

2001

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

# Office of the Inspector General



*April 1, 2001 - September 30, 2001*





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

Richard F. Chambers  
Inspector General

October 31, 2001

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

I am pleased to submit this semiannual report on the accomplishments of the OIG for the six-month period ending September 30, 2001.

Consistent with our newly adopted strategic plan, we made significant progress during the period in aligning the organization to better support the needs of our stakeholders. In this regard, we reorganized our audit operations to provide better emphasis on the core business processes of TVA, including energy operations. In addition, we created a separate team to provide advisory services to TVA officials and members of Congress with questions about TVA operations. We also realigned our investigative resources to facilitate our role in ensuring integrity in TVA operations.

We have featured the United States flag on the cover of this report as a reflection of our sympathy and solidarity with those directly affected by the tragic events beginning with the September 11, 2001, terrorist attacks on America. We stand ready to assist fellow law enforcement agencies in any way possible during this time of national crisis.

This will be my final semiannual report to Congress as the Inspector General of TVA. I recently announced my intention to retire from federal service in January 2002. I am extremely grateful for the support I have received from all of our stakeholders during the past year. It has been an honor and privilege to conclude my career in public service as the TVA Inspector General.

Pursuant to the Federal Vacancies Reform Act, my First Assistant, Donald Hickman, will assume the role of Acting Inspector General for TVA upon my retirement.

On behalf of Mr. Hickman and myself, I pledge the continued support of the OIG to those we serve.

Sincerely,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive style.

Richard F. Chambers

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# EXECUTIVE SUMMARY

During this reporting period, we began implementing our strategic plan and our new vision—to illuminate today’s challenges and tomorrow’s solutions. Steps taken to implement our strategic objectives include a realignment of our organization to better meet customer needs, focus on high risk areas, and make optimal use of our resources.

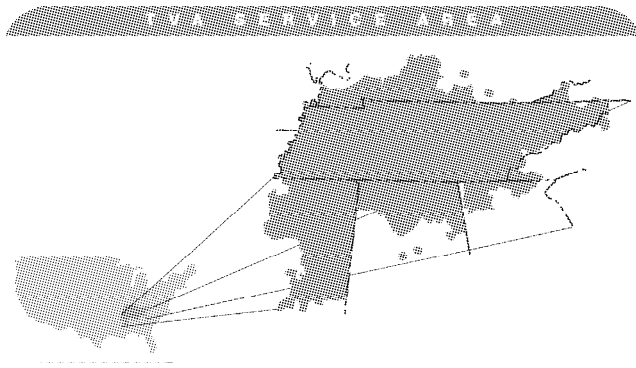
Our efforts to support TVA through quality audits and investigations helped TVA management avoid unnecessary costs, recover funds, confirm many programs were working effectively, and correct identified weaknesses. We also supported task forces operating in the Tennessee Valley.

During this reporting period, management took numerous actions in response to our recommendations. In addition, we identified over \$21 million in recoveries, fines/penalties, potential savings, questioned costs, or funds which could be put to better use.

We completed 47 audits and identified over \$3.5 million in questioned costs and over \$10.4 million in funds that could be used more effectively. Representative audits included the following:

(1) preaward and post-award contract audits, (2) TVA’s managed agency account, (3) hospitality program, (4) contributions program, (5) TVA debt administration, and (6) congressional advisory reviews.

We closed 59 investigations, including multi-agency task force projects which led to over \$7 million in recoveries, projected savings, and fines/penalties; administrative or disciplinary action taken against 8 individuals; and other corrective action in 3 cases. We also completed 61 OIG employment suitability background investigations. Matters we investigated included alleged workers’ compensation fraud, environmental crimes, fraudulent contractor claims for temporary living expenses, health care fraud, and employee misconduct. Our investigations led to five individuals or entities being indicted and seven convicted.



TVA is a federal corporation established in 1933 to provide flood control, navigation, and electric power in the Tennessee Valley region. Today, TVA is the nation's largest public power company and a regional development agency that supplies low-cost reliable power, supports a thriving river system, and stimulates sustainable economic development in a service area that covers 80,000 square miles in the Southeastern United States, including almost all of Tennessee and parts of Mississippi, Kentucky, Alabama, Georgia, North Carolina, and Virginia.

TVA generates power at 11 coal-burning plants, 3 nuclear plants, 29 hydroelectric dams, and 1 pumped storage plant. TVA also produces energy from three renewable sources—sun, wind, and methane gas from waste. It provides electric power to 158 local power distributors, 54 large industries, and 8 federal agencies through a network of 17,000 miles of transmission lines.

TVA manages the nation's fifth largest river system. TVA's dams are part of a totally integrated resource management system where each dam operates in relationship to the others and are used for multiple purposes and public benefits.

These include navigation, flood control, power supply, land use, water quality, and recreation.

TVA also contributes to the Valley economy, chiefly by keeping power rates competitive, which helps attract and retain industries that provide quality jobs in the region. By providing assistance in the form of capital investment, support of business incubators, specialized technical services and advice, and industrial recruitment for new and existing industries, TVA helps communities promote sustainable economic development through creating and retaining jobs and improving business and workforce productivity.

TVA's power system pays its own way by selling electricity and issuing bonds. The system does not use tax dollars. In addition, TVA no longer receives congressional appropriations to help fund its activities in navigation, flood control, environmental research, and land management. These programs are now funded by power revenues.

TVA is governed by a three-member Board of Directors. Directors are appointed by the President and confirmed by the Senate. Current Board members are Glenn L. McCullough, Jr., and Skila Harris. During this reporting period, the President designated Director McCullough as Board Chairman and nominated William Baxter to fill the remaining Director's position.

## Office Authority

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TVA's OIG was created by the TVA Board of Directors in October 1985. It became statutory under the Inspector General Act Amendments of 1988. Those amendments established OIGs at TVA and 32 other agencies with Inspectors General appointed by the agency heads. The authority to appoint the TVA Inspector General was transferred to the President in November 2000 by Public Law 106-422.

The Inspector General is responsible for conducting audits and investigations relating to TVA programs and operations, while keeping the TVA Board and Congress fully and currently informed about problems and deficiencies relating to the administration of TVA's programs and operations. TVA's Inspector General is independent and subject only to the general supervision of the TVA Board of Directors. The Inspector General's authority includes conducting any audits or investigations the Inspector General deems necessary or desirable, issuing subpoenas, administering oaths, and granting confidentiality.

## Organization

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The OIG consists of two major operational units—Audits and Investigations.

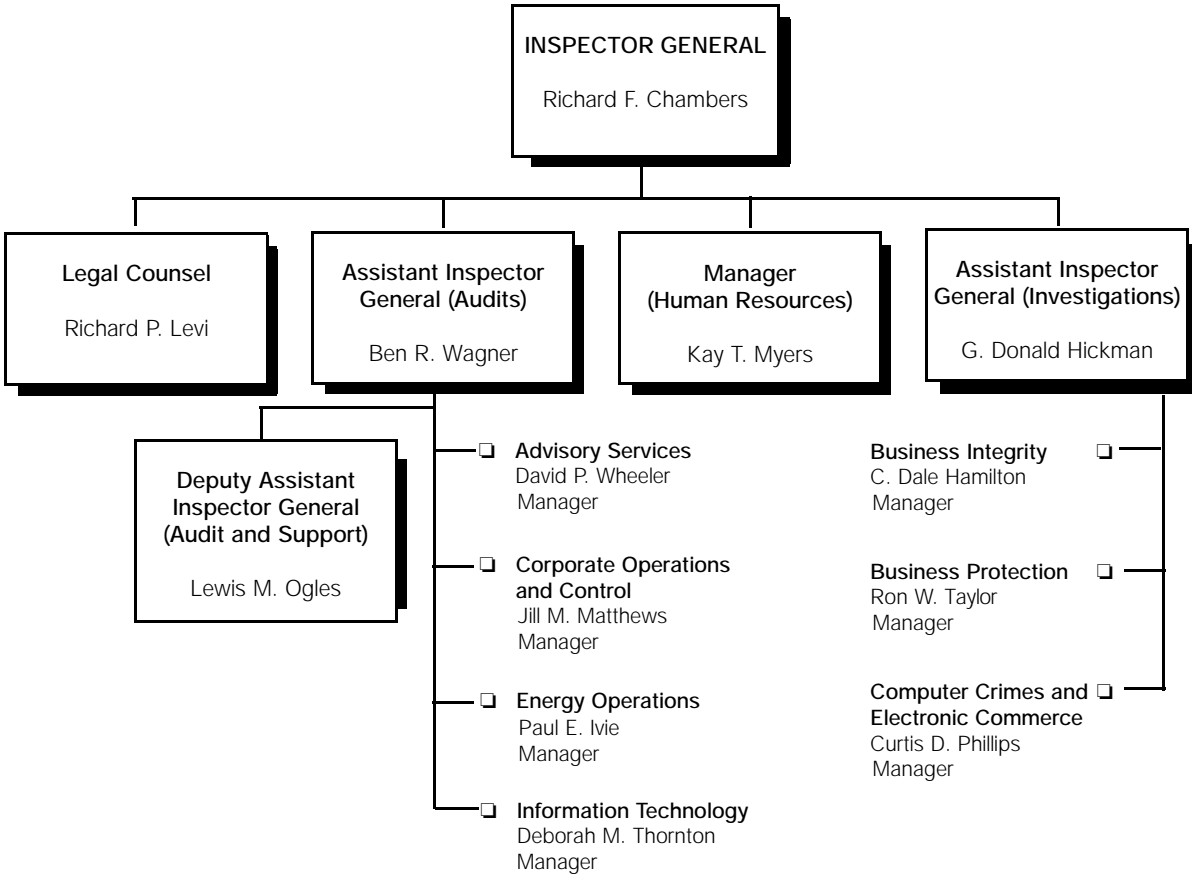
The OIG's Audit Operations unit consists of four departments—(1) Advisory Services, focusing on preaward audits and management and congressional request work; (2) Corporate Operations and Control, focusing on contract compliance reviews and corporate programs; (3) Energy Operations, focusing on TVA core business operations; and (4) Information Technology, focusing on computer security and system reviews and managing the OIG's independent computer network.

The OIG's Investigations unit consists of three major areas—(1) Business Integrity, focusing on nuclear issues, workers' compensation fraud and abuse, employee misconduct, and OIG employment suitability background investigations; (2) Business Protection, focusing on contract fraud, contract-related misconduct, and environmental crimes; and (3) Computer Crimes and Electronic Commerce, focusing on computer intrusion and fraud issues, health care fraud, and workplace violence prevention.

## Staffing and Budget

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

The OIG's fiscal year 2001 budget was \$8.6 million with a budgeted headcount of 90 employees.



## OIG's Strategic Planning Initiatives

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In order to position ourselves to better serve our customers/stakeholders in the twenty-first century and provide a clear path forward for the OIG, we began a strategic planning process in January 2001 called Vision XXI. As part of that process, the OIG Leadership Team:

- Reexamined OIG customers/stakeholders and their needs,
- Rearticulated our mission and identified our key values,
- Identified and discussed trends and assumptions about the future,
- Forged an organizational vision,
- Discussed performance gaps,
- Outlined goals and strategic objectives, and
- Identified action steps needed to achieve the strategic objectives.

In the last semiannual report, we reported on our new vision, *...illuminating today's challenges and tomorrow's solutions....* Since then, we defined our goals, strategic objectives, and action steps and began implementing the plan.

Our goals, based on the requirements of the Inspector General Act of 1978, as amended, are to (1) foster efficient and effective operations within the agency; (2) assess enterprise risks and conduct audits, investigations, and other reviews of programs and operations within TVA; (3) promote integrity and continuous

improvement while preventing and detecting fraud, waste, and abuse; and (4) keep the Board of Directors and Congress fully informed about significant problems and deficiencies we identify.

We selected five strategic objectives we must accomplish to succeed in meeting these goals. They are to:

- Cultivate and retain a highly skilled, innovative, and motivated workforce;
- Enhance communications with stakeholders and deliver services that meet their needs;
- Leverage OIG resources to optimize productivity and results;
- Focus on areas of high risk to TVA; and
- Envision change affecting TVA and identify effective solutions.

We have already taken several major steps to implement our strategic objectives.

- We realigned our organization to better meet customer needs, focus on high risk areas, and make optimal use of our resources. The realignment, effective October 1, 2001, shifts OIG support functions under a new position—Deputy Assistant Inspector General (Audit and Support)—redefines responsibilities for the four audit departments, realigns existing investigative department responsibilities and adds a third investigative department to



concentrate on computer crime and electronic commerce issues, and shifts the focus of human resources activities from day-to-day program administration to organizational strategies and development. (See the Organization narrative on page 3 for additional detail on department alignment.)

- We interviewed TVA managers for their views on TVA challenges and risks. An assessment of probability was added to the OIG risk assessment model, and the interview results and model were used to develop the fiscal year 2002 annual audit workplan.
- We established a career track program for entry-level auditors to facilitate recruitment and retention of the "best and brightest" college graduates. The program is designed to develop fully trained auditors capable of planning, leading, and executing audits of TVA programs, functions, and operations.

We will continue to implement the Vision XXI plan. During the year, we will track performance to gauge our progress.

## PCIE/ECIE Awards

Each year, the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) present awards for outstanding achievements within the Inspector General community in promoting economy and efficiency in preventing and fighting fraud, waste, and abuse in federal operations. Three OIG audit teams and one OIG investigative team received ECIE Awards for Excellence. In addition, two OIG special agents were on the Health Care Fraud Joint Task Force Team which received a PCIE/ECIE Award for Excellence.



PCIE/ECIE Joint Award for Excellence - Investigations  
 (left to right) Elizabeth Sherrod, Richard Chambers,  
 Bill McBee



ECIE Award for Excellence - Audit  
 (Back, left to right) Cheryl Liles, Richard Chambers, Ben Wagner  
 (Front, left to right) Doug Jackson, Jill Matthews, Jacqueline Rowan (not pictured--Tom Johnson, Rick Taylor, and Mike Ogles)



ECIE Award for Excellence - Audit  
 (Back, left to right) Joe Bowditch, Richard Chambers, Curt Hudson, Karen Pickard  
 (Front, left to right) Dave Wheeler, Melissa Neusel, Karen Boone, Deborah Kearnaghan (not pictured--Mike Blair and Paul Ivie)



ECIE Award for Excellence - Audit  
(Back, left to right) Cheryl Liles, Sylvia Whitehouse,  
Chad Bube, Richard Chambers, Doug Jackson  
(Front, left to right) Lisa Hammer, Patsy Foster, Greg Jaynes, Karen Pickard  
(not pictured--Mike Ogles and Tom Johnson)



ECIE Award for Excellence - Multiple Disciplines  
(Back, left to right) Cindy Stansberry, Richard Chambers,  
Don Hickman, Dale Hamilton  
(Front, left to right) Donna Griffin, Anne Ferrell,  
Phyllis Palmer, Rick Levi  
(not pictured--Beth Thomas)

## Summary of Representative Audits

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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 completed 47 audits which identified over \$3.5 million in questioned costs and over \$10.4 million in funds which could be put to better use (see Appendix 1). We also identified numerous opportunities for TVA to improve program operations.

Our audits included preaward and post-award audits of TVA contractors, performance reviews of TVA operations, and congressional advisory reviews.

### PREAWARD CONTRACT AUDITS

We completed nine preaward audits to support TVA management in negotiating procurement actions. These audits identified \$2.1 million in potential savings. During this reporting period, TVA management successfully negotiated total savings of \$4.7 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. Highlights of the more significant preaward audits follow.

- We reviewed the contractor's proposed rates for direct labor, indirect costs, equipment, and laboratory costs under a three-year, \$3.5 million contract for industrial hygiene services. We determined the contractor overstated various markup and billing rates. Accordingly, TVA negotiated terms that could save about \$958,000.
- We reviewed a contractor's proposal to provide modification and supplemental maintenance services under a planned three-year, \$531.6 million contract extension. We determined the contractor overstated the proposed fringe benefit rate and suggested TVA implement certain rate discounts provided on a previous contract. TVA management negotiated savings of about \$362,000.
- We reviewed proposed labor markups, pay ranges, and insurance rates for a four-year, \$220 million extension of a modification and supplemental maintenance contract. We suggested TVA negotiate a reduced fringe benefit markup rate to the company's actual rate. TVA management successfully negotiated a \$316,000 savings.

### CONTRACT COMPLIANCE AUDITS

We completed 16 contract compliance audits and questioned \$3.4 million in ineligible and unsupported costs. Our audit findings included questioned costs related to:

- Overbilled labor charges,
- Unsupported and ineligible labor costs,
- Unsupported and ineligible travel costs,
- Provisional billings greater than actual costs, and
- Invoice errors and duplicate billings.

Management generally agreed with our findings and has taken or plans to take action to recover questioned costs where appropriate. Highlights of the more significant contract compliance audits follow.

- In reviewing costs billed for technical and clerical staff augmentation services provided by a TVA contractor under three contracts, we identified ineligible and unsupported labor charges. TVA management plans to recover the ineligible costs and work with the contractor to improve record keeping.
- We reviewed labor, material, and other costs billed by a contractor in support of TVA's hydro system under a \$19.7 million contract. We determined the contractor overbilled labor costs and had some unsupported and/or ineligible labor, travel, and other direct costs. TVA management successfully negotiated a recovery totaling \$327,948.
- We reviewed \$10.9 million in costs billed to TVA for security services. We determined the contractor's provisional billing for payroll taxes, fringe

benefits, and paid time off was higher than actual costs. Also, the contractor overbilled TVA due to miscellaneous billing errors. The contractor agreed with the findings and issued credits to TVA.

#### TVA'S MANAGED AGENCY ACCOUNT

We reviewed \$4.7 million in costs paid by TVA from an agency account between January 1, 1996, and May 31, 2000. This account was used to fund, among other things, a rural studies program and contributions to a graduate school of business. In summary, we determined TVA had numerous control weaknesses associated with (1) payments made as contributions rather than cost-reimbursements, (2) assessing the benefits of work performed, and (3) reviewing and approving cost billings.

TVA management has acted to address our findings including the termination of the Rural Studies Program and improving controls related to contracts with colleges and universities.

#### HOSPITALITY PROGRAM REVIEW

TVA incurs hospitality expenses for official visitors, candidates for employment, guests, employees, and contract employees as part of its business activities.

We reviewed TVA's hospitality program and determined the internal controls were adequate except for TVA's process for classifying hospitality expenses. We

estimated \$1.2 million of the reported \$9.2 million was misclassified as hospitality. We made no recommendations because TVA was taking appropriate corrective actions.

**TVA CONTRIBUTIONS PROGRAM**

TVA contributed approximately \$9.7 million to various outside organizations during fiscal years 1999 and 2000. TVA established guidelines for its corporate contributions program in 1999 to better focus contribution activities on its business interests. Our audit determined that TVA had not established sufficient guidance and practices to comprehensively manage all contributions.

We also identified \$8 million of funds that had been set aside for future contributions since fiscal year 1999. However, TVA no longer had plans to use these funds. TVA management agreed with our findings and is taking action to (1) institute a comprehensive business practice for contributions, (2) improve related accounting, and (3) initiate the release of the \$8 million to TVA's general fund.

**TVA ADMINISTRATION OF LONG-TERM DEBT**

In a review of TVA's long-term debt administration, we determined that TVA has made significant progress in reducing interest cost. As of September 30, 2000, TVA's actions have, among other things, reduced (1) annual interest costs by about \$230 million, (2) interest

expenses as a percentage of total costs from 34 percent to 26 percent, and (3) the average interest rate on long-term debt from 7.4 percent to 6.5 percent.

**Congressional Advisory Reviews**

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**UPDATE ON SELECTED MANAGEMENT PRACTICES**

At the request of Congressman Zach Wamp, we performed an update review of TVA management practices in five areas—consulting contracts, advertising, special events (including barge events), executive air transportation, and the relocation of personnel and programs to Nashville, Tennessee. In summary, since our initial series of reports to Congressman Wamp in 1997, TVA has:

- Competed or eliminated several long-term consulting contracts, implemented enhanced contracting procedures, and developed and implemented a training program to improve contractor oversight. Annual expenditures for active consulting and training contracts of \$100,000 or more have decreased by 45 percent. In addition, we estimated TVA has reduced the percentage of training and consulting contracts awarded without competition from about 80 percent as noted in our 1997 review to about 45 percent during fiscal year 2000.

- Increased its advertising expenditures every year through fiscal year 2000, but decided to reduce advertising expenditures for fiscal year 2001 by about 70 percent.
- Increased the number of special events, excluding barge events, from 18 in 1995 to 33 events in fiscal year 2000, and increased total special event expenditures from \$848,000 in 1995 to about \$2 million in 1999 and \$1.8 million in 2000.
- Reduced the number of barge events from a high of 19 in 1996 to only 1 event in fiscal year 2000, and reduced related expenditures from a high of about \$179,000 in 1997 to only \$28,000 in fiscal year 2000.
- Experienced minimal change in the usage of charter and King Air flights used for executive travel, with the annual cost of flights increasing.
- Transferred 28 employees to Nashville and filled additional vacant Nashville positions via internal employee selections and new hires from outside TVA.

**SELECTED POWER RATE AND COST ISSUES**

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At the request of Senator Mitch McConnell, we reviewed selected issues related to TVA's power rates and costs. In summary, we determined:

- The average 1999 revenue per kilowatt hour sold by TVA and its distributors was lower than the average for the investor-owned utilities.

- The types of costs giving rise to the power rates were similar for both TVA and the investor-owned utilities, but the relative amounts associated with each cost type differed.
- TVA's rate base included some expenditures that either were not incurred or might not be allowed in the rate base of an investor-owned utility; however, the impact of these expenditures on TVA's power rates was minimal.
- TVA had no specific Board-approved policy for recovering stranded costs when a distributor or direct-serve customer leaves TVA. Instead, TVA relied on its power contracts and Federal Energy Regulatory Commission Order No. 888 for recovery of any stranded costs.
- TVA's rates for its direct-serve customers were significantly lower than the rates provided to the distributors because direct-serve customers were predominately industrial customers which (1) are highly reliant on lower cost interruptible power and (2) have more stable and predictable energy requirements.

**COMPLIANCE WITH THE NATIONAL ENERGY CONSERVATION POLICY ACT**

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At the request of the Senate Committee on Governmental Affairs, we assessed TVA's progress in meeting federal energy management goals and identified additional actions or opportunities available

to further reduce TVA's energy consumption and costs. We determined TVA:

- Was generally ahead of or on schedule for meeting target goals established by the National Energy Conservation Policy Act, as amended, and Executive Order 13123; and
- Had historically demonstrated leadership in promoting energy management, including taking numerous energy conservation initiatives not addressed by the legislation or executive order.

Although TVA had demonstrated considerable success, we identified opportunities for improvement in the areas of sustainable building design and model lease provisions. TVA management agreed to take appropriate corrective action.

**HIGHLAND RIDGE TOWER**

On August 31, 1999, TVA entered into a lease agreement for 134,466 rentable square feet of space in the Highland Ridge Tower (HRT), a facility then under construction near the Nashville International Airport. At the request of Senator Jeff Sessions, we assessed the reasonableness of TVA's decision to consolidate operations into HRT, as well as the reasonableness of HRT build-out costs incurred by TVA. In summary, we found:

- TVA's decision to select HRT was not the least costly alternative. Furthermore, the decision was not supported by TVA's (1) economic analysis, (2) evaluation of lease proposals, (3) changes in office space requirements, (4) capital project justification process, or (5) recent estimate of savings resulting from consolidating operations into HRT.
- TVA incurred some costs associated with the HRT build-out that we believe were unnecessary and/or unreasonable, especially considering (1) many of the amenities paid for by TVA are not subject to removal upon expiration of the lease and (2) TVA's right for continued occupancy is limited to a maximum of 10 years.

We recommended that TVA management (1) adhere to its project review process in future evaluations or document that deviations are in the best interest of TVA and (2) avoid significant capital expenditures involving short-term lease agreements, unless the amenities associated with the expenditure are removable upon expiration of the lease. TVA management subsequently completed a TVA-wide facilities strategic plan, which addressed these recommendations.



## Summary of Representative Investigations

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During the last six months, we substantiated allegations in 16 of 59 investigations we closed—over 27 percent. In addition, we completed 61 OIG employment suitability background investigations. Our investigations, including task force projects, resulted in (1) \$7,176,068 in recoveries, projected savings, and fines/penalties; (2) five individuals or entities being indicted; and (3) seven individuals convicted. Representative investigations are highlighted below.

### **WORKERS' COMPENSATION BENEFITS INVESTIGATIONS**

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Investigations of allegations involving Federal Employees' Compensation Act fraud led to projected long-term savings to TVA exceeding \$400,000.

- Investigation revealed a former TVA Nuclear (TVAN) employee receiving total disability benefits was actively involved in the management and day-to-day operation of a restaurant/bar.

Although the United States Attorney's office declined prosecution in this case, we submitted a report to the Office of Workers' Compensation Program (OWCP) describing the results of our investigation. As a result, OWCP reassessed the former employee's ability to work and reduced his compensation accord-

ingly. The reduction in benefits will save TVA over \$8,800 per year or more than \$250,000 in long-term benefits.

- As a result of another inquiry, OWCP referred a former TVA employee to a physician to assess his ability to work. The physician concluded the former employee could perform certain job duties. Based on the physician's opinion, OWCP determined the individual did not have a loss of wage earning capacity and terminated the individual's OWCP benefits, resulting in a projected long-term savings exceeding \$240,000.

### **TEMPORARY LIVING EXPENSES**

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We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible temporary living expenses (TLE) paid to TVA contractor employees.

Our investigations resulted in a settlement agreement with a former TVAN contractor employee. The employee had received TLE and demobilization expenses based on his certifications that he maintained a permanent residence over 100 miles from his worksite. The claimed permanent residence, however, was purchased after the individual began working at the TVAN facility and was used as rental property. The individual never resided at the home and sold it after his TVAN assignment ended.

The individual agreed to pay \$100,000 restitution to TVA under the False Claims Act.

**EMPLOYEE MISCONDUCT**

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Results of our employee misconduct investigations included one employee's suspension without pay and another's resignation as described below.

- Evidence developed during an OIG investigation showed a TVA employee knowingly violated TVA policy by (1) improperly obtaining and using a restricted TVA password; (2) having over 50 unauthorized programs on his TVA computer, including "hacker" programs, password retrieval programs, and programs to allow him to bypass TVA's blocks on internet sites; and (3) using TVA resources in connection with his personal business.

Based on our findings, TVA management placed the employee in non-work, nonpay status for 30 days. He was returned to work based on the stipulations that he complete specified training, pass a background security check, and discontinue outside computer consulting while employed at TVA.

- Investigation revealed an employee made comments of a sexual nature in the workplace and showed sexually related images to subordinates. The employee also was involved in other inappropriate conduct, including falsification of timesheets, which resulted

in laborers being paid for hours they did not work.

Based on our findings, the individual resigned.

**ENVIRONMENTAL CRIMES JOINT TASK FORCE**

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We continued our participation in the Environmental Crimes Joint Task Force (ECJTF), which is comprised of members from numerous state and federal agencies, including the Federal Bureau of Investigation, Environmental Protection Agency, Department of Justice, and TVA's OIG.

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

- Investigation revealed an individual illegally stored at least 33 drums of hazardous waste at the site of his former Chattanooga, Tennessee, business, which closed during 1997. (The business produced and distributed industrial cleaning solvents.) The drums, which were stored on the site until their 1999 disposal, contained ignitable and corrosive wastes.

The individual pled guilty to one count of storing a hazardous waste without a permit, in violation of the Resource Conservation and Recovery Act, and

was sentenced in federal court to eight months' imprisonment and three years' probation. In addition, he was ordered to pay \$25,000 to the Tennessee Department of Environment and Conservation for environmental protection and a \$10,000 fine.

- Pursuant to a plea agreement, a railway company doing business in Chattanooga agreed to spend over \$4 million to remediate a basin located at its Chattanooga diesel shop. (The company pled guilty to one count of violating the Migratory Bird Treaty Act.)

Locomotives were fueled, serviced, washed, and painted at the company's diesel shop. Wastewater and stormwater entered the shop's onsite wastewater treatment plant, which removed petroleum contaminants from the water before discharging it into a Chattanooga municipal wastewater treatment plant. Although the basins that feed the onsite treatment plant were in compliance with environmental regulations, evidence indicated that several geese had been contaminated by oil in one of the basins.

The company agreed to implement a remediation plan at an estimated cost of \$4.1 to \$7.4 million to remove the accumulated oil in the problem basin and to install a permanent, fixed oil

removal system to prevent the accumulation of oil on the basin's surface.

### HEALTH CARE FRAUD TASK FORCE

We continued to support health care fraud task forces and working groups sponsored by the United States Attorney's offices in Tennessee's Eastern, Middle, and Western federal districts.

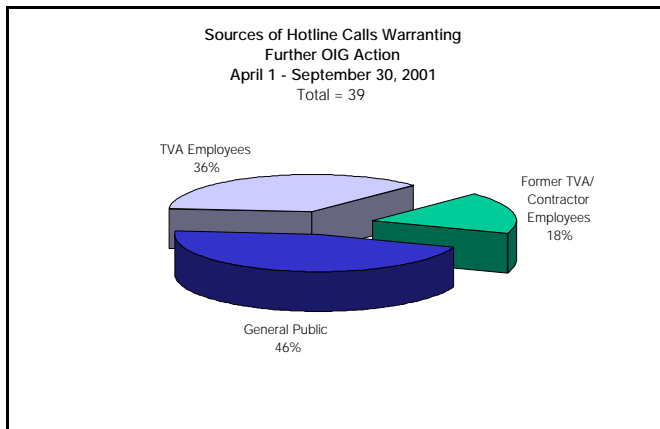
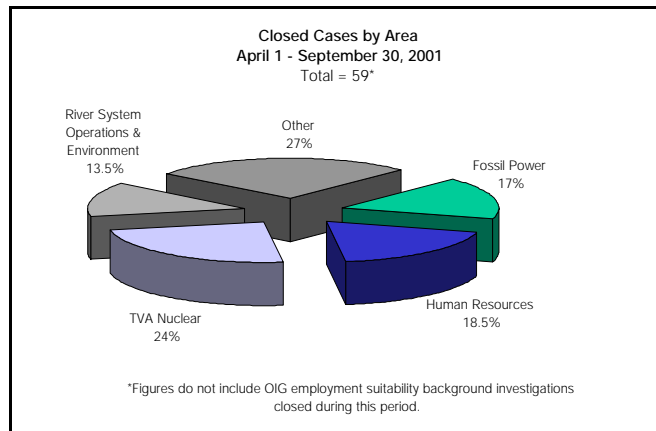
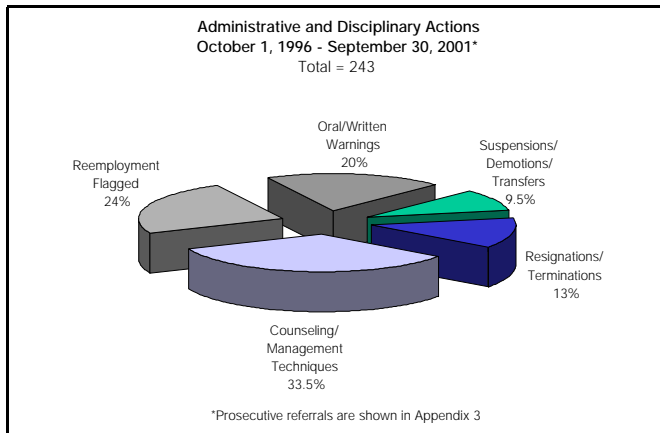
As a result of a task force investigation during an earlier period, an indictment in the Eastern federal district charged a physician with 57 counts of mail fraud, 15 counts of health care fraud, and 6 counts of making false statements relating to health care matters. (One of the 57 counts of mail fraud was subsequently dismissed.) The indictment alleged the physician defrauded Blue Cross Blue Shield of Tennessee (BCBST) private insurance plans and TVA's medical plan (administered by BCBST) of over \$123,000 during an approximate three-year period. The task force investigation found evidence the physician mailed claim forms containing false information to obtain payment for services not rendered and for supplies not used. The physician pled not guilty to the charges.

In April 2001, while the physician's trial was in progress, he entered a plea of guilty to all 77 remaining counts. In August 2001, he was sentenced in federal court to pay over \$200,000 in restitution and to serve 2 years in a correctional facility, 3 years' supervised

probation, and 150 hours' community service.

The investigation was conducted by OIG special agents from TVA, the Department

of Defense (Defense Criminal Investigative Services), Department of Labor, and investigators from BCBST's Special Investigations Unit.



We continued to follow issues of interest to the OIG and TVA, including funding for the Inspector General academy, organization and structure of the Inspector General councils, law enforcement authority, utility deregulation, and structure of the TVA Board. Effective October 1, 2001, the TVA OIG became a member of the PCIE.





# APPENDICES

## Audit Reports Issued by Subject Area

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
<b>Contract</b>				
<b>2000-026C-01</b> 04/02/2001	Adecco Technical	\$729,400	\$691,400	
<b>2000-026C-03</b> 04/02/2001	Adecco Technical	1,452,689	1,451,400	\$7,600
<b>2001-014C</b> 04/16/2001	Review of Consulting Contracts			
<b>2000-067C</b> 04/17/2001	Review of TVA Managed Agency Account	2,742		266,400
<b>2000-077C</b> 04/17/2001	Towers Perrin			
<b>2001-022C</b> 04/30/2001	Midpoint International			
<b>2001-025C</b> 05/09/2001	Cormetech, Inc.			
<b>2001-026C</b> 05/14/2001	Steag, LLC			275,000
<b>2000-042C</b> 05/16/2001	Siemens Westinghouse Power Corporation	838,199	135,192	
<b>2001-047C</b> 05/30/2001	Pinkerton Government Services, Inc.	240,759	240,759	
<b>2001-046C</b> 06/06/2001	Alpine Environmental & Safety, Inc.			98,465
<b>2001-058C</b> 06/06/2001	Preaward Audit of Analytical Industries, Inc.			
<b>2001-045C</b> 06/12/2001	EHS Services, LLC			
<b>2001-055C</b> 06/12/2001	Providence Rotating Electrical Services, Inc.	14,396	14,396	
<b>2001-063C</b> 07/09/2001	General Electric Company - Gallatin Field Labor Cost Adjustment Fossil Plant	103,553	103,553	
<b>2001-001C</b> 07/23/2001	KPMG	9,770		
<b>2001-042C-01</b> 07/31/2001	Peabody Coal Company	3,763		



## Audit Reports Issued by Subject Area

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

<b>2001-050C</b> 08/09/2001	Union Pacific Railroad Company			
<b>2001-062C</b> 08/09/2001	Team Associates, Inc.			
<b>2001-044C</b> 08/10/2001	PSC Safety and Health Services, Inc.			\$982,000
<b>2001-069C</b> 08/13/2001	Day & Zimmermann NPS, Inc.			316,000
<b>2001-004C</b> 08/21/2001	Roberts & Schaffer Company			
<b>2001-082C</b> 09/11/2001	Hartford Steam Boiler			60,250
<b>2001-073C</b> 09/18/2001	G-UB-MK Constructors			362,000
<b>2001-075C</b> 09/18/2001	SSC Service Solutions			
<b>2001-078C</b> 09/18/2001	S&C Electric - Circuit Switchers and Interrupter Switches			
<b>2001-079C</b> 09/18/2001	Weststaff (USA), Inc.			
<b>2001-020C</b> 09/28/2001	BOC Gases	\$78,100		32,800

### Financial

<b>2001-010F</b> 04/16/2001	Pre-Implementation Review of System and Data Conversion Plans for TVA's Fuels Management System			
<b>2001-033F</b> 06/14/2001	Selected Power Rate and Cost Issues			
<b>2001-028F</b> 06/20/2001	Review of TVA's Contributions Program			8,000,000
<b>2000-053F</b> 07/12/2001	Pre-Implementation Review of Internal Controls for the Fuels Management System			

## Audit Reports Issued by Subject Area

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

2001-018F 07/31/2001	Review of TVA's Hospitality Program			
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2001-007F 08/17/2001	Review of TVA's Long-Term Debt Administration			
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### Operational

2001-914C 04/02/2001	Update on Selected Management Practices			
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2001-037P 04/23/2001	Highland Ridge Tower			
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2001-054P 05/23/2001	Review of TVA Workers' Compensation Department Internal Controls Over Prescription Reimbursements			
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2001-039P 06/07/2001	Materials Management at the Colbert Fossil Plant			
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2001-015P 06/28/2001	TVA Office Space			
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2001-081P 08/24/2001	TVA's Compliance With the National Energy Conservation Policy Act			
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2001-072P 08/28/2001	Outage Tools and Consumables Management at Colbert Fossil Plant			
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2001-036P 09/12/2001	Expanded Review of TVA Coal Quality Adjustment Report Payments		\$45,789	
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## Audit Reports Issued by Subject Area

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

<b>2001-061T</b> 06/29/2001	Follow-up Review of Controls Over Systems Management Server Remote Control Tools			
<b>2001-068T</b> 07/16/2001	Pre-Implementation Review of System and Data Conversion Plans for TVA's New Supply Chain System			
<b>2001-070T</b> 08/16/2001	Pre-Implementation Review of TVA's New Supply Chain System Testing			
<b>2001-034T</b> 09/07/2001	TVA Planning and Implementation for Critical Infrastructure Protection			
<b>2001-067T</b> 09/07/2001	Review of Supply Chain System Internal Controls			
<b>TOTAL</b>	<b>47</b>	<b>\$3,519,160</b>	<b>\$2,636,700</b>	<b>\$10,400,515*</b>

\* This figure includes \$98,465 identified in preaward audits of proposals for contracts that were not subsequently awarded.

## Audit Reports Issued With Questioned Costs

	Number	Questioned Costs	
		Total	Unsupported
A. For which no management decision has been made by the commencement of the reporting period	1	\$929,000	\$0
B. Which were issued during the reporting period	11	\$3,519,160	\$2,636,700
<b>Subtotals of A and B</b>	<b>12</b>	<b>\$4,448,160</b>	<b>\$2,636,700</b>
C. For which a management decision was made during the reporting period	11*	\$4,344,607	\$2,533,147
(i) Dollar value of disallowed costs	10	\$1,235,995	\$390,347
(ii) Dollar value of costs not disallowed	6	\$3,108,612	\$2,142,800
D. For which no management decision has been made by the end of the reporting period	1	\$103,553	\$103,553
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.

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

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period	3	\$1,412,000*
B. Which were issued during the reporting period	10	\$10,400,515
<b>Subtotals of A and B</b>	<b>13</b>	<b>\$11,812,515</b>
C. For which a management decision was made during the reporting period	11	\$11,477,265
(i) Dollar value of disallowed costs	9	\$10,154,865
(ii) Dollar value of costs not disallowed	2	\$1,322,400
D. For which no management decision has been made by the end of the reporting period	2	\$335,250
E. For which no management decision was made within six months of issuance	0	\$0

\* The number differs from the prior report's ending number due to classification errors on management decisions in the prior report.

## Investigative Referrals and Prosecutive Results

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### Referrals This Period

Subjects Referred to United States Attorneys	13
Subjects Referred to Other Agencies for Investigative or Administrative Action	0

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### Results This Period

Subjects Indicted	5
Subjects Convicted	7
Referrals Declined	6

OWCP reduced benefits for one individual and terminated benefits for another, creating projected savings totaling \$495,575.

## Audit Reports With Corrective Actions Pending

AUDIT REPORT  
NUMBER  
AND DATE

DESCRIPTION

**2000-016P**

February 23, 2001

The report contained two recommendations regarding the internal controls associated with TVA coal quality adjustment report payments. TVA has resolved one of the recommendations and is currently implementing the recommendation to design additional automated controls for these payments.

**2000-063F**

March 7, 2001

The report contained five recommendations regarding the internal controls over agent officer payments. TVA has resolved two of the recommendations and is currently implementing their planned actions for the remaining recommendations.

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## Index of Reporting Requirements Required by the Inspector General Act of 1978, as amended

Reporting Requirement	Page
Section 4(a)(2)    Review of Legislation and Regulations	18
Section 5(a)(1)    Significant Problems, Abuses, and Deficiencies	5-17
Section 5(a)(2)    Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	5-17
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
Section 5(a)(5)    Summary of Instances Where Information Was Refused and 6(b)(2)	None
Section 5(a)(6)    Listing of Audit Reports	Appendix 1
Section 5(a)(7)    Summary of Particularly Significant Reports	9-17
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



	SEPT 30, 2001	MAR 31, 2001	SEPT 30, 2000	MAR 31, 2000	SEPT 30, 1999
ANNUAL BUDGET (In Millions of Dollars)	8.6	8.6	7.2	7.2	7.3
CURRENT STAFFING	86	74	77	79	78

## AUDITS & SPECIAL PROJECTS

AUDITS IN PROGRESS					
Carried Forward	45	43	48	36	34
Started	44	52	38	59	41
Canceled	(4)	(7)	(8)	(2)	(3)
Completed	(47)	(43)	(35)	(45)	(36)
In Progress at End of Reporting Period	38	45	43	48	36
AUDIT RESULTS (Thousands)					
Questioned Costs	\$3,519	\$2,613	\$1,800	\$952	\$1,678
Disallowed by TVA	1,236	3,010	379	820	673
Recovered by TVA	1,634	821	390	1,333	580
Funds to Be Put to Better Use					
Agreed to by TVA	\$10,401	\$70,422	\$12,862	\$5,296	\$9,861
Realized by TVA	10,155	37,450	12,499	5,509	7,612
	8,277	30,918	17,340	5,775	1,834
SPECIAL PROJECTS (Thousands)					
Completed	0	13	8	12	11
Cost Savings Identified/Realized	0	0	\$233	\$345	0

## INVESTIGATIONS

INVESTIGATION CASELOAD					
Opened	94	86	132	107	88
Closed	120	83	99	111	81
In Progress at End of Reporting Period	147	173	170	137*	140
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$6,527	\$214	\$179	\$3,758	\$1,772
Savings	542	532	521	988	1,422
Fines/Penalties	105	250	11	25	5
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	13	14	13	21	21
Actions Taken (# of Subjects)	8	30	11	13	17
Counseling/Management Techniques Employed (# of Cases)	3	9	6	5	3
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred	13	7	32	7	8
Indicted	5	19	5	6	7
Convicted	7	14	5	9	5

\* Adjusted from previous semiannual reports.

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## The OIG Vision:

. . . illuminating today's challenges  
and tomorrow's solutions . . .

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