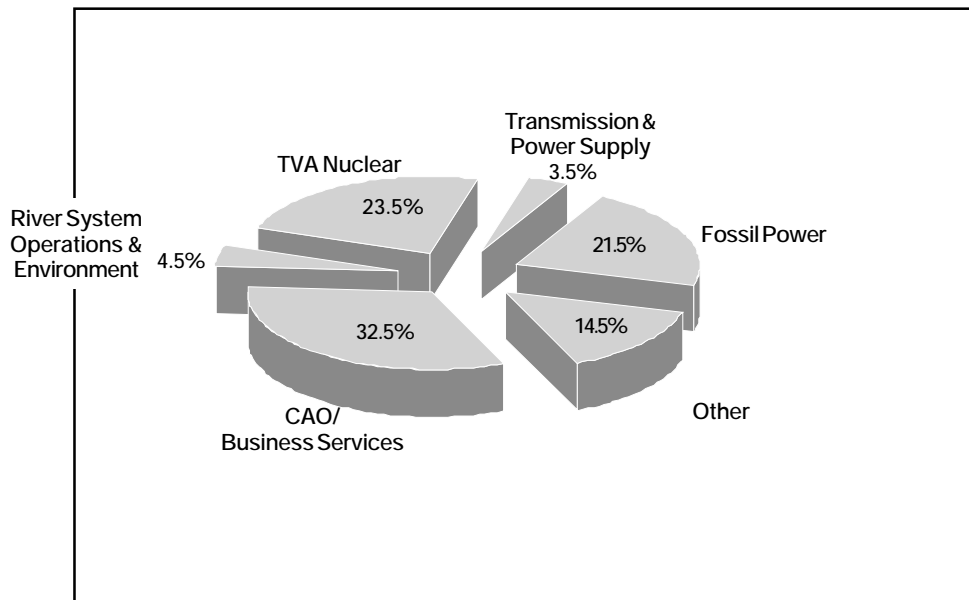
- A former TVA cement mason pled guilty to one count of making false statements to obtain FECA benefits. His plea remains pending a magistrate's approval. At the hearing wherein he pled guilty, he presented a cashier's check to TVA for full restitution (\$13,671.42). The former employee is awaiting sentencing. (We reported the indictment of this individual during a previous period. Our investigation found he did not report his ownership and active participation in a vinyl siding business while receiving partial disability benefits.)

## BACKGROUND INVESTIGATIONS

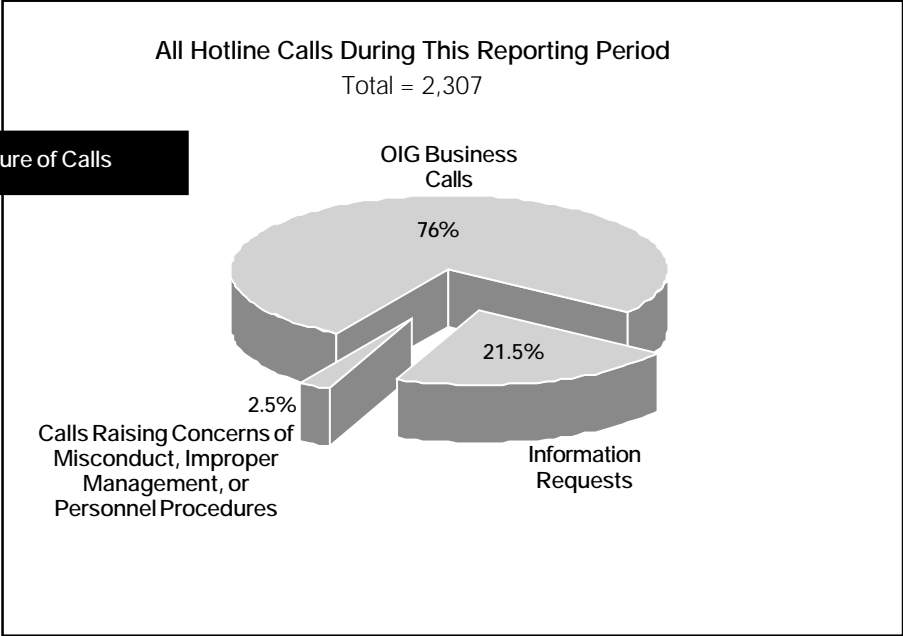
At the request of TVA management, we continued to perform background investigations for sensitive positions and for national security clearances. These investigations ensure individuals being hired for sensitive positions meet applicable requirements. By using the OIG to perform these inquiries, rather than the United States Office of Personnel Management, TVA saved over \$29,000 on 13 investigations during this reporting period.



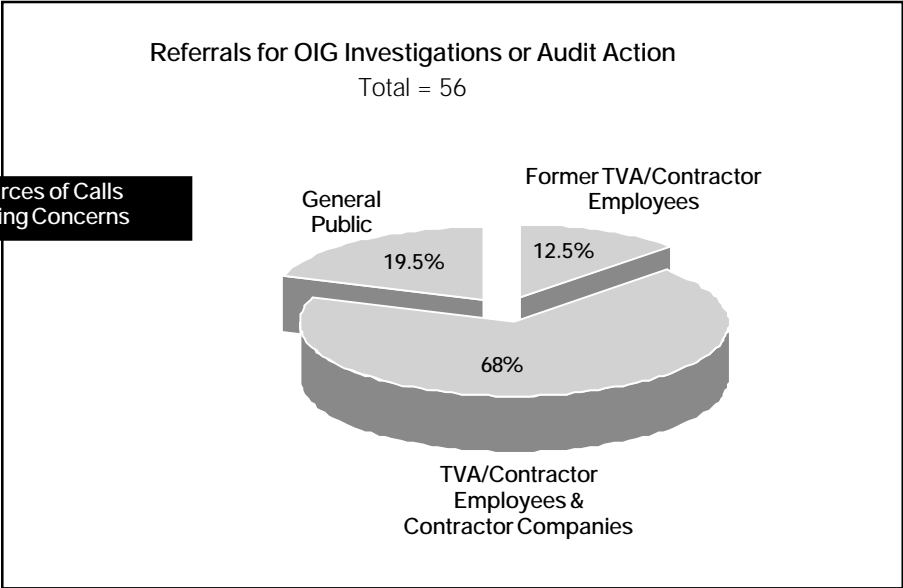
The breakdown of the 111 closed investigations involving TVA organizations are shown below.



Nature of Calls



Sources of Calls Raising Concerns



In addition to conducting audits and investigations, our office continues to perform special projects upon request by our customers, primarily the Board of Directors, TVA management, and Congress. During this reporting period, we conducted 12 special projects. The most significant projects are summarized below.

**REVIEW OF TVA'S COMPLIANCE STRATEGY FOR PHASE II EMISSIONS REDUCTIONS**

The Clean Air Act Amendments of 1990 established a two-phase Acid Rain Program to reduce sulfur dioxide and nitrogen oxide emissions from fossil-fueled power plants. In response, TVA developed a least-cost compliance strategy.

At the request of TVA's Board of Directors, we reviewed TVA's Phase II strategy as of July 31, 1998, with assistance from a consultant that specialized in the coal, power, and transportation industries. Basically, the consultant concluded TVA's compliance strategy was reasonable. The consultant also provided TVA with other alternative strategies for consideration.

**CONTRACTOR'S PROPOSED FEE FOR MEDICAL BENEFITS ADMINISTRATIVE SERVICES**

TVA self-insures its employee medical benefits plan but contracts out plan administration to obtain network benefits and claims processing services. At the request of TVA Procurement and Compensation and Benefits, we performed a limited review of a contractor's proposed administrative services fee. We assessed the contractor's pricing methodology, fee cost components, and cost allocations to the TVA account.

In summary, we found some charges had been inappropriately allocated to TVA, thereby inflating the contractor's proposed fee by about \$345,000 over a three-year period.

The contractor subsequently agreed to reduce the proposed fee by the amount questioned.

**IMPLEMENTATION OF TVA'S NEW SUPPLY CHAIN SYSTEM**

In the summer of 1999, TVA began a major project to replace its legacy supply chain systems with a new integrated system. In the first phase of this project, a cross-functional team was established with representatives from TVA's Procurement, Information Services, Operating, and Financial organizations; the software vendor; and the OIG to conduct in-depth reviews of the supply chain business processes. Through these reviews, the team redesigned the supply chain business processes to take full advantage of the software's functionality, thus maximizing cost savings and minimizing the need for customization of the software.

During this reporting period, the OIG participated on the business process review teams to provide input on the internal controls of the redesigned business processes and to acquire knowledge of the new software for future pre-implementation reviews. The outcome from the business process review teams has become the foundation for implementation of the software and the streamlined business processes. During the next two reporting periods, the OIG will conduct a series of pre-implementation reviews of the new system in areas such as internal controls, security, testing, and conversion.



## ■ LEGISLATION AND REGULATIONS

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During this reporting period, we submitted comments to the Department of Health and Human Services on the proposed rule, “Standards for Privacy of Individually Identifiable Health Information.” We also reviewed several bills relevant to the OIG community, including the Government Information Security Act and a bill to make the TVA Inspector General presidentially appointed.

■ APPENDICES

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Appendix 1

**OIG AUDIT REPORTS ISSUED DURING  
THE SIX-MONTH PERIOD ENDING MARCH 31, 2000**

The following table summarizes final audit reports issued by the OIG from October 1, 1999 through March 31, 2000.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
10/7/1999	1999-065C	Stone & Webster Construction - Request for Rate Increase - P-96N5B-161365			\$4,444,200
10/8/1999	1999-058F	Review of Coordination of TVA's Year 2000 Business Continuity Plan With External Parties			
10/8/1999	1999-069C	Sigmon Coal Company - Contract 91P07-115634			
10/12/1999	1999-077F	Windows NT Server Security Follow-Up			
10/15/1999	1999-031P	Review of TVA's Preferred Hotel and Conferencing Program	\$16,423	\$3,823	
10/18/1999	1999-001C-01	Visa Purchasing Card Program	11,000		
10/18/1999	1999-057C-01	LBL Concessionaires - J Bar J Riding Stables			
10/18/1999	1999-057C-02	LBL Concessionaires - Hudson's Western Store			
10/18/1999	1999-057C-03	LBL Concessionaires - Cheryl's Food Service			
10/18/1999	1999-057C-04	LBL Concessionaires - Report to TVA Management			
10/22/1999	1999-029C	Vallen Safety Supply Company - Contract Number 97X5B-202893-003	84,925		41,800
10/22/1999	1999-075C	GTS Duratek Bear Creek			
10/27/1999	1999-076C	American Aquatics, Inc. - Contract 97RKW-192521			
10/29/1999	1999-079C	Bechtel Power Corporation			
11/1/1999	1999-019C	Borg-Warner	584,035	576,585	432,000
11/1/1999	1999-082C	Scientific Ecology Group			
11/2/1999	1999-053C	G-UB-MK Cost Review			

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
11/16/1999	2000-001F	Review of Year 2000 Business Unit Continuity and Contingency Plans for Mission Critical Business Unit Risks			
11/22/1999	1999-071C	Review of L. E. Myers Overhead Billing Rate Adjustments	\$116,163	\$116,163	
11/24/1999	2000-011C	Numanco LLC - Review of Labor Multiplier			
11/30/1999	1999-018C	Review of NPS Contract for Maintenance and Modification Work on Contract 95P6G-133445			
12/8/1999	2000-003F	Review TVA's Method for Calculating Combustion Turbine Incremental Production Cost			\$151,000
12/9/1999	1999-001C-02	Visa Gold Card Program	13,100		
12/10/1999	1999-061F	Year 2000 Readiness of IBS Feeder Systems			
12/13/1999	2000-010C	Numanco LLC - Contract TV-92047V	55,698		
12/14/1999	1999-063C	Sverdrup Civil, Inc.			
12/16/1999	2000-005F	Review of Controls for TVA's Visa Purchasing Card Pilot Program for Contract Managers/Agents			
12/20/1999	2000-023F	Review of Actions Taken By TVA to Address Its 37 Enterprise-Wide Risks			
1/5/2000	1999-055F	Review of TVA's Annual Financial Statement Audit - FY 1999			
1/18/2000	2000-022C	ABB Power T&D Co., Inc. - Contract 97X1E-197652			
1/21/2000	2000-019C	Pre-Award Audit - Canus Proposal - RFP - 256539			
1/28/2000	1999-028P	Review of Environmental Management System Auditing Process			
2/3/2000	1998-069C	Hartford Steam Boiler Inspection and Insurance Company Contract TV-90562V	29,370	4,460	

Appendix 1

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER US
2/3/2000	2000-002C	Co-Development International and Delloitte & Touche Consulting Group, LLC	\$41,755	\$41,755	
2/18/2000	2000-032F	Review of TVA's Accounts Receivable Write-off Policy			
3/3/2000	2000-028C	CC Metals & Alloys, Inc.			
3/7/2000	2000-038F	Bond Rating Indicator			
3/10/2000	1999-081F	Review of Updated Internal Controls Associated With J-Type Contracts			
3/12/2000	2000-029C-02	Terra Industrial Services			
3/17/2000	2000-021F	Review of Material Safety Data Sheets			
3/21/2000	2000-037F	Shipper Savings Indicator			
3/22/2000	2000-045F	Verification of Summarized Federal Agencies' Centralized Trial-Balance System (Facts) Data - FY 1999			
3/24/2000	2000-034C	Environmental Systems Research Institute, Inc.			\$205,000
3/27/2000	2000-035C	Geonex Corporation			22,000
3/27/2000	2000-043F	Total Debt Outstanding Indicator			
<b>TOTAL</b>	<b>45</b>		<b>\$952,469</b>	<b>\$742,786</b>	<b>\$5,296,000</b>

**OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE  
SIX-MONTH PERIOD ENDING MARCH 31, 2000**

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

TABLE I  
TOTAL QUESTIONED AND UNSUPPORTED COSTS

AUDIT REPORTS	NUMBER OF REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the period	2	\$1,134,902	\$96,372
B. Which were issued during the reporting period	9	952,469	742,786
Subtotal (A + B)	11	\$2,087,371	\$839,158
C. For which a management decision was made during the reporting period	10*	2,074,271	839,158
1. Dollar value of disallowed costs	10	819,772	742,786
2. Dollar value of costs not disallowed	4	1,254,499	96,372
D. For which no management decision has been made by the end of the reporting period	1	13,100	0
E. For which no management decision was made within six months of issuance	0	0	0

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

TABLE II  
FUNDS TO BE PUT TO BETTER USE

AUDIT REPORTS	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE
A. For which no management decision has been made by the commencement of the period	3	\$789,010
B. Which were issued during the reporting period	6	5,296,000
Subtotal (A + B)	9	\$6,085,010
C. For which a management decision was made during the reporting period	7*	5,858,010
1. Dollar value of disallowed costs	7	5,509,103
2. Dollar value of costs not disallowed	2	348,907
D. For which no management decision has been made by the end of the reporting period	2	227,000
E. For which no management decision was made within six months of issuance	0	0

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

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**INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS**

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	7	6 Indicted 9 Convicted 11 Referrals Declined
Subjects referred to other agencies for investigative or administrative action	2	OWCP terminated benefits of a former employee, creating a long-term savings to TVA of \$885,328.
<b>TOTAL</b>	<b>9</b>	



#### **AUDIT REPORTS WITH CORRECTIVE ACTIONS PENDING**

Final corrective actions of recommendations in two contract compliance reports, one operational audit, one preaward audit, and three information systems audits have not yet been fully implemented; however, all are being implemented in accordance with currently established milestones.

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

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

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

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

##### **Report 1998-033P issued July 21, 1999**

The report contained one recommendation regarding incorrect year-end actuarial calculations and incorrect reporting of projected benefits. TVA is planning to record executive pension expense in accordance with Statement of Financial Accounting Standard No. 87 and make plan participants more aware of the potential effect of offsets on benefits.

##### **Report 1998-074C issued April 28, 1999**

The report contained four recommendations regarding negotiation of cost reimbursable payment terms. TVA has resolved two of the recommendations and is assessing what action is needed to resolve the other recommendations.

##### **Report 1999-014F issued May 26, 1999**

The report contained 11 recommendations regarding increased security of TVA's Windows NT servers by updating security policies and procedures. TVA has resolved two of the recommendations and has assembled a team which is currently reviewing and updating TVA's security policies and procedures.

##### **Report 1999-024F issued May 25, 1999**

The report contained eight recommendations regarding increased access controls over non-TVA personnel and organizations in TVA's electronic mail system. TVA is currently implementing their planned actions.

##### **Report 1999-048F issued July 14, 1999**

The report contained five recommendations regarding security of sensitive information on TVA's internet and intranet sites. TVA is currently implementing their planned actions.

## OIG REPORTING REQUIREMENTS

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

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

# H I G H L I G H T S

	FOR SEMIANNUAL REPORTING PERIODS				
	MAR 31, 2000	SEPT 30, 1999	MAR 31, 1999	SEPT 30, 1998	MAR 31, 1998
<b>ANNUAL BUDGET</b> (In Millions of Dollars)	7.2	7.3	7.3	7.3	7.3
<b>CURRENT STAFFING</b>	79	78	81	83	81
<b>AUDITS &amp; SPECIAL PROJECTS</b>					
<b>AUDITS IN PROGRESS</b>					
Carried Forward	36	34*	40	46	40
Started	59	41	42	34	50
Canceled	2	(3)	(11)	(13)	(14)
Completed	45	(36)	(38)	(27)	(30)
In Progress at End of Reporting Period	48	36	33	40	46
<b>AUDIT RESULTS (Thousands)</b>					
Questioned Costs	\$952	\$1,678	\$1,137	\$1,769	\$1,191
Disallowed by TVA	820	673	946	1,656	636
Recovered by TVA	1,333	580	607	110	2,029
Funds to Be Put to Better Use	\$5,296	\$9,861	\$1,402	\$220	\$2,359
Agreed to by TVA	5,509	7,612	980	5,169	696
Realized by TVA	5,775	1,834	389	136	696
<b>SPECIAL PROJECT RESULTS (Thousands)</b>					
Completed	12	11	18	11	13
Cost Savings Identified/ Realized	\$345	0	0	\$14,704	\$843
<b>INVESTIGATIONS</b>					
<b>INVESTIGATION CASELOAD</b>					
Opened	107	88	59	78	78
Closed	111	81	66	81	74
In Progress at End of Reporting Period	137	140	133	140	144
<b>INVESTIGATIVE RESULTS (Thousands)</b>					
Recoveries	\$3,758	\$1,772	\$1,145	\$284	\$946
Savings	988	1,422	1,912	3,388	645
Fines/Penalties	25	5	27**		
<b>ADMINISTRATIVE AND DISCIPLINARY ACTIONS</b>					
Recommended (# of Cases)	21	21	19	20	24
Actions Taken (# of Subjects)	13	17	11	22	12
Counseling/Management Techniques (# of Cases)	5	3	4	8**	
<b>PROSECUTIVE ACTIVITIES (# of Subjects)</b>					
Referred	7	8	4	12	11
Indicted	6	7	6	5	2
Convicted	9	5	9	9	6

\* Adjusted from previous semiannual reports.

\*\* Category added to Highlights during reporting period indicated.

OFFICE OF THE INSPECTOR GENERAL OF THE TENNESSEE VALLEY AUTHORITY

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