

2 0 0 2

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

# Office of the Inspector General



*April 1, 2002 - September 30, 2002*





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

G. Donald Hickman  
Inspector General (Acting)

October 31, 2002

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, 2002.

I am honored to continue serving as the Acting Inspector General. During this reporting period, our efforts ranged from increasing our role in financial-related matters and security reviews to conducting contract audits and integrity investigations. Our products, as summarized throughout this report, have been well received and have contributed in many ways toward helping TVA achieve its goals.

As part of our ongoing efforts to focus on our core missions in these times of uncertainty, we have adopted an OIG seal, as reflected on the front cover. That seal incorporates three themes—the United States, TVA, and the OIG. We can best serve both the United States and TVA by concentrating on the role given us by Congress, as reflected in that seal—to promote economy, efficiency, and effectiveness.

To better carry out this role, we measure and reward productivity, timeliness, and results. Our efforts in these areas during this past year resulted in significant internal OIG improvements, and I intend to continue emphasizing these three areas as we move forward to face the challenges of the new year.

I am extremely pleased by the support I have received as Acting Inspector General from Congress, OIG employees, the TVA Board, and our other stakeholders. I look forward to further serving these constituencies.

Sincerely,

A handwritten signature in black ink that reads "G. Donald Hickman". The signature is written in a cursive style with a large, stylized initial 'G'.

G. Donald Hickman

# T A B L E O F C O N T E N T S

Executive Summary	1
TVA Profile	2
Office of the Inspector General	3
Special Features	6
Audits	8
Nonaudit Services	13
Investigations	14
Legislation and Regulations	19
Appendices	20
<b>Appendix 1 Index of Reporting Requirements Under the Inspector General Act</b>	21
<b>Appendix 2 Audit Reports Issued</b>	22
<b>Appendix 3 Audit Reports Issued With Questioned Costs and Recommendations for Better Use of Funds</b>	25
<b>Appendix 4 Investigative Referrals and Prosecutive Results</b>	27
<b>Appendix 5 Audit Reports With Corrective Actions Pending</b>	28
Highlights	29

# EXECUTIVE SUMMARY

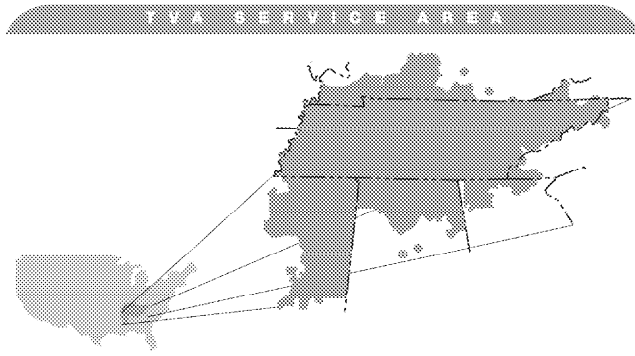
During this reporting period, we continued our efforts to support TVA through quality audits, investigations, and other projects.

We believe our efforts helped TVA management avoid unnecessary costs, recover funds, and correct identified weaknesses. Also, in many instances, our efforts helped confirm that many programs were working effectively. In total, we identified over \$56.9 million in recoveries, fines/penalties, potential savings, questioned costs, or funds which could be put to better use. A large portion of these funds resulted from our preaward audits, where we identified potential savings for management to use in negotiating contracts.

We completed 40 audits and 16 nonaudit service engagements during this reporting period. These reviews included (1) preaward and postaward contract audits, (2) other financial-related audits,

(3) information technology reviews, and (4) performance reviews of TVA operations. Corrective actions in response to our audits included monetary recoveries, process improvements, and security enhancements. Nonaudit engagements were conducted primarily in support of procurement activities and in response to requests from TVA management.

We closed 89 investigations, including multi-agency task force projects, which led to over \$1.05 million in recoveries, projected savings, and fines/penalties; administrative or disciplinary action against 7 individuals; and other corrective action (counseling and management techniques) in 24 cases. Matters we investigated included contract compliance, health care fraud, environmental crimes, and employee misconduct. These investigations led to the indictment of nine and the conviction of four individuals or entities.



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, 1 pumped storage plant, and 5 gas/fuel oil combustion turbine sites. TVA also produces energy from three renewable sources—sun, wind, and methane gas from waste. TVA 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 also sells power to 12 surrounding utilities on the interchange market.

TVA manages the nation's fifth largest river system. TVA dams are part of a totally integrated resource management

system where each dam operates in relationship to the others for multiple purposes and public benefits. These include navigation, flood control, power supply, land use, water quality, and recreation.

TVA contributes to the Valley economy, chiefly by keeping power rates competitive, which helps attract and retain industries that provide quality jobs in the region. TVA also helps communities promote sustainable economic development by providing assistance in job creation and retention and productivity improvements via capital investment, support of business incubators, specialized technical services and advice, and recruitment for new and existing industries.

The TVA 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 appointed by the President and confirmed by the Senate. Glenn L. McCullough, Jr., is Chairman, and Skila Harris and Bill Baxter are Directors.

## Office Authority

---

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 to individuals who provide information to the OIG.

## Organization

---

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

OIG Audits consists of four departments. One is devoted to contract-related audits, both preaward and postaward reviews. The other three focus, respectively, on (1) performance, (2) financial, and (3) ADP-related issues.

OIG Investigations consists of three departments. One focuses on identifying and investigating potential misconduct and integrity issues. The others focus, respectively, on (1) contract fraud and misfeasance and (2) improper use of TVA computers and health care fraud.

## Strategic Plan

---

We continued our efforts to meet our five strategic objectives: (1) cultivating and retaining a highly skilled, innovative, and motivated workforce; (2) enhancing communications with stakeholders and delivering services that meet their needs; (3) leveraging OIG resources to optimize productivity and results; (4) focusing on areas of high risk to TVA; and (5) envisioning change affecting TVA and identifying effective solutions. We have concentrated during this period on the areas of improving stakeholder relations, developing our staff, and focusing our resources on areas that contribute to TVA's success.

Activities that contributed to accomplishments in these strategic areas included (1) regularly apprising the TVA Board of Directors of significant audit and investigative results, (2) frequent meetings with TVA managers to discuss OIG plans and results and to solicit feedback, (3) developing a more formal training program for our special agents, (4) continuing developmental training of our Level I auditors as well as offering our more senior auditors opportunities to maintain existing skills and develop new ones, (5) implementing improvements in our investigative process that enabled us to significantly reduce cycle time, (6) allowing management to handle minor employee misconduct issues with some OIG oversight, and (7) emphasizing

scoping, planning, and initial analysis during both audit and investigative projects.

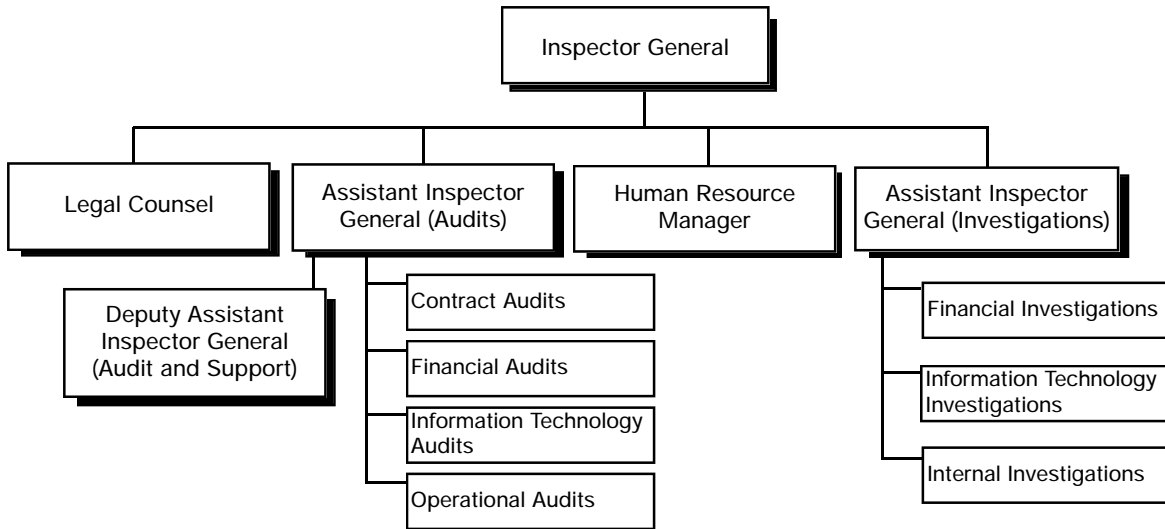
In fiscal year 2002, we measured our performance against goals set for three separate weighted measures rather than on the number of projects completed, the only measure used in prior years. These measures—productivity, timeliness, and results—were selected to encourage better planning, to minimize time spent on unproductive projects, and to improve timeliness and resource utilization. While our most substantial accomplishment was a significant reduction in the average cycle time of audits and investigations, we also met goals for productivity and results.

## 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 2002 budget was \$8 million with a budgeted headcount of 90 employees.




---

### C o n t a c t s

**Inspector General (Acting)**

G. Donald Hickman ..... (865) 632-4120

**Legal Counsel**

Richard P. Levi ..... (865) 632-6197

**Assistant Inspector General (Audits)**

Ben R. Wagner ..... (865) 632-6309

**Human Resource Manager**

Kay T. Myers ..... (865) 632-7718

**Assistant Inspector General (Investigations)**

G. Donald Hickman ..... (865) 632-7720

**Deputy Assistant Inspector General (Audit and Support)**

Lewis M. Ogles ..... (865) 632-6180

**OIG Media Relations**

Anne B. Ferrell ..... (865) 632-3505

**Contract Audits Manager**

David P. Wheeler ..... (865) 632-3437

**Financial Audits Manager**

Jill M. Matthews ..... (865) 632-2272

**Information Technology Audits Manager**

Deborah M. Thornton ..... (865) 632-6184

**Operational Audits Manager**

Paul E. Ivie ..... (865) 632-2272

**Financial Investigations Manager**

Ron W. Taylor ..... (865) 632-3979

**Information Technology Investigations Manager**

Curtis Phillips ..... (865) 632-2584

**Internal Investigations Manager**

C. Dale Hamilton ..... (865) 632-3956

Hotline to report fraud, waste, and abuse: 1-800-323-3835  
 OIG website: <http://oig.tva.gov>



## OIG Provides Financial Reporting Oversight

Over the past year, issues surrounding corporate responsibility, financial reporting practices, and auditor independence have been thrust into the spotlight. TVA, like other companies, is facing increased scrutiny of its financial reporting practices from the public, investors, and Congress. As TVA's OIG, we are committed to continuing and enhancing our role in ensuring that TVA's financial reporting practices promote the highest level of financial integrity and accountability to TVA stakeholders.

Inspectors General have been given the responsibility for assuring work performed by non-federal auditors complies with Government Auditing Standards. To meet this responsibility, we perform a concurrent review of the external auditor's annual audit of TVA's financial statements. As a part of this review, we participate in key meetings with the external auditor and TVA management, review the external auditor's workpapers, review the independence of the auditor, and perform supplemental tests, as needed, to assess the overall quality of the audit. In fiscal year 2003, in addition to the concurrent review, we will provide technical contract management and funding for the external audit contract to assure the independence of the external auditor both in fact and appearance.

Our role in ensuring the integrity of TVA's financial reporting process is not limited to the annual audit. In addition, we:

- Perform reviews of TVA's systems of internal control, financial reporting practices, and key computer systems supporting TVA's financial reporting process and provide recommendations for improvement.
- Keep the Board of Directors and Congress apprised of our significant findings through our semiannual reports and other communications.
- Perform investigations pertaining to alleged financial and/or accounting irregularities and violations of ethical standards by TVA managers and employees.
- Provide employees with a hotline for anonymous reporting of financial and/or accounting irregularities.

The past year has seen new auditor independence standards and legislation enacted that are designed to enhance corporate accountability. TVA, although not subject to recent legislation, is taking steps to enhance its financial reporting practices. We fully support TVA's efforts and will continue to conduct audits and investigations and make recommendations, as warranted, to improve these practices.

## President's Council on Integrity and Efficiency (PCIE) Award

Each year, the PCIE and the Executive Council on Integrity and Efficiency 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. Effective October 1, 2001, the TVA OIG became a member of the PCIE.

An OIG audit team was awarded a 2002 Award of Excellence by the PCIE for their work in the area of TVA Long-Term Bulk Power Trading. The team (pictured to the right) produced two highly complex reviews of TVA's weekly, monthly, seasonal, annual, and multi-year trading in the wholesale electricity market.

The reviews were especially timely, as several power marketers have either filed for or are on the brink of bankruptcy and other utilities have faced scrutiny due to questionable energy trading and accounting practices. The reviews also were significant because TVA's gross long-term bulk power sales and purchases exceeded \$300 million in fiscal year 2001.

By taking coursework, performing extensive research, and consulting an industry expert, the OIG auditors became knowledgeable about important issues such as forward prices and volatility, option valuation, price risk book, hedging, delta

hedging, mark-to-market, and value at risk. During the review, they interviewed numerous bulk power trading and risk management personnel to gain an understanding of TVA's long-term trading philosophy and process, identified and compared industry best practice controls to TVA's long-term trading process, and tested controls.

The team determined TVA's long-term bulk power trading process was operating in an effective control environment



The team (left to right): Louise Beck, Rick Taylor, Paul Ivie, Melissa Neusel, Sharon Bates, and Patsy Foster (Cheryl Liles not pictured).

because (1) TVA's trading philosophy inherently reduces its trading risk, (2) it had implemented 33 of the 35 industry best practice controls that the team identified, and (3) the controls the team tested worked effectively. However, the team identified opportunities for improvement in the areas of documenting the overall trading policy, implementing a code of conduct applicable to individuals executing trades, and segregating the receipt of trade confirmations from the trade execution function. Management agreed and took appropriate corrective action.

## Summary of Representative Audits

---

Audits are initiated from (1) the OIG annual workplan, (2) additional issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, and (4) concerns raised by TVA management or other stakeholders. During this reporting period, we completed 40 audits which identified over \$3.8 million in questioned costs and over \$52 million in funds which could be put to better use (includes \$30.9 million for proposals that were not awarded). We also identified numerous opportunities for TVA to improve program operations. Our audits included (1) preaward and postaward contract audits, (2) other financial-related audits, (3) information technology reviews, and (4) operational audits.

### PREAWARD CONTRACT AUDITS

To support TVA management in negotiating procurement actions, we conducted 13 preaward audits. During this reporting period, TVA management successfully negotiated \$7.7 million in savings as a result of audits issued during this and previous reporting periods and is continuing to negotiate other potential contracts audited during this period. Highlights of the more significant preaward audits follow.

- Three competing companies submitted proposals to provide engineering support services for the recovery of Browns Ferry Unit 1. In assessing whether the proposed labor costs were fairly stated, we identified various opportunities for TVA management to negotiate savings involving a five-year, \$240 million project. TVA management subsequently negotiated nearly \$7 million in reduced labor burdens and favorable contract terms with the company it decided to select.
- We reviewed the indirect cost rates TVA is paying two contractors for engineering and design services and determined TVA could save nearly \$4 million over the next two years by lowering the rates to (1) reflect historical costs for one company and (2) eliminate excessive performance bonuses and account for the effect of the planned expenditure level on the other company's rates. Negotiations with these contractors are ongoing.
- We reviewed a contractor's proposed billing rates and fees for a \$50 million, five-year contract to provide boiler parts and services. We determined the proposed rates and fees were fairly stated except for the inclusion of over \$200,000 in unallowable costs. TVA management negotiated reductions in the contractor's gross margins to eliminate the unallowable costs.

- We reviewed the costs and pricing methodology proposed by a contractor for providing services and equipment for TVA's hydro modernization program under a potential \$350 million contract. We suggested TVA (1) eliminate interest costs from the proposed sales, general, and administrative rate; and (2) negotiate consistently applied profit rates. Negotiations for this contract award are ongoing.

CONTRACT COMPLIANCE

During this reporting period, we completed 12 contract compliance audits that identified about \$969,000 in ineligible and unsupported costs. Management generally agreed with our findings and has taken or plans to take appropriate corrective action. Highlights of some of the more significant audits follow.

- We determined that a contractor (1) provisionally billed about \$187,000 over actual costs for payroll taxes, fringe benefits, and paid time off; and (2) overbilled about \$12,000 in labor costs due to miscellaneous billing errors. We also found TVA incorrectly paid a \$2,310 credit invoice, resulting in an overpayment of \$4,620. The contractor subsequently issued credits to TVA for these amounts.
- We determined a contractor that provided computer-related services and materials overbilled TVA a projected amount exceeding \$300,000 by

(1) billing rates exceeding the contract price list, (2) using excessive markup rates for items not on the contract price list, and (3) double billing for one service. TVA management is seeking recovery of the questioned costs.

- We found that a contractor (1) overbilled TVA about \$15,000 in administrative fees and (2) neglected to file tax exemption requests for commercial fuel purchases in several TVA region states. The contractor subsequently reimbursed TVA for the overbillings and agreed to apply for future tax exemptions with each state.
- We determined that a contractor's markup rate for a subcontract agreement was overstated due to a misapplication of the profit rate. The subcontractor subsequently reimbursed TVA \$53,000 and corrected the profit application.
- We found that a contractor that provided software, maintenance, and implementation services overbilled TVA about \$70,000 by (1) using labor rates not included in the contract, (2) miscalculating billable days, (3) incurring ineligible and unsupported travel expenses, and (4) submitting duplicate billings for training costs. TVA management plans to recover the overbillings.

- We identified over \$65,000 in overbillings and unsupported costs involving a contractor that provided computer-related training, software, and services. TVA management recovered the questioned costs.
- We determined that a research contractor overbilled TVA over \$30,000 and co-mingled TVA project costs with non-TVA project costs, thereby negating our ability to audit costs associated with a TVA project. The contractor agreed to give TVA a credit for the overbilling and is taking steps to correct the recordkeeping issue.

INFORMATION TECHNOLOGY (IT)

During this reporting period, we completed audits in the IT environment pertaining to software operating systems, an internet-based system, a remote automation process, and various IT procedures. We also reviewed compliance of TVA's IT security program with the Government Information Security Reform Act. We found improvements were needed to address weaknesses pertaining to:

- Software change control processes designed to ensure that only authorized software changes are made.
- Physical and logical security access controls designed to prevent unauthorized access to computer equipment, software, and data.

- Protection of computer equipment used to remotely operate hydroelectric plants from environmental hazards such as water leaks.
- Contingency planning requirements that ensure continuity of operations in the event of a disaster or system failure.
- IT purchasing procedures.
- TVA's IT security program and practices.

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

HIGHLAND RIDGE TOWER

At the request of TVA management, we reviewed the reasonableness of TVA's estimate that it would save \$4.8 million over a five-year period by subleasing the Highland Ridge Tower to Bridgestone/Firestone Americas Holding, Inc., and leasing other office space in Nashville to accommodate TVA employees. We concluded TVA's estimate of savings was reasonable provided (1) TVA's current plan for leasing 55,962 rentable square feet is sufficient to meet its future office needs in Nashville and (2) TVA does not incur additional costs due to no longer having an exercise facility and space capable of accommodating large conferences and meetings.

CONTROL OVER TVA FIREARMS

We assessed whether TVA had adequate controls over its firearms. Although we did not identify any discrepancies in TVA's inventory listings, we concluded TVA could improve its processes for controlling and maintaining accountability over firearms by (1) better documenting the results of periodic inventories and (2) recording all acquisition and disposition information. We also found that TVA had not developed a comprehensive policy addressing the disposal of surplus firearms. TVA management is taking appropriate corrective action.

WILLINGNESS TO REPORT NUCLEAR QUALITY AND SAFETY ISSUES

We assessed the willingness of TVA Information Services (IS) employees who directly support TVA's nuclear activities to raise quality and safety issues. We compared these results to prior surveys of TVA nuclear employees. Our survey results showed these IS employees were as willing as TVA nuclear employees to raise nuclear safety and quality issues. However, they were less willing to raise unpopular views on non-nuclear safety and quality issues. TVA management agreed to improve communications and address employee perceptions.

SPECIAL FINANCING ARRANGEMENTS

TVA used special financing arrangements in the form of lease/leaseback agreements to finance 16 combustion turbine generating units in fiscal years 2000 and

2001. We reviewed these arrangements and determined TVA (1) developed and consistently applied reasonable criteria in the lease/leaseback agreements, (2) recorded both leasing transactions in accordance with generally accepted accounting principles (GAAP), and (3) reported the fiscal year 2000 leasing transaction in its financial statements as required by GAAP, except for not disclosing leaseback terms and the obligation for future minimum lease payments for each of the five succeeding years. TVA management agreed to include the additional information in the notes to its fiscal year 2002 financial statements.

SAFETY PROGRAM

The Occupational Safety and Health Act of 1970 requires the head of each federal agency to establish and maintain an effective and comprehensive occupational safety and health program consistent with standards promulgated under the Act. We reviewed TVA's Safety Program and found the program generally complied with the requirements of the Act. We also determined TVA line organizations complied with the safety program requirements, except for certain aspects of (1) safety training, (2) workplace inspections, (3) injury/illness investigation reports, and (4) certified safety committees. TVA management agreed with our findings and is taking appropriate corrective action.

## CAPITAL PROJECT JUSTIFICATION PROCESS

---

TVA spent over \$950 million on capital projects in fiscal year 2001 and expected to spend over \$1.2 billion in fiscal year 2002. We assessed whether TVA's revised project justification process incorporated leading practices in capital decision-making as described in the General Accounting Office's (GAO) *Executive Guide: Leading Practices in Capital Decision-Making*. We determined the revised process, either as designed or in practice, included the leading practices as described by GAO. Nonetheless, we determined that opportunities exist for improving the process in the areas of cost estimating, project monitoring, and post completion evaluations. TVA management generally agreed and is taking appropriate corrective action.

## MEDICAL PLAN ELIGIBILITY

---

TVA provides medical coverage to its active employees through contracts with four medical plan providers. We assessed the adequacy of TVA's eligibility controls and identified nearly \$30,000 in ineligible benefits paid on behalf of 16 of 991 participants we sampled from the active employee medical plan. We concluded TVA's eligibility-related processing controls should be strengthened, especially those associated with non-spouse dependents ages 19 through 24. TVA management agreed to (1) pursue recovery of the identified ineligible payments and (2) strengthen controls related to the students.

## Summary of Nonaudit Services

---

We provide nonaudit services upon request to assist TVA management in improving the efficiency and effectiveness of its operations. In addition, when requested, we provide information, data, and analyses to members of Congress to help keep them informed about aspects of TVA's operations. Depending upon the objective, these reviews are performed in accordance with either the (1) American Institute of Certified Public Accountant's standards for Consulting Services or (2) PCIE's Quality Standards for Inspections.

During this reporting period, we completed 16 nonaudit service engagements requested by TVA management, primarily in support of procurement activities. Highlights of representative nonaudit services follow.

### COAL PROCUREMENT PROCESS

---

TVA purchases over 46 million tons of coal annually at a cost of about \$1.3 billion. We reviewed TVA's coal procurement process and identified opportunities for process improvements in the areas of organizational goals, communication, documentation, segregation of duties, information systems, contract management, oversight of weighing and sampling, and working relationships. We also provided information comparing TVA's fuel procurement process to the

processes used by other utilities. TVA management generally agreed with our suggestions and is taking corrective action.

### STAFF AUGMENTATION

---

We reviewed the use of staff augmentation contractors in TVA's Chief Operating Officer and Administration organizations, with an emphasis on two or more years of continuous service. Based on available information, we concluded the number of staff augmentation contractor employees with 2 or more years' service was about 46 percent higher than had previously been reported to upper management. This was due primarily to TVA organizations (1) misclassifying staff augmentation as managed task support and (2) inaccurately reflecting service dates. TVA management subsequently centralized the administration of staff augmentation contracts and is considering the development of a reporting and tracking database.

### REVIEW OF REQUESTS FOR PROPOSALS

---

We provided informal advice on six requests for proposals involving security services, administration of flexible spending accounts, communication services, voluntary benefits, design and installation of scrubbers, and a potential leverage contract for electrical parts.



## Summary of Representative Investigations

---

During the last six months, we closed 89 investigations, including allegations and concerns received from ratepayers, TVA managers and employees, governmental and congressional staffs, and OIG auditors. Our investigations, including task force projects, resulted in (1) \$1,056,127 in recoveries, projected savings, and fines/penalties, (2) nine individuals or entities indicted, and (3) four individuals convicted. Representative investigations are highlighted below.

### COAL OVERBILLING

---

We determined an Indiana coal vendor billed TVA for delivered coal on estimated weights, not certified weights as specified by its contract with TVA. We estimated the invoiced weight overstated the value of the vendor's delivered coal by more than \$1 million.

As a result of our findings, the company agreed to (1) pay TVA over \$650,000 for the overstated weight and (2) conduct a daily random weight check on each truck delivering coal until certified in- and out-bound truck scales can be built by the vendor.

### SENTENCING---FALSE DOCUMENTATION TO HIDE THEFT AND RESALE OF TVA TOOLS

---

This investigation was initiated based on allegations the subject received stolen TVA tools and subsequently sold a portion of them back to TVA. Our inquiry substantiated the allegations.

During a previous reporting period, the subject, a Knoxville, Tennessee, businessman, pled guilty in federal court to two counts of making and causing to be made false documents that he presented to the OIG in an effort to show the stolen tools, valued at nearly \$70,000, were legitimately acquired from a third party.

During this reporting period, the subject was sentenced to pay a \$5,000 fine and to serve 2 years' probation, including 6 months' home detention and 100 hours' community service.

### HIRING ISSUES

---

#### Nepotism

We investigated an allegation of nepotism in hiring a group of trainees at a TVA nuclear plant. Our inquiry confirmed relatives of TVA employees on the selection panel were hired. While the employees on the panel recused themselves from consideration of their relatives, we concluded they should not have served in the selection process in any capacity.

TVA management agreed to take steps to assure TVA employees do not participate on selection panels when they have

relatives applying for the position(s) and stated it will provide training, including developing checklists for managers and Human Resource consultants, on nepotism and other hiring issues.

Veterans Preference Act (VPA)

Our investigation did not substantiate an allegation that TVA violated the VPA by never interviewing an Army veteran in spite of his repeated applications for electrician positions. However, we did find a weakness in TVA's practice of listing job vacancies on its external web site.

Management agreed to (1) revise the web site to eliminate any confusion over whether advertised positions were available or anticipated, and to ensure VPA information is available; and (2) give the complainant appropriate consideration for all vacancies for which he is qualified.

EMPLOYEE MISCONDUCT

Unauthorized E-Mail Access

Our inquiry revealed a TVA employee used a computer keyboard logging device to monitor two employees' e-mail activities. (A keyboard logging device is a small "recording" mechanism that attaches to a keyboard cable and captures all characters entered on the keyboard for subsequent retrieval.)

The individual used the device to capture the coworkers' user names and passwords. This, in turn, enabled him to access their e-mail accounts and corre-

spondence without their knowledge or consent.

Based on our investigation, TVA terminated the individual's employment.

False Statements/Misuse of TVA Resources

We concluded a TVA electrician provided a false statement on a background security form, submitted false timesheets and per diem claims, used a TVA truck for unauthorized purposes, and used a TVA-issued fuel credit card to purchase personal items and fuel for non-TVA vehicles. The electrician resigned as a result of our investigation.

False Statements to TVA Management and the OIG

Our investigation showed a TVA electrician submitted falsified medical excuses and made false statements to TVA management and the OIG regarding medical care he purportedly received.

After discussions with the employee's union representatives, TVA placed the employee on unpaid leave until he becomes eligible for retirement in one year.

ENVIRONMENTAL CRIMES JOINT TASK FORCE (ECJTF)

We continued our participation in the ECJTF, which is comprised of members from state and federal agencies. Highlights of the task force's work reported during this period include the following.

**Guilty Plea and Sentencing—Illegal Dumping**

**A Tennessee physician pled guilty to one count of violating the Clean Water Act and was sentenced during this reporting period.**

**The physician had purchased property bearing an above-ground storage tank previously used by a paper mill. The tank contained over 500,000 gallons of "black liquor"—a by-product of paper manufacturing—which the individual illegally caused to be discharged into the Emory River in Eastern Tennessee.**

**Subsequent to his guilty plea, the individual was sentenced to 2 years' probation comprised, in part, of 1 year home detention, 300 hours' community service, and special conditions including remediating the damaged site and placing advertisements in local newspapers apologizing to the public for the environmental violations.**

**In addition, he was ordered to pay a \$10,000 fine and restitution totaling almost \$35,000 to the Tennessee Department of Environment and Conservation (TDEC) and \$15,000 to TVA. He is also to make a \$25,000 voluntary contribution to the Southern Environmental Enforcement Network (SEEN) training fund. (The SEEN is an association of regulatory and law enforcement agencies in the Southern United States.)**

**Sentencing—Waste-Disposal Company and Its President**

**During a previous reporting period, a Chattanooga company and its president each pled guilty to one count of violating the Clean Water Act by knowingly falsifying documentation to the city of Chattanooga relating to the company's permit to dispose of nonhazardous waste.**

**On over 40 occasions, the company's discharge monitoring reports to the city showed the company disposed of copper and zinc within the limitations of the company's permit when both the company and its owner knew the levels in the wastewater discharges exceeded limitations. According to the Environmental Protection Agency, the levels of copper in the discharged wastewater were as much as 17 times the federal limit, and the levels of zinc as much as 14 times the limit.**

**During this reporting period, the company was sentenced to five years' probation, and its president was ordered to pay a \$10,000 fine and to serve one year of probation, including nine months' home detention. The company and its president were jointly sentenced to pay \$250,000 restitution—\$100,000 to both the city of Chattanooga and TDEC and \$50,000 to the SEEN training fund.**

HEALTH CARE FRAUD TASK FORCE

We continued to support health care fraud task forces and working groups sponsored by the United States Attorneys' offices in Tennessee.

The cases highlighted below reflect our involvement in the Eastern District of Tennessee Health Care Fraud Task Force. Participants on the task force include investigative arms of federal, state, and local agencies, and Blue Cross/Blue Shield's Special Investigations Unit.

Six Indicted on Drug Charges

A federal indictment against a Sevier County, Tennessee, physician charged him with 516 counts of unlawfully dispensing and distributing Schedule II controlled substances and various products containing a Schedule III controlled substance.

The indictment additionally alleged four co-defendants (1) illegally obtained and diverted controlled-substance prescriptions issued by the physician, who sometimes charged a fee for the bogus prescriptions; (2) abused the controlled substances themselves; and (3) sold or otherwise distributed the illegally

obtained controlled substances to others.

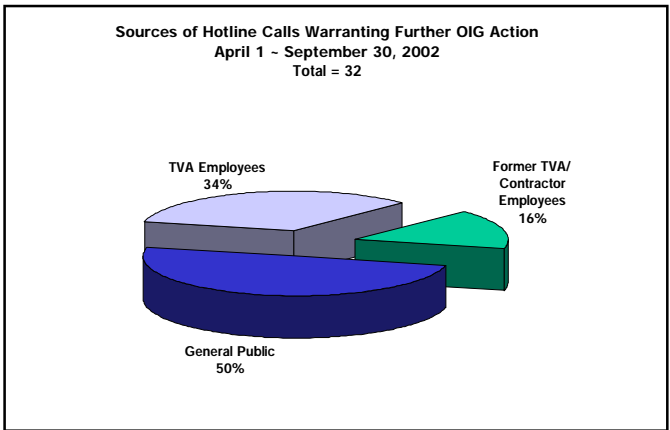
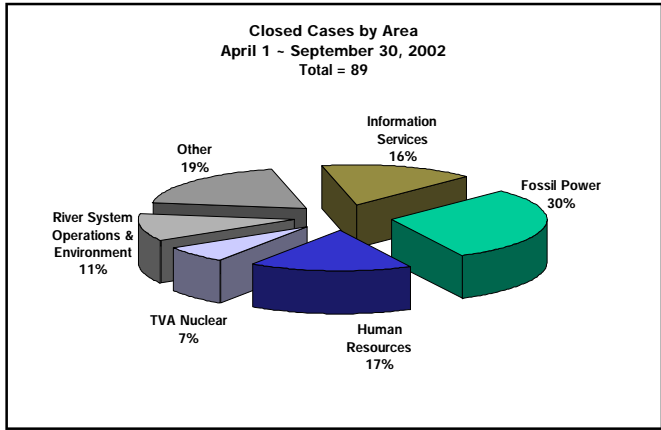
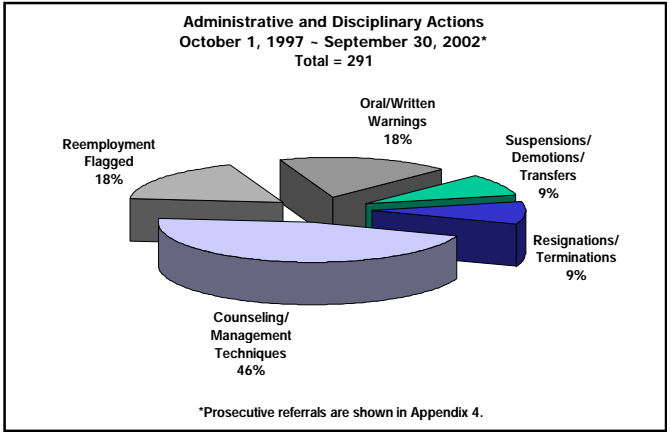
An area pharmacist was named in a separate indictment for allegedly distributing and facilitating the illegal distribution of controlled substances, illegal possession of firearms, and obstruction of a criminal investigation of health care offenses.

Orthopedic Physician Indicted

A physician, owner of a Tullahoma, Tennessee, orthopedic clinic, was indicted by a federal grand jury on 95 counts of defrauding health care benefits plans, including the TVA-funded workers' compensation benefits program.

The indictment alleged the physician (1) billed benefits plans for a procedure called a "nerve block" when, in fact, a more simple and less expensive procedure was performed; and (2) used billing codes resulting in higher payments for the physician than the value of the services actually provided.

According to the indictment, the total financial losses incurred as a result of the physician's false representations exceed \$2.2 million.



# LEGISLATION AND REGULATION

We continued to follow issues of interest to the OIG and TVA, including proposals regarding law enforcement authority and utility deregulation.

During this reporting period, our reviews included H.R. 5005, the Homeland Security Act, which would provide statutory law enforcement authority to presidentially appointed OIGs; the Sarbanes-Oxley Act of 2002; and regulations issued under the Health Insurance Portability and Accountability Act of 1996. We worked with the PCIE in submitting comments on legislative matters of interest to the Inspector General community.



# APPENDICES

## Index of Reporting Requirements Under the Inspector General Act

REPORTING REQUIREMENT	PAGE
Section 4(a)(2) Review of Legislation and Regulations	19
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	6-18
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	6-18
Section 5(a)(3) Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 5
Section 5(a)(4) Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 4
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 2
Section 5(a)(7) Summary of Particularly Significant Reports	8-18
Section 5(a)(8) Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 3
Section 5(a)(9) Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 3
Section 5(a)(10) Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period	None
Section 5(a)(11) Significant Revised Management Decisions	None
Section 5(a)(12) Significant Management Decisions With Which the Inspector General Disagreed	None



## Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
------------------------------------	-------	---------------------	----------------------	----------------------------

### CONTRACT

2001-048C 04/30/2002	Indus International, Inc.	\$66,978	\$31,934	
2001-051C 04/30/2002	Piping and Equipment Company			
2001-087C 04/30/2002	Canberra Industries	331,557		
2002-041V 05/02/2002	The Babcock & Wilcox Company - Preaward Audit			\$235,000
2002-009E 05/15/2002	Voith Siemens Hydro - Preaward Audit			5,040,000
2002-044C 05/17/2002	EMC Corporation			
2002-052V 05/23/2002	Neill & Gunter - Rate Review - Preaward Audit	119,000		301,200
2002-032C 06/25/2002	PS Energy Group, Inc.	120,401		
2002-048C-01 06/25/2002	Pinkerton Government Services, Inc. - Contract No. 98NNX-224696	203,800		
2002-049C 06/25/2002	BOC Gases- Preaward Audit			180,000
2002-060V 07/03/2002	Stone & Webster, Inc. - Preaward Audit			13,000,000
2002-055V 07/08/2002	Pinkerton Government Services, Inc. - Preaward Audit			
2002-053V 07/11/2002	Wackenhut Services, Inc. - Preaward Audit			
2002-056V 07/16/2002	Sargent & Lundy Engineers - Preaward Audit			17,900,000
2002-042V 07/18/2002	Immix Technology - Contract P-01BYS-267832-000	70,750	3,849	
2002-004C-01 07/24/2002	Electric Power Research Institute	32,145		

**Audit Reports Issued**

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
------------------------------------	-------	---------------------	----------------------	----------------------------

**CONTRACT (continued)**

2002-054C 08/06/2002	TRC Garrow Associates, Inc.			
2002-064V 08/27/2002	Mesa Associates, Inc. - Preaward Audit			\$2,367,000
2002-088C 09/06/2002	Tombras Group - Preaward Audit			
2002-089C 09/06/2002	The Johnson Group - Preaward Audit			
1998-071C 09/10/2002	Enterprise Sales, Inc.			
2002-069V 09/16/2002	Sargent & Lundy - Preaward Audit			6,200,000
2002-066C 09/24/2002	Review of General Electric Field Labor Cost Adjustment for Lagoon Creek II and Kemper County - Contract P98P6D-195379	\$26,305	\$26,305	
2002-061V 09/26/2002	Bechtel Power Company - Preaward Audit			6,814,000
2002-072C 09/27/2002	Thomas & Betts Company			

**FINANCIAL**

2002-016C 07/24/2002	Review of TVA's Special Financing Arrangements			
2002-067V 07/26/2002	Review of Facilities' Nashville Office Space Cost Assessment			
2002-034C 07/31/2002	Review of Miscellaneous Cash Receipts			

## Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
------------------------------------	-------	---------------------	----------------------	----------------------------

### INFORMATION TECHNOLOGY

2002-017T 06/25/2002	Hydro Automation - Dams			
-------------------------	-------------------------	--	--	--

2002-013T 07/24/2002	Customer Portal Control Assessment			
-------------------------	------------------------------------	--	--	--

2002-025T 08/07/2002	Security of Windows 2000/ Windows XP			
-------------------------	-----------------------------------------	--	--	--

2002-086C 09/12/2002	Government Information Security Reform Act			
-------------------------	-----------------------------------------------	--	--	--

2002-051T 09/27/2002	IT Store			
-------------------------	----------	--	--	--

### OPERATIONAL

2002-021V 04/08/2002	Survey of Information Services Personnel Who Directly Support TVA Nuclear			
-------------------------	---------------------------------------------------------------------------------	--	--	--

2001-065P 04/18/2002	Control and Accountability Over Weapons at TVA			
-------------------------	---------------------------------------------------	--	--	--

2002-008E 07/18/2002	Review of Internal Controls in Long- Term Bulk Power Trading			
-------------------------	-----------------------------------------------------------------	--	--	--

2002-063E 07/19/2002	Review of Data for Long-Term Bulk Power Trading Decisions			
-------------------------	--------------------------------------------------------------	--	--	--

2002-020C 07/23/2002	Review of TVA's Safety Program			
-------------------------	--------------------------------	--	--	--

2000-030P 08/13/2002	Review of TVA's Active Employee Medical Plan Eligibility	\$2,844,928		
-------------------------	-------------------------------------------------------------	-------------	--	--

2001-091P 09/05/2002	Review of Capital Project Results			
-------------------------	-----------------------------------	--	--	--

<b>TOTAL</b>	<b>40</b>	<b>\$3,815,864</b>	<b>\$62,088</b>	<b>\$52,037,200*</b>
--------------	-----------	--------------------	-----------------	----------------------

\* This figure includes funds identified in preaward audits of proposals for contracts that may not be 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	0	\$0	\$0
B. Which were issued during the reporting period	9	\$3,815,864	\$62,088
Subtotals of A and B	9	\$3,815,864	\$62,088
C. For which a management decision was made during the reporting period	9*	\$3,815,864	\$62,088
(i) Dollar value of disallowed costs	8	\$911,436	\$62,088
(ii) Dollar value of costs not disallowed	2	\$2,904,428	\$0
D. For which no management decision has been made by the end of the reporting period	0	\$0	\$0
E. For which no management decision was made within six months of issuance	0	\$0	\$0

\* The total number of reports differs from the sum of C.(i) and C.(ii) when the same reports contain both costs disallowed and not disallowed by management.

## 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	4	\$25,027,000
B. Which were issued during the reporting period	9	\$52,037,200
Subtotals of A and B	13	\$77,064,200
C. For which a management decision was made during the reporting period	11	\$68,497,200
(i) Dollar value of disallowed costs	8	\$44,944,200
(ii) Dollar value of costs not disallowed	3	\$23,553,000
D. For which no management decision has been made by the end of the reporting period	2	\$8,567,000
E. For which no management decision was made within six months of issuance	0	\$0

## Investigative Referrals and Prosecutive Results

### Referrals

Subjects Referred to United States Attorneys	19
Subjects Referred to Other Agencies for Investigative or Administrative Action	2

---

### Results

Subjects Indicted	9
Subjects Convicted	4
Referrals Declined	17

(No OWCP actions to report this period.)

## Audit Reports With Corrective Actions Pending

AUDIT REPORT  
NUMBER  
AND DATE

DESCRIPTION

AUDIT REPORT NUMBER AND DATE	DESCRIPTION
2000-012P January 9, 2002	This report included recommendations to clarify several provisions in TVA's Affirmative Procurement Plan and to ensure documentation is maintained to support waivers from the revised plan. TVA is currently revising its Affirmative Procurement Plan and implementing other planned actions.
2000-026C-01 April 2, 2001	This report contained a recommendation to implement electronic data processing to collect hours and rates billed for staff augmentation services and evaluate systems to determine how to best meet these data processing needs. Representatives from several TVA organizations are reviewing automated tools, and a business case, including cost benefit analysis, will be presented to TVA management for a decision.
2001-032F November 7, 2001	This report included recommendations to institute an updated land management business practice and revise, update, and/or integrate processes and systems to facilitate better communication among TVA organizations. TVA management has initiated, but not completed, action addressing these recommendations.
2001-052T November 26, 2001	This report contained a recommendation to develop an agency-wide business practice on electronic business. TVA is implementing the recommendation.
2001-060P October 22, 2001	This report contained recommendations to review storeroom access at TVA fossil plants and revoke unneeded access and to consider adding storeroom staff at two fossil plants. Management completed final action in October 2002.
2001-064T December 21, 2001	This report included recommendations to upgrade firewall hardware and software, upgrade server and operating system security, and develop and implement policies and procedures to address access authorization, intrusion detection, program change control, and contingency planning and disaster recovery. Actions to strengthen the firewall are complete. Actions to address the remaining recommendations will be completed by December 21, 2002.
2001-074T January 7, 2002	This report contained recommendations regarding TVA's access control system for non-nuclear facilities. TVA is now accepting proposals to replace or modify this system.
2002-024V February 13, 2002	This report contained a suggestion about the contractor's markup for indirect costs and profit and suggestions to improve TVA's audit rights under the potential contract. TVA is addressing the suggestions in continuing negotiations; however, those negotiations have not been completed.

A  
P  
P  
E  
N  
D  
I  
X  
5

	SEPT 30, 2002	MAR 31, 2002	SEPT 30, 2001	MAR 31, 2001	SEPT 30, 2000
ANNUAL BUDGET (In Millions of Dollars)	8.0*	8.0*	8.6	8.6	7.2
CURRENT STAFFING	87	86	86	74	77

### AUDITS & SPECIAL PROJECTS

#### AUDITS IN PROGRESS

Carried Forward	33	38	45	43	48
Started	44	43	44	52	38
Canceled	(4)	(8)	(4)	(7)	(8)
Completed	(40)	(40)	(47)	(43)	(35)
In Progress at End of Reporting Period	33	33	38	45	43

#### AUDIT RESULTS (Thousands)

Questioned Costs	\$3,816	\$1,780	\$3,519	\$2,613	\$1,800
Disallowed by TVA	911	267	1,236	3,010	379
Recovered by TVA	387	225	1,634	821	390

#### Funds to Be Put to Better Use

Agreed to by TVA	\$52,037	\$31,874	\$10,401	\$70,422	\$12,862
Realized by TVA	44,944	6,069	10,155	37,450	12,499
	16,014	6,090	8,277	30,918	17,340

#### NONAUDIT SERVICES (Thousands)

Completed	16	12	0	13	8
Cost Savings Identified/Realized	0	0	0	0	\$233

### INVESTIGATIONS

#### INVESTIGATION CASELOAD

Opened	78	93	94	86	132
Closed	89	114	120	83	99
In Progress at End of Reporting Period	115	126	147	173	170

#### INVESTIGATIVE RESULTS (Thousands)

Recoveries	\$961	\$233	\$6,527	\$214	\$179
Savings	8	1,175	542	532	521
Fines/Penalties	86	0.1	105	250	11

#### ADMINISTRATIVE AND DISCIPLINARY ACTIONS

Recommended (# of Cases)	18	22	13	14	13
Actions Taken (# of Subjects)	7	6	8	30	11
Counseling/Management Techniques Employed (# of Cases)	24	15	3	9	6

#### PROSECUTIVE ACTIVITIES (# of Subjects)

Referred	19	5	13	7	32
Indicted	9	5	5	19	5
Convicted	4	3	7	14	5

\* An additional \$1.6 million in benefits is being covered in fiscal year 2002 as a corporate rather than an organizational expense as was done in the past.



***The OIG Vision:***

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

OFFICE OF THE INSPECTOR GENERAL OF THE TENNESSEE VALLEY AUTHORITY  
400 WEST SUMMIT HILL DRIVE  
KNOXVILLE, TENNESSEE 37902-1401