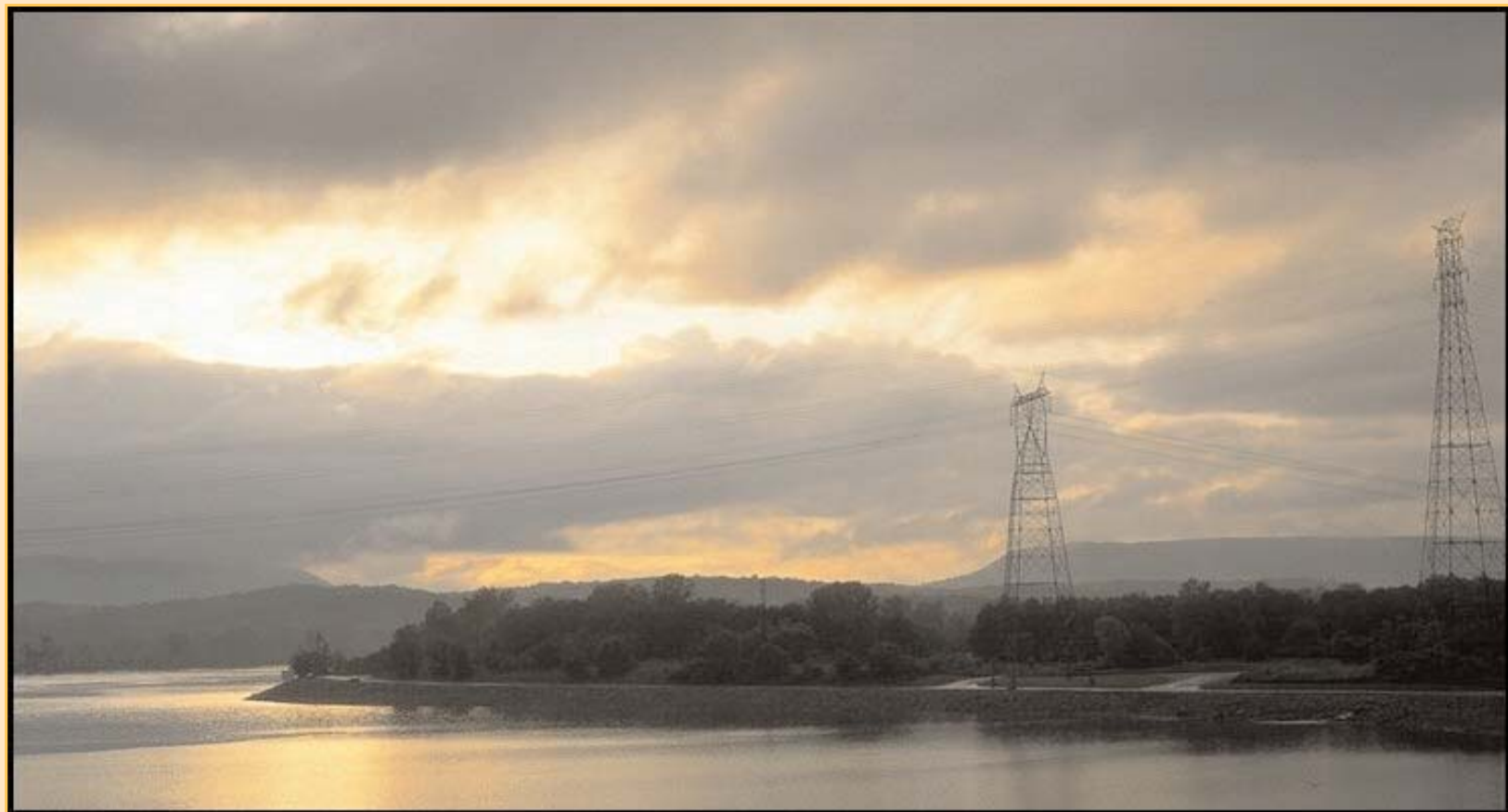


**Tennessee Valley Authority**

# **Office of the Inspector General**



## **Semiannual Report to Congress**

October 1, 2004 ~ March 31, 2005

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

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

If you want to report any matter involving TVA programs, operations, or employees, you should call the OIG Hotline or write the Inspector General's office at the address or number listed on the back cover.



# Tennessee Valley Authority Office of the Inspector General

## Message From the Inspector General

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As reflected in this semiannual report to Congress, the OIG continues to better enable TVA to prepare for expected changes in its business environment. TVA's strategic plan has identified four key areas that are essential to success in a more competitive market: (1) developing new price structures, services, and contract terms that are better suited for a more competitive market; (2) addressing issues that affect TVA's transmission business, including how to interface with surrounding markets to ensure reliability and how to charge for transmission services when distributors can choose other suppliers; (3) accelerating TVA's debt reduction to provide increased financial flexibility in a more dynamic, competitive market; and (4) maintaining and operating the TVA power system so customers can count on having a safe and reliable power supply.

These four key areas are impacted by the audits, investigations, and inspections conducted by the TVA OIG. We are charged in the Inspector General Act to "provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness . . . and to prevent and detect fraud and abuse." This semiannual report to Congress demonstrates a concentration of effort by the OIG to identify areas where TVA can improve efficiency and better protect its operations from fraud and abuse.

The nature of the work of the OIG is to naturally focus on aberrations. We focus our efforts based on risks to the organization and we then look for vulnerabilities. Our semiannual reports to Congress therefore appear to reflect a compendium of "problems." What they do not fairly represent are all the many programs and processes that are working well at TVA. Neither do our reports fully capture the cooperative spirit of TVA management who year after year implement our recommendations because they truly want TVA to be better. In this semiannual reporting period perhaps nothing exemplifies this more than the way in which Jacky Preslar, General Manager of Fossil Fuel Supply, and his team implemented the first fraud risk assessment at TVA. While the OIG introduced this process to TVA, Fossil Fuel Supply embraced it as their own and enthusiastically identified fraud vulnerabilities and provided the necessary remediation.

While I am immensely proud of the financial savings realized by TVA this reporting period because of the hard work of our OIG staff, I am equally proud of the healthy professional relationship that exists between our office and TVA management. The TVA Board continues to demonstrate an appreciation for the work of the OIG which engenders this spirit of cooperation. I am grateful for the opportunity we all have to work together to build a better TVA.

Richard W. Moore  
Inspector General  
April 29, 2005



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## Executive Summary

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During this reporting period, we continued to support TVA by conducting objective audits, investigations, and inspections. In accordance with our mission, our reviews are designed to promote economy, effectiveness, and efficiency while detecting and preventing fraud, waste, and abuse. In total, we identified nearly \$35 million in recoveries, fines/penalties, potential savings, questioned costs, or funds which could be put to better use, as outlined in the chart below.

<b>STATISTICAL HIGHLIGHTS</b>	
<b>October 1, 2004 ~ March 31, 2005</b>	
Audit Reports Issued	31
Questioned Costs	\$8,858,584
Funds Recovered/Disallowed	\$9,269,386
Funds Put to Better Use	\$24,306,000
Funds Realized by TVA	\$7,886,000
Investigations Opened	84
Investigations Closed	103
Fines/Recoveries/Restitution/Savings	\$1,798,264
Criminal Actions	7
Administrative Actions (No. of Subjects)	16
Inspections Completed	14

We completed 31 audits during this reporting period which resulted in significant questioned costs and the identification of areas for improvement. Highlights included the identification of over \$8.8 million in questioned costs and \$24.3 million in funds which could be put to better use from our contract audits and needed improvements in the area of information technology (IT) security. We reviewed many internal controls and found most were adequately designed to mitigate risks, but opportunities to improve internal control effectiveness existed in several areas. In addition, we noted many positives in TVA activities. For example, we found TVA's Heavy Equipment Division and Central Laboratories Services achieved their competitiveness goals. Also, TVA management used information from our audits to recover or disallow about \$9.3 million and negotiated nearly \$7.9 million in contract cost savings.



The OIG, working with TVA management, kicked off a fraud risk assessment initiative throughout TVA. These fraud risk assessments are intended to identify the likelihood and significance of potential frauds, existing controls, and appropriate mitigation actions. We intend for this to be an ongoing process to assist TVA in effectively ensuring there are adequate antifraud controls across all TVA business units.

Investigative highlights include (1) recoveries, savings, and fines/penalties of nearly \$1.8 million; (2) workers' compensation cases, resulting in removal of two claimants from the long-term roles; and (3) TVA credit card abuse cases, including indictment of a former TVA employee for personal purchases which exceeded \$70,000. We also participated through the Health Care Task Force for the Eastern District of Tennessee on an investigation which during this reporting period was recognized by the National Health Care Anti-Fraud Association for its Investigation of the Year Award. In addition, we continued our activities to develop more proactive investigative initiatives through actions such as data mining and by working with TVA management to resolve allegations that do not warrant a full OIG investigation.

We completed 14 inspections which identified various opportunities for improved program operations. These reviews covered various operational areas, including dispersed power production program's pricing and control structure and the risks associated with loss due to coal vendor default.

## Definitions

**Questioned Costs** - A cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc.

**Unsupported Costs** - A questioned cost that is not supported by adequate documentation.

**Funds Put to Better Use** - Funds that could be used more efficiently by implementing recommended actions.

**Disallowed Costs** - A cost that management agrees should not be charged to TVA.



## TVA Profile

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TVA was created in 1933 to improve the quality of life in the Tennessee Valley region. President Franklin Roosevelt asked Congress to create TVA as “a corporation clothed



with the power of government but possessed of the flexibility and initiative of a private enterprise.” Today, TVA carries out its mission through the three key areas of energy, the environment, and economic development. TVA is completely self-financing through power sales and bond issues. TVA receives no taxpayer dollars.

In the area of energy, TVA is the nation’s largest provider of public power. TVA’s power system includes 11 fossil plants, 29 hydroelectric dams, 3 nuclear plants, 6 combustion turbine plants, 1 pumped-storage facility, and 17,000 miles of transmission lines. TVA also produces energy from renewable sources—sun, wind, and methane gas from waste. The TVA service area covers 80,000 square miles in the Southeastern United States, including most of Tennessee and parts of Mississippi, Kentucky, Alabama, Georgia, North Carolina, and Virginia. By providing wholesale power to 158 local power distributors, and by directly serving 62 large industries and government installations in the Valley, TVA supplies the energy needs of 8.5 million people.

In the area of environment, TVA manages the Tennessee River and adjoining lands to provide cleaner air and water. TVA operates the Tennessee River system—the nation’s fifth largest river system—as one integrated system to provide multiple benefits, including flood control, commercial navigation, recreation, and water quality and water supply in the 41,000-square-mile watershed.

In economic development, TVA builds partnerships that foster economic prosperity for the region. TVA delivers the reliable, affordable electric power that makes the Valley an attractive place to start or expand a business. In addition, TVA works with Valley communities to bring good jobs to the region and keep them here. TVA economic development services include assistance in recruiting and retaining jobs, programs for increasing productivity through capital investment, and specialized technical services and advice.



## Office Authority

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

The IG 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. The TVA IG is independent of TVA management and subject only to the general supervision of the TVA Board. The IG's authority includes conducting audits or investigations the IG deems necessary or desirable, issuing subpoenas, administering oaths, and granting confidentiality to individuals who provide information to the OIG.

## Organization

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The OIG's primary location is in the TVA headquarters in Knoxville, Tennessee. To obtain broader coverage throughout the Valley, the OIG also has an Inspections unit located in Chattanooga, Tennessee, and one-person offices at the Browns Ferry Nuclear Plant (BFN) in Alabama and in Mayfield, Kentucky. The OIG consists of two primary components: (1) Audits and Inspections and (2) Investigative Operations.





### AUDITS AND INSPECTIONS



Audit Operations (AO) conducts and/or supervises comprehensive financial and performance audits of TVA programs and operations and makes recommendations to ensure that program objectives and operational functions are achieved effectively and efficiently. AO develops an annual audit plan to enable effective allocations of audit resources to issues, programs, operations, and activities that expose TVA to significant risks and/or vulnerabilities.

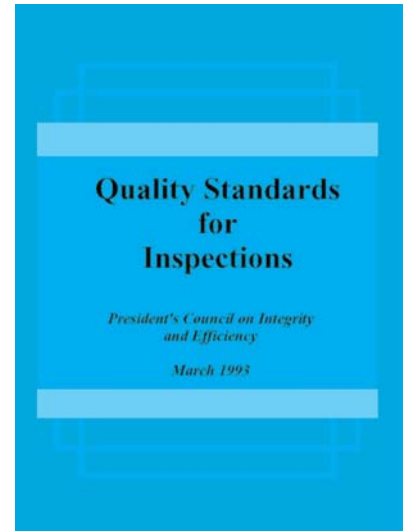
AO consists of three departments—Contract Audits, Financial/Operational Audits, and IT Audits.

- Contract Audits has lead responsibility for contract compliance and preaward audits. In addition, this group performs reviews of TVA contracting processes and provides claims assistance and litigation support.
- Financial/Operational Audits has lead responsibility for (1) oversight of TVA's financial statement audits performed by TVA's external auditor; (2) reviews of TVA's internal controls related to financial reporting, operational efficiency, and compliance with laws and regulations; and (3) operational reviews to assess the results and economy and efficiency of TVA programs.
- IT Audits has lead responsibility for audits relating to the security of TVA's IT infrastructure, application controls, and general controls associated with TVA systems. This group also performs operational reviews of the effectiveness of IT-related functions. In addition to its audit mission, IT Audits is responsible for developing and supporting an independent OIG computer network.

AO refers possible fraud or other wrongdoing by contractors, employees, or others identified during its audits to Investigative Operations for further review. As needed, AO also provides data mining and other assistance to, or performs joint projects with, the Inspections and Investigations units.



The Inspections unit, which is staffed by auditors, was formed at the beginning of fiscal year (FY) 2004. Inspections provides flexibility to conduct quick hit policy and program evaluations to promote economy and efficiency in the management and administration of TVA programs and to prevent and detect fraud, waste, and abuse. In accordance with the Quality Standards for Inspections, the objectives of inspections include providing a source of factual and analytical information, monitoring compliance, measuring performance, assessing the efficiency and effectiveness of operations, and/or conducting inquiries into allegations of fraud, waste, abuse, and mismanagement.



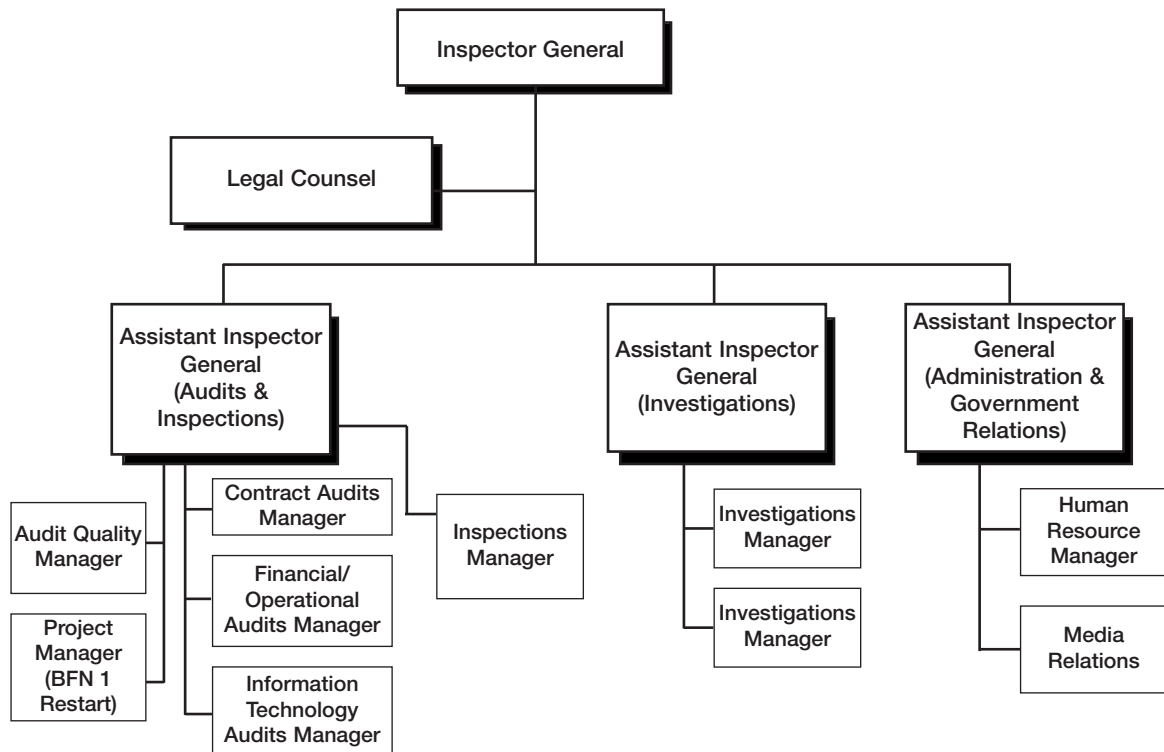
## INVESTIGATIVE OPERATIONS

Investigative Operations (IO) conducts and coordinates investigative activity related to fraud, waste, and abuse in TVA programs and operations. The activities investigated include possible wrongdoing by contractors, employees, economic development loan recipients, and others. IO maintains liaisons with federal and state prosecutors and reports to the Department of Justice whenever the OIG has reasonable grounds to believe there has been a violation of federal criminal law. IO works with other investigative agencies and organizations on special projects and assignments, including interagency law enforcement task forces on terrorism, the environment, and health care.





# Office of the Inspector General



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



## OIG and TVA Management Kick Off TVA-Wide Fraud Risk Assessment Initiative

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TVA has determined that adopting procedures consistent with certain provisions of the Sarbanes-Oxley Act will better assure potential TVA investors and other key stakeholders that TVA is providing complete, accurate, and timely information about TVA. Under Sarbanes-Oxley and consistent with other guidance, management is responsible for establishing, validating, and monitoring effective internal controls over fraud. The elements of a strong program to detect and deter fraud include assessments to identify fraud risks and controls which mitigate those risks, evaluations of the effectiveness of those controls, and addressing residual risks.

The OIG, working with TVA management, has kicked off a fraud risk assessment initiative throughout TVA. These fraud risk assessments are intended to identify (1) what types of frauds can occur, (2) the likelihood and significance of fraud occurring, (3) the controls in place to prevent fraud, and (4) actions needed to improve fraud prevention controls. We intend for this to be an ongoing process to assist TVA in effectively ensuring there are adequate antifraud controls across all TVA business units.

We recognized at the outset of this initiative that management support would be an essential element for this program to be successful. Employees and managers may hesitate to provide information because they may think it would reflect negatively on them or the company, or they may not want attention focused on themselves. That has not been our experience at TVA. We have experienced nothing but the strongest support from TVA management in this undertaking, and we have been pleased with the candor and information provided by TVA employees during the fraud risk assessment process.

Fraud risk assessment activities during this reporting period included the following.

- In November, we sponsored the first training classes on conducting fraud risk assessments. Attendees included representatives from TVA's Procurement, Fossil Fuel Supply, Chief Financial Officer, and General Counsel organizations. We used a



## Special Feature

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contractor to help us develop this program and to initially demonstrate the assessment process. We subsequently designated three special agents in our Investigations unit to take the lead in facilitating these assessments, to be supplemented by OIG subject matter experts as appropriate.

- We facilitated our first fraud risk assessment with the Fossil Fuel Supply organization. The General Manager, Fossil Fuel Supply—the process owner—and his staff showed



Pictured above from left to right: Mike Hendon, Richard Rea, Jacky Preslar, Jim Edgar, and Steve Baugh

a high level of commitment to utilizing this process to identify potential risk areas and mitigation strategies. As a result of this assessment, 16 fraud risk areas were identified and 68 fraud schemes were considered. Working collaboratively with management, we identified a number of areas where controls could be improved, and management developed remediation plans in these areas.

- We conducted a fraud risk assessment, sponsored by Procurement, with individuals at BFN who are responsible for one of the major contracts involving the restart of BFN Unit 1. Four fraud risk areas were identified and 39 potential fraud schemes considered, and management is in the process of developing remediation plans.
- We identified approximately 25 other potential fraud risk assessment areas, and we are meeting with the TVA management process owners to coordinate these reviews.



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## Summary of Representative Audits

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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 31 audits which identified over \$8.8 million in questioned costs and \$24.3 million in funds which could be put to better use. Our audits included (1) preaward and contract compliance audits, (2) financial-related audits, (3) IT audits, and (4) operational audits.

We reviewed many internal controls and found most were adequately designed to mitigate risks, but opportunities to improve internal control effectiveness existed in several areas. Management generally agreed with our findings and is taking action to adopt appropriate corrective action. In addition, we noted many positives in TVA activities.

Also, the OIG for the Small Business Administration (SBA) conducted a peer review of our Audit operations in accordance with guidance issued by the President's Council on Integrity and Efficiency (PCIE). (All OIG audit organizations are required to have a peer review conducted every three years.) The SBA OIG reported TVA's OIG Audit Operations' system of quality control was designed in accordance with the PCIE's quality standards and was being complied with to provide the OIG with reasonable assurance of material compliance with professional auditing standards in the conduct of its audits.

### **PREAWARD CONTRACT AUDITS**

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To support TVA management in negotiating procurement actions, we completed four preaward audits that identified \$11.6 million in potential savings opportunities. During this reporting period, TVA management successfully negotiated about \$7.9 million in savings as a result of audits issued during this and previous reporting periods. Highlights of the preaward audits follow.



## Audits

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- We reviewed the cost proposals submitted by two contractors for providing hydro turbines and associated mechanical equipment for TVA's hydro modernization program under two \$70 million contracts. We determined one contractor's proposal was overstated due to the addition of unsupported project management cost estimates and benefit costs. TVA management used our audit findings and negotiated terms that should save TVA about \$7.9 million on the planned \$70 million contract expenditure. The second contractor's proposal was reasonable with the exception of escalation. We could not determine if escalation factors the contractor had used were reasonable because the contractor did not provide supporting documentation.
- We reviewed line-item prices proposed by a contractor for providing Radwaste Equipment and Services. We determined 65 percent of prices that had been proposed were not as good as prices the contractor bills other customers. We estimated TVA would save about \$184,000 (based on TVA's planned expenditures of \$8 million over a three-year period) if it negotiated prices that were as good as the contractor's best prices. TVA management is negotiating pricing terms with the contractor.
- We reviewed a contractor's proposal for a one-year \$865,000 contract to provide inspection services at TVA's plant sites. This review was to determine if proposed labor markup rates were fairly stated. TVA management used information from our audit to negotiate more favorable compensation terms than originally proposed by the contractor. We estimated the more favorable terms would save TVA more than \$23,000 of the planned \$865,000 contract amount.

### **CONTRACT COMPLIANCE AUDITS**

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During this reporting period, we completed six contract compliance-related audits that identified about \$21.5 million in ineligible and unsupported costs. Management generally agreed with our findings and has taken or plans to take corrective action. Highlights of some of the more significant audits follow.



- We determined a contractor's field overhead rate used on a project at BFN was an overstatement of the company's actual costs because TVA is either (1) reimbursing the contractor directly for costs included in the overhead rate or (2) providing the items TVA is also being charged for in the contractor's overhead. We estimated TVA would be billed over \$18.9 million of unsupported overhead costs based on TVA's current planned expenditures with the contractor. TVA management is negotiating a settlement with the contractor.
- We reviewed \$236 million in costs billed by a contractor for providing selective catalytic reduction equipment and services. We determined the contractor had overbilled TVA \$501,794 for costs that were either unsupported or not in accordance with the contract terms. Additionally, TVA could have (1) saved an estimated \$374,000 if the contractor had taken advantage of payment discounts on material purchases and not billed TVA in advance for subcontractor costs and (2) potentially saved additional costs if the contract had included specific criteria for determining who was eligible to receive temporary living expense payments. The contractor subsequently agreed to credit TVA for the overbilled amounts. Management agreed with our recommendations and has taken or plans to take appropriate corrective action.
- We reviewed \$13.8 million in payments TVA made to a contractor for providing engineering, materials, and installation support for automating TVA's hydro system. We determined the contractor had (1) billed TVA \$1.3 million for labor, travel, equipment, materials, other direct costs and fees that were either unsupported or not in accordance with the contract provisions; (2) not provided at least \$125,000 of credits due TVA; (3) used the services of subcontractors that had not been approved by TVA's contract manager; and (4) not maintained proper accounting and inventory records for computers, equipment, and tools that had been billed to TVA. TVA management is negotiating a settlement with the contractor.
- We determined TVA circumvented its process for hiring and reporting on personal services contractors by utilizing a former TVA employee under an existing contract. TVA management agreed and (1) revised its contract with the former employee and





## Audits

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(2) informed us that all future needs for contractor support would be handled in accordance with policy.

- We reviewed \$4.9 million in payments TVA made to a contractor for the installation of boiler pin studs at Paradise Fossil Plant. We determined the contractor overbilled



TVA \$211,686, including (1) \$185,800 in ineligible charges and (2) \$25,886 in unsupported charges for equipment, materials, consumables, spare parts, freight, subcontractors, and labor. TVA management agreed with our findings and plans to recover the ineligible and unsupported costs.

### FINANCIAL-RELATED REVIEWS

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During the reporting period, we completed eight financial-related audits, including audits of TVA's external auditor's (1) audit of TVA's FY 2004 financial statements and (2) review of interim financial information for the first quarter of FY 2005. Highlights of the audits follow.



- The independent auditor, PricewaterhouseCoopers LLP (PwC), issued an unqualified opinion on TVA's FY 2004 financial statements on November 18, 2004. On that same day, PwC issued a report on its consideration of TVA's internal control over financial reporting and results of tests of compliance with certain provisions of laws and regulations for the year which ended September 30, 2004. In meeting our statutory responsibility for the financial statement audit, we (1) assessed the external auditor's methodology, evidence, and documentation; (2) performed supplemental tests of accounting records and compared the results to those of the external auditor; and (3) examined the independence and qualifications of the external auditor. We determined the financial statement audit was performed in accordance with Government Auditing Standards in all material respects.
- We found no instances where TVA's external auditor's reviews of TVA interim financial information for the first quarter of FY 2005 did not comply with Government Auditing Standards in all material respects, including required communications to appropriate parties.



- We assessed the adequacy of internal controls over short-term trading activities and decision processes, including documentation of trades, to ensure accurate financial reporting. We determined management control over short-term trading activities was adequate to ensure accurate financial reporting in all material respects. However, operational effectiveness of the control activities could be improved. Management agreed with our recommendations and has taken or plans to take appropriate corrective actions.
- We assessed whether internal controls over invoice processing and approval for payment were adequate to ensure payments are made accurately and timely. We determined that internal control design was adequate and key control activities were operating effectively to ensure payments were made accurately and timely. However, we found improvements could be made relating to (1) not exceeding approved contract limits, (2) updating policies and procedures, (3) monitoring system access authority, (4) monitoring for unauthorized invoice entry, (5) performing accounting reconciliations, and (6) receipt entry timing. Management agreed with our recommendations and has taken or plans to take appropriate corrective actions.
- We reviewed TVA's internal controls over convenience check payment and processing. Our audit included the period January 1, 2003 to June 30, 2004. During this period, TVA had 4,509 convenience check transactions totaling \$11.6 million. Specifically, we reviewed 2 key control objectives and 15 associated control activities designed to mitigate the risks related to potential (1) unauthorized use and (2) improper cost accounting. We determined the control design was adequate to mitigate the risks of unauthorized expenditures. However, the operating effectiveness of the controls could be improved. We also found that the control design and control operating effectiveness related to financial reporting could be improved. Management agreed with our recommendations and has taken or plans to take appropriate corrective actions.
- We reviewed TVA's internal controls over nuclear fuel to determine whether tracking, documentation, and accounting controls are adequate. Our audit included the controls in place during the period October 1, 2003 to September 30, 2004. During



## Audits

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this period, TVA (1) completed three reactor reloads and (2) recorded \$131.9 million in spent fuel expense, \$43 million in disposal costs, and \$2.5 million in fuel-related inspection and handling costs. In summary, we determined the internal control design was adequate to mitigate the risk of nuclear fuel not being appropriately controlled and accounted for. We also found the key control activities related to nuclear fuel tracking, documentation, and accounting to be operating effectively.

### IT AUDITS

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During this reporting period, we completed six audits in the IT environment. These reviews included (1) logical controls for servers hosting financially significant applications, (2) a vulnerability assessment of a standard image used to implement new servers, and (3) internal controls for TVA's fuels, payroll, and work management systems. We found improvements were needed in five of the audits to address weaknesses in the following areas:

- Logical security controls for servers related to system vulnerabilities, operating system security, access management, and implementation of configuration standards.
- Internal controls in the payroll system related to process and internal control documentation; completeness, accuracy, confidentiality, and authorization of data, files, reports and production programs; approval of overtime payments; separation of duties in the disbursement process; background clearances for contract employees handling sensitive information; recording of payroll payments in suspense; and reconciliation of payroll payables.
- Internal controls in work management systems related to access management and processes for creation, review, and disabling of account codes.

TVA management agreed with our findings and either has implemented or is in the process of implementing corrective actions. Some of the corrective actions to address our findings are part of an ongoing agency-wide effort to improve security controls in TVA's existing IT infrastructure.



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## **OPERATIONAL AUDITS**

### **HEAVY EQUIPMENT DIVISION (HED) PRICING**

HED is a self-supporting organization specializing in heavy equipment rental, services, repair, and maintenance. At the request of the President and Chief Operating Officer, we assessed the competitiveness of HED's equipment rental and labor/maintenance rates compared to outsourced alternatives. We determined HED achieved its total fleet competitiveness goal, and HED's labor/maintenance repair rates were generally lower than outside vendors. We did find vendor average rates and individual rates that were lower than HED for some subclasses of equipment. We also determined HED's rate reviews could be improved by (1) applying a weighted average based on current FY revenue for each item, (2) using only current vendor rates, (3) including multiple vendor rates in the equipment rate review, and (4) maintaining additional documentation to support vendor rate information. Management agreed with our recommendations and has taken or plans to take appropriate corrective actions.

### **CENTRAL LABORATORIES SERVICES (CLS) PRICING**

CLS is a cost-recovery organization specializing in instrument calibration, instrumentation, metallurgy, oil, coal, and environmental analysis. At the request of the President and Chief Operating Officer, we assessed the competitiveness of CLS's test/service rates compared to outsourced alternatives. We determined CLS achieved its total lab competitiveness goal for the sample selected; however, individual lab area competitiveness varied. We did find vendor average rates and individual rates that were lower than CLS for some tests/services. In response to our review, management is considering (1) evaluating the costs/benefits of outsourcing certain lab tests/services and (2) revising the CLS rate review methodology to not include Corporate and Fossil overhead rates.

### **NEW EXECUTIVE ORIENTATION**

TVA currently provides orientation to most newly hired employees through a centralized and standardized hiring and orientation process called the New Employee Experience (NEE). We assessed the effectiveness of orientation for new executives by (1) obtaining



## Audits

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and reviewing documentation related to the NEE, (2) interviewing selected TVA executives hired during the period of our review (September 25, 2000 to December 13, 2004), and (3) obtaining and reviewing research related to executive orientation best practices.

After this review was initiated, Human Resources began developing a new process for executive orientation. Our report included several additional recommendations, such as providing specific guidance on sensitive issues and having periodic orientation sessions. Management agreed with our recommendations and has taken or plans to take appropriate corrective actions.

### **RIVER OPERATIONS' COMPLIANCE WITH TVA'S PURCHASING CARD PROCEDURE**

At the request of the Senior Vice President, River Operations (RO), we reviewed RO compliance with the TVA VISA Purchasing Card procedure. We found that not all RO cardholders and approving officials fully complied with TVA's VISA purchasing card



procedure. We also specifically identified several noncompliances that may have contributed to a former RO cardholder being able to use TVA purchasing cards for personal purchases. Management agreed with our recommendations and has taken or plans to take appropriate corrective actions.



## CONTROLS OVER DIRECT CHARGE MATERIALS FOR BFN UNIT 1

We assessed whether controls over the BFN Unit 1 Restart direct charge inventory are in place and functioning properly. The scope of our review included controls over the receiving, storage, and issue processes and the BFN Unit 1 Restart materials inventory as of November 11, 2004. We found the control design was adequate to mitigate the risks of (1) accepting materials that are damaged, incomplete, or do not meet required specifications; (2) not properly identifying, tracking, or accounting for material receipts/disbursements; and (3) not being able to locate warehoused items.



However, we found the operating effectiveness of warehousing controls needs improvement. Specifically, materials were shelved in locations not identified by TVA's inventory tracking system. Failure to readily locate materials could affect project timeliness or result in duplicate purchases. We also found that a significant amount of quality assurance material was in inspection backlog status. Management has taken appropriate corrective action.



## Investigations

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### Summary of Representative Investigations

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During the past six months, we closed 103 investigations based, in part, on allegations and concerns received from ratepayers, TVA management and employees, and OIG auditors. Our investigations, including task force projects, resulted in (1) nearly \$1.8 million in recoveries, projected savings, and fines/penalties; (2) three subjects indicted; and (3) four subjects convicted.

Our investigative activities are designed to prevent and detect fraud and abuse. While our investigations in the past have largely been reactive, we are implementing programs to become more proactive. Our proactive efforts include (1) placing an additional emphasis on testing for fraud during audits and having auditors make referrals to Investigations, (2) devoting one employee to full-time data mining to look for anomalies and fraud indicators in TVA data sets, (3) working with TVA management to conduct fraud risk assessments, (4) assigning OIG special agents to be responsible for specific TVA plant sites and develop relationships with the people there, and (5) developing an Intelligence Unit to look for trends or patterns which might indicate fraud. We also are working with TVA management to ensure that allegations which do not rise to the level of warranting an OIG investigation are appropriately considered and acted upon.

Below we discuss illustrative cases in several major areas, including workers' compensation, health care, credit cards, and contracts. TVA expends significant amounts of money in each of these areas, and our efforts are designed both to prevent fraud and to find and prosecute fraud which may have occurred. We also discuss below our program for handling allegations of employee misconduct.

#### **WORKERS' COMPENSATION**

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TVA employees, like other federal workers, are covered by the Federal Employees' Compensation Act (FECA). Under FECA, workers injured on the job receive medical benefits and tax-free wage loss benefits for life equal to 75 percent of salary if they have dependents and 66-2/3 percent if they do not. TVA employees, unlike other federal



employees, can also receive full retirement and social security benefits in addition to FECA benefits.

TVA spent over \$61 million on workers' compensation benefits during FY 2004 alone. Because of the amount of money involved, including the amount of benefits an individual can receive, we have developed a program to identify fraud and other overcharges in this area. Anyone convicted of fraud in connection with a workers' compensation claim is no longer eligible to receive workers' compensation benefits. Because workers' compensation recipients otherwise would receive benefits for the rest of their lives, convictions generally lead to significant long-term avoided costs for TVA. In addition to fraud investigations, we also work with the Department of Labor (DOL) OIG and Office of Workers' Compensation Programs (OWCP) to identify erroneous payments or individuals who are receiving benefits to which they are not entitled. Since January 1, 2000, we have closed 60 workers' compensation investigations. Those investigations resulted in five convictions, one pre-trial diversion, \$489,502 in recovered costs, and \$6,411,939 in estimated long-term avoided costs.



Our efforts during this reporting period resulted in an estimated long-term savings to TVA of over \$1 million. Results during this period included the following.

- A federal court jury in the Western District of Kentucky found a former TVA employee receiving workers' compensation benefits guilty on four counts of filing false statements with OWCP to obtain benefits. The former employee reported on statements filed with OWCP that he was not employed or self-employed; however, the employee was self-employed in an auto salvage and used car business. Based on the conviction, the defendant forfeited his entitlement to continued benefits, resulting in an estimated long-term savings to TVA of roughly \$625,896.
- We found a workers' compensation recipient correctly reported his return to work, but OWCP inadvertently failed to adjust his benefits. After we brought this matter to OWCP's attention, they terminated the recipient's benefits, resulting in an estimated





## Investigations

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long-term savings of \$464,632 for TVA. We identified this case through a computer match of TVA workers' compensation recipients with wages reported to the Tennessee DOL and Workforce Development.

- A joint investigation with the DOL OIG revealed a claimant actually owned an automotive repair business, but he concealed his involvement in the business through his wife and ultimately another person. Although prosecution was declined, OWCP forfeited the claimant's benefits from 1998-2004 based on his failure to report and/or underreporting his earnings and activities as the owner/operator of an automotive repair business. The forfeited benefits totaled \$168,779. We also have asked OWCP to consider re-rating the claimant based on his operation of the business.

## HEALTH CARE

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Health care fraud has been identified as a major problem across the country, including in government programs. TVA operates a self-insured health care plan, and during FY 2004 spent roughly \$140 million on health care costs. We have found, however, that fraud by individual providers is usually spread out among many insurance programs, and TVA by itself often does not suffer enough damages to warrant a criminal prosecution. Accordingly, we participate on the Health Care Task Force for the Eastern District of Tennessee, and we seek other opportunities for joint investigations to establish a large enough fraud to warrant prosecution.



Health Care Task Force for the Eastern District of Tennessee  
Pictured above (from left to right) Special Agent Tim Burke, FBI;  
Inspector Bob Smith, Postal Inspection; Special Agent Jenny  
Trussell, HHS/OIG; Special Agent Norman Tidwell, TBI;  
James Farr, TVA OIG; AUSA Cindy Davidson; and  
Joan Syler, BCBS of Tennessee

The usefulness of these joint efforts was recognized by a prestigious award given during this reporting period. The National Health Care Anti-Fraud Association selected an investigation of an orthopedic surgeon by the Health Care Task Force for the Eastern District of Tennessee for their Investigation of the Year Award. James F. Farr, OIG Investigative Project Manager, worked with the task force and accepted the award with other team members. Among other things, the



surgeon submitted questionable claims to the TVA Workers' Compensation program. At trial, the surgeon was convicted on 95 counts of health care fraud. He was sentenced to 41 months in prison, 3 years' supervised release, and ordered to make restitution in excess of \$3 million to the various health care programs, including TVA. This recognition of the task force and Mr. Farr was well deserved.

Our results during this reporting period included the following.

- We previously reported on an investigation by the Health Care Task Force for the Eastern District of Tennessee into a scheme to divert prescription drugs. During this period, the two final defendants pled guilty to participating in a conspiracy to illegally distribute prescription drugs, bringing the total number of convictions to seven. Sentences for conviction in this case included 28 months in prison for the physician.
- On November 8, 2004, a seven-count indictment was returned in Alabama state court against a former TVA employee for acquiring or obtaining possession of a controlled substance by misrepresentation, fraud, forgery, deception, or subterfuge. Our investigation found that on average the former employee obtained 13 to 18 pills a day from 6 pharmacies with prescriptions written by 9 doctors. TVA paid this individual's health care costs through the workers' compensation program, and the drug costs, which exceeded \$12,000, through the TVA prescription drug plan.

### **CREDIT CARDS**

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Credit card fraud is generally increasing nationwide as more and more transactions are done via cards and electronically. TVA credit card expenditures during FY 2004 exceeded \$90 million. While we have developed data mining programs to periodically review TVA credit card transactions to look for anomalies, the best defense against fraud remains with the cardholder and approving official, who are responsible for reviewing each month's charges and ensuring they are legitimate. Results during this reporting period included the following.



## Investigations

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- A former TVA River Operations employee was charged in the Eastern District of Tennessee with theft and mail fraud in an 11-count federal indictment. The indictment charged the former employee used TVA credit cards to purchase items for personal use, including color televisions, storage sheds, and other items totaling over \$70,000. A breakdown in internal controls in that case allowed the alleged misuse to continue for several months before it was detected.
- A former TVA Fossil Power Group employee was charged in the state of Alabama with the fraudulent use of a TVA credit card. The former employee was charged with using a TVA credit card subsequent to his termination from TVA to obtain over \$4,000 in services.
- Our investigation of a credit card charge to a cosmetic company showed a TVA manager purchased several items in violation of ethics regulations. The manager purchased the items to give his employees. He purchased them from his wife, a consultant for the cosmetics company, who received a commission on the sale. The TVA manager was counseled and required to reimburse TVA for the amount of the charges.
- We previously reported on a former Transmission/Power Supply foreman who was indicted by a federal grand jury for using a Wright Express credit card to steal from TVA. Our investigation determined the former employee accepted cash from individuals in exchange for using a TVA credit card to pay for gasoline for their private vehicles. Typically, the individuals paid the former employee half the value of the fuel they received. During this reporting period, the former employee pled guilty to unauthorized use of an access device and was sentenced to six months in prison, six months in a half-way house, and three years' probation. He also was ordered to pay \$45,452 in restitution to TVA.
- We previously reported an employee at BFN was indicted for misusing his TVA purchasing card by accepting kickbacks to purchase overpriced janitorial supplies in quantities far in excess of what TVA needed. In return, the former employee received about \$14,500 in store gift cards and merchandise. The loss to TVA is



estimated to be between \$200,000 and \$400,000. During this period, we reported our concerns to TVA management about the failure to adequately review the purchasing card transactions. Management took appropriate corrective action.

## CONTRACTS

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We identified several possible fraud schemes involving TVA contracts through our proactive methods as discussed at the beginning of this section. We closed several investigations into possible contract fraud where there was insufficient evidence to show actual fraud, and several others are still ongoing. Results from completed contract investigations included the following.

- Our combined investigation/audit showed a transportation company overbilled TVA as the result of using a weighing method that contained a bias and failing to return residual coal to TVA. TVA negotiated a settlement with the transportation company under which the company offset damages to their equipment caused by TVA by \$460,000.
- We participated with other agencies in a civil False Claims Act action brought by the Department of Justice. That case involved making false claims and statements regarding the testing of compressed gas cylinders, including some provided to TVA. The case was settled and the lawsuit dismissed. Although no final determination on allocation has been made, we estimate TVA will recover over \$350,000.
- Our investigation of a contractor who installed heat pumps under the *energy right*® program showed the contractor submitted loan documentation containing forged signatures. The contractor pled guilty to offering a false instrument. He was sentenced to 12 months' confinement (suspended) and placed on probation for 24 months. His sentence also contained a special condition that prevented him from doing business directly or indirectly with TVA for two years.





## Investigations

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### EMPLOYEE CONDUCT

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We evaluate each allegation we receive to determine if it meets the threshold to warrant an investigation. We generally investigate potentially criminal matters or allegations involving senior TVA managers. In other cases, we often decide it would be more appropriate to refer the matter to the Designated Agency Ethics Official or an appropriate level of TVA management for corrective action. Factors we consider in deciding whether to refer a matter to management include the potential monetary amount involved, the risk to TVA, the nature of corrective action required if substantiated, and the likelihood that management can resolve the matter. We have found management to be responsive to referred issues, and we track each referral to ensure appropriate action is taken. During this reporting period, management took action in response to two investigations of alleged employee misconduct. Management also pursued and took corrective action in numerous referrals. Our investigations and examples of management referrals are outlined below.

- Management took administrative action in response to our investigation showing time and travel abuses by a Transmission Line Construction crew. In response to our findings, management took action to ensure future compliance, including drafting administrative guidelines covering time reporting, travel claims, vehicle use, and cellular phone use. These guidelines will be provided to all Transmission Line employees, who also will be required to complete a training module at least once every two years. Management further gave the involved employees written warnings, made them reimburse TVA for ineligible expenses they claimed, reassigned the crew members, and removed the supervisor from supervisory duties. One employee also was suspended for 30 days for misusing a TVA vehicle.
- Our investigation found a TVA manager used vulgar language and/or profanity in the workplace, and that he forwarded a sexual e-mail to several other TVA employees in violation of TVA policy. Management suspended and transferred the employee.



- We received an allegation that a TVA vehicle was driven in an unsafe manner. Management identified the driver and counseled him about the responsibilities of driving a government vehicle and representing TVA in a positive manner. Management also presented this same message at a safety meeting.
- A contractor's expense records indicated several TVA employees may have accepted meals whose costs exceeded ethics guidelines. As a result of our referral, the Designated Agency Ethics Official made a presentation to relevant management of TVA and the contractor, and the employees were required to reimburse the contractor for the cost of the meals.
- We confirmed an allegation that a TVA employee had been arrested. Management issued the employee a warning letter for not reporting the arrest and provided additional training to employees at several fossil plants about TVA's disciplinary guidelines and the requirement to report arrests.
- Management confirmed an allegation that a TVA employee was conducting a personal business on TVA time and issued the employee a warning letter.

### **INTERAGENCY SUPPORT**

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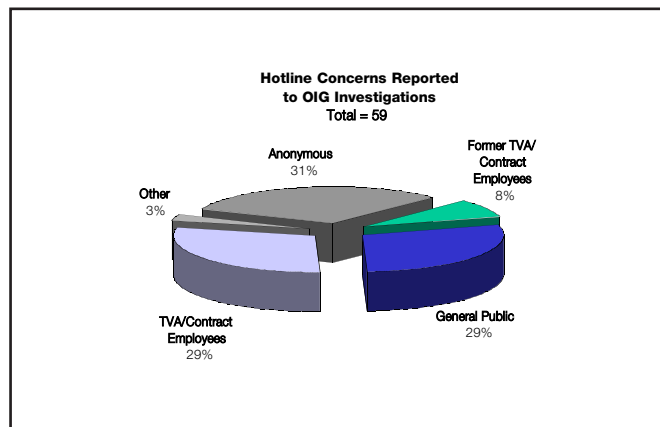
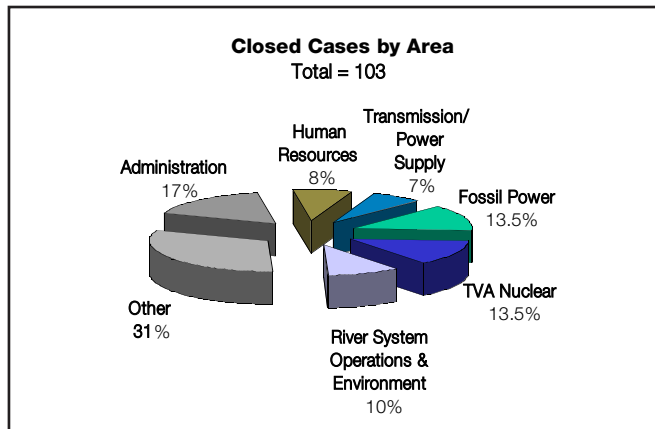
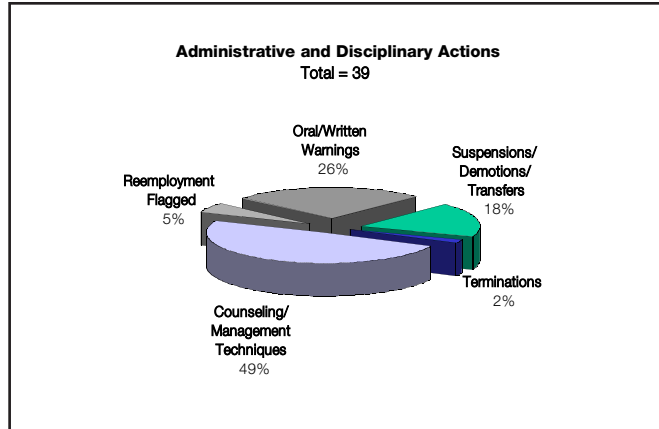
We recognize the importance of sharing investigative resources and information with other federal agencies and task forces in order to focus enhanced law enforcement resources by applying the most effective criminal and civil statutes against individuals and companies who are breaking the law. During this period, we continued to provide investigative resources to the Health Care Fraud Task Force and Environmental Crimes Joint Task Force, both sponsored by the U.S. Attorney for the Eastern District of Tennessee, and the Joint Terrorism Task Force, led by the Federal Bureau of Investigation, Knoxville Field Division.

In addition, we provided investigative support to the Appalachian Regional Commission IG, who requested our assistance with an investigation of potential grant fraud involving a non-profit organization located in Eastern Kentucky. We conducted the investigation



## Investigations

and confirmed the grant funds were not disbursed in accordance with the grant agreement. However, prosecution was declined.





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## Summary of Representative Inspections

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Inspections may be initiated from various sources including (1) annual project planning, (2) management requests, (3) audit/investigative referrals, and (4) spin-off reviews resulting from an ongoing inspection. During this reporting period, we completed 14 inspections which identified various opportunities for TVA to improve program operations. Highlights of the inspections follow.

### **FOLLOW-UP REVIEW OF TVA'S NON-NUCLEAR PHYSICAL SECURITY**

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On September 25, 2003, the OIG and a consultant assessed the adequacy of the methodology TVA used to determine physical security needs at non-nuclear facilities. We performed a follow-up review to evaluate TVA's non-nuclear security actions related to:

- Implementation of recommendations from the previously issued OIG report;
- Completion of planned physical security countermeasures at selected critical facilities;
- Monitoring current threats; and
- Complying with directives, laws, and regulations pertaining to security.

In summary, we found (1) TVA has taken actions to fully address two of the nine recommendations from the previous OIG report, (2) most countermeasures have been completed, (3) TVA currently monitors threats but does not conduct historical trending or have a policy to define when and to whom threat information is communicated, and (4) TVA continues to monitor and take actions to ensure compliance with directives, laws, and regulations pertaining to physical security. We recommended TVA (1) take actions to fully address the seven remaining recommendations from the previously issued OIG report; (2) conduct historical trending of TVA, industry, and general threat data to identify developing patterns; and (3) develop a policy to define when and to





## Inspections

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whom threat information is communicated. TVA management agreed with our findings and will provide an action plan to address the recommendations.

### **KNOXVILLE EAST TOWER SALE PROCESS**

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While TVA's Knoxville corporate headquarters are located in both the East Tower and West Tower, TVA has attempted to sell the smaller East Tower for over a year. As part of the TVA office space optimization program, Facilities Management began marketing the East Tower for sale once it was determined that all Knoxville employees could be housed in the West Tower.

We performed a limited scope review of TVA's planned sale of the East Tower. Our objective was to review the process used by TVA to (1) market the East Tower to identify potential buyers, (2) determine the fair market value, and (3) notify and prequalify potential bidders.

Our review identified some areas related to the financial analysis, negotiation, and option terms of the sale of the East Tower which TVA may want to consider in future sales.

### **TVA'S DISPERSED POWER PRODUCTION PROGRAM**

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We determined TVA's dispersed power production program's pricing and control structure were effective in recovering TVA's cost and ensuring regulatory compliance. However, to strengthen controls over program participation, we suggested TVA include language in program guidelines that would allow TVA's auditors to verify participants' statements regarding compliance. Management agreed with our suggestion.



## **COAL VENDOR SUPPLY RISK**

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We determined TVA could reduce the risk of loss due to coal vendor default by developing additional inspection functions, implementing processes and procedures to determine if and when contract performance enhancements should be required, and periodically monitoring changes in TVA's financial exposure. TVA management agreed with our findings.



## **CONCERNS RESOLUTION PROGRAM - BFN UNIT 1 RESTART - FOLLOW-UP**

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We assessed the willingness of the BFN Unit 1 Restart contractors to report nuclear safety and quality issues by interviewing a sample of contractors and comparing the results to our previous survey which was performed in May 2004. Our survey results indicated no significant change in the willingness of the BFN Unit 1 Restart contractors to report nuclear safety and quality issues through some avenue. These contractors, generally, have confidence in their Employee Concerns Programs or the Concerns Resolution Program. The survey responses also compared favorably with the responses from our previous assessment of TVA Nuclear as a whole.



## Legislation and Regulations

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We continued to follow legislative areas of interest pertaining to the IG community and TVA. The TVA IG, Richard W. Moore, serves on the Legislation Committee for the PCIE, and we worked with the PCIE to provide comments on legislation involving the IG community. We believe the pros and cons of proposed legislation involving the IG community and TVA are being fully explored, and we look forward to working with both TVA and Congress in these matters.

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# APPENDICES

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## Appendix 1

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### Index of Reporting Requirements Under the Inspector General Act

REPORTING REQUIREMENT	PAGE
Section 4(a)(2) Review of Legislation and Regulations	31
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	8-30
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	8-30
Section 5(a)(3) Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4) Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 5
Section 5(a)(5) and 6(b)(2) Summary of Instances Where Information Was Refused	None
Section 5(a)(6) Listing of Audit Reports	Appendix 2
Section 5(a)(7) Summary of Particularly Significant Reports	8-30
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	Appendix 6
Section 5(a)(11) Significant Revised Management Decisions	None
Section 5(a)(12) Significant Management Decisions With Which the Inspector General Disagreed	None
Section 5(a)(13) Information under Federal Financial Management Improvement Act of 1996	None



## Audit Reports Issued

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

#### 2004-017C-02

10/29/04	Voith Siemens Hydro Power Generation, Inc. - Personal Services Contract			
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#### 2004-061C

12/06/04	GE Hydro Power, Inc.			\$11,447,000
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#### 2004-005C

12/09/04	Alstom Power, Inc., Environmental Control Systems	\$875,794	\$454,652	
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#### 2004-066C

12/13/04	Duratek, Inc.			184,000
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#### 2004-062C

12/16/04	Intech, Inc. - Labor Markups			23,000
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#### 2004-065C

12/17/04	Voith Siemens Hydro Power Generation, Inc.			
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#### 2004-017C-01

01/04/05	Voith Siemens Hydro Power Generation, Inc.	1,471,104	37,834	
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#### 2004-012C-01

01/25/05	Stone & Webster Construction, Inc. - Overhead Rate	6,300,000	6,300,000	8,500,000
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#### 2004-044C

03/14/05	McCartin McAuliffe Mechanical Contractors, Inc.	211,686	25,886	
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#### 2005-029C

03/31/05	Stone & Webster Construction, Inc. - BFN Unit 1 Restart - Additional Overhead Costs			4,152,000
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## Appendix 2

### Audit Reports Issued

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

**2004-034F**

10/05/04 Controls for Accounts  
Payable Invoice Processing and  
Approval for Payment

**2004-028F**

10/22/04 Controls Over Short-Term  
Trading Activities

**2004-042F**

11/24/04 Audit of PwC's Audit of TVA's  
FY 2004 Financial Statements

**2005-010F**

12/02/04 IG Agreed-Upon Procedures on  
Intragovernmental Activity and  
Balances

**2004-051F**

01/24/05 Controls Over Convenience Check  
Payment and Processing

**2005-018F**

02/11/05 Audit of PwC's Review of TVA 2005  
Financial Information

**2004-056F**

02/18/05 Controls Over the Extension of Credit  
to Nonpower External Business  
Customers

**2004-063F**

03/24/05 Controls Over Nuclear Fuel Inventory

#### INFORMATION TECHNOLOGY

**2004-047T**

10/26/04 Controls Over Short Code Creation in  
the Enterprise Maintenance Planning  
and Control System

**2004-060T**

11/19/04 IT Security Review of New Servers for  
Human Resource and Payroll  
Applications

**2005-001T**

11/19/04 Vulnerability Assessment on Solaris  
Standard Image

**2003-056T-01**

11/22/04 Pre-Implementation Review of TVA's  
New Fuelworx Application Follow-Up



## Audit Reports Issued

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

<b>2004-059T</b> 11/24/04	Pre-Implementation Review of Security of New Servers for IBS, Fixed Assets, and BOSS Applications			
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<b>2004-016T-01</b> 12/07/04	Payroll System Controls			
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<b>2004-064T</b> 03/22/05	Management Controls Over Implementation and/or Development of IT Systems			
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### PERFORMANCE

<b>2004-053F</b> 12/20/04	Heavy Equipment Division Pricing			
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<b>2004-055F</b> 01/24/05	River Operations Compliance With Purchasing Card Procedures			
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<b>2005-002F</b> 02/11/05	Controls Over BFN Unit 1 Direct Charge Inventory			
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<b>2004-054F</b> 03/03/05	Central Lab Services Pricing			
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<b>2005-011F</b> 03/21/05	New Executive Orientation			
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<b>2005-020F</b> 03/31/05	Survey of TVA's Clean Air Program			
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<b>TOTAL</b>	<b>31</b>	<b>\$8,858,584</b>	<b>\$6,818,372</b>	<b>\$24,306,000*</b>
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\* This figure includes funds identified in preaward audits of proposals for contracts that may not be awarded.





## Appendix 3

### 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	3	\$736,417	\$103,034
B. Which were issued during the reporting period	4	\$8,858,584	\$6,818,372
<b>Subtotals of A and B</b>	<b>7*</b>	<b>\$9,595,001</b>	<b>\$6,921,406</b>
C. For which a management decision was made during the reporting period	6**	\$7,668,117	\$6,868,869
(i) Dollar value of disallowed costs	6	\$7,586,149	\$6,792,647
(ii) Dollar value of costs not disallowed	2	\$81,968	\$76,222
D. For which no management decision has been made by the end of the reporting period	2	\$1,926,884	\$52,537
E. For which no management decision was made within six months of issuance	1	\$455,780	\$14,703

\* The total number of reports (A+B) differs from the sum of C and D when the same reports contain recommendations with and without management decisions.

\*\* 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	0	\$0
B. Which were issued during the reporting period	5	\$24,306,000
<b>Subtotals of A and B</b>	<b>5</b>	<b>\$24,306,000</b>
C. For which a management decision was made during the reporting period	4*	\$24,122,000
(i) Dollar value of costs agreed to by management	4	\$20,181,375
(ii) Dollar value of costs not agreed to by management	1	\$3,940,625
D. For which no management decision has been made by the end of the reporting period	1	\$184,000
E. For which no management decision was made within six months of issuance	0	\$0

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



## Appendix 4

### Audit Reports With Corrective Actions Pending

Final corrective actions on recommendations in four contract compliance audits, three operational audits, three financial audits, and nine IT audits have not yet been fully implemented; however, management is working toward implementation in each case.

#### AUDIT REPORT NUMBER AND DATE

#### DESCRIPTION

<b>2001-074T</b> 01/07/02	<b>Application Review of Pegasys</b> This report contained recommendations regarding facility access control. Funding has been approved for addressing the recommendations. TVA is now evaluating system upgrade/replacement options.
<b>2002-025T</b> 08/07/02	<b>Security of Windows 2000/Windows XP</b> This report contained recommendations to strengthen environmental and logical controls of TVA's implementation of Windows 2000 and Windows XP. TVA management plans to complete final action by May 2005.
<b>2003-004C</b> 03/30/04	<b>A &amp; G Tree Service, Inc.</b> This report included recommendations to (1) recover unsupported costs and (2) require the contractor to compensate its employees for underpaid wages. TVA management has issued a Contracting Officer's decision requiring repayment of the unsupported costs. Also, TVA is reviewing prevailing wage rates for right-of-way clearing contractors and plans to have this completed by April 2005.
<b>2003-015F</b> 07/28/03	<b>Review of Completed Plant Retirements</b> This report contained recommendations to correct completed plant retirement inaccuracies, improve accounting for completed plant retirements, and strengthen management's controls over retirements processing. TVA management agreed to implement most of our recommendations and expects to complete final action by July 2005.
<b>2003-024F</b> 11/18/03	<b>Review of TVA's Accounts Receivable and the Allowance for Doubtful Accounts</b> This report contained recommendations to (1) develop, document, and implement guidelines for estimating the allowance for doubtful accounts; (2) ensure reconciliation of the general ledger and subsidiary accounts include documentation of corrections and adjustments made during power and nonpower reconciliations and management review and approval of all nonpower adjusting journal entries; (3) make modifications to the write-off process to ensure invoices are written off in a timely manner; (4) develop and implement procedures to track written off accounts for future collection efforts or business decisions; (5) ensure accounts are written off in accordance with policy; and (6) review and update Accounting Procedure 25 to clarify the criteria for referring past due customers to OGC. TVA management agreed to implement our recommendations and has transitioned the responsibilities to a new group. Processes and procedures will be evaluated and updated in FY 2005, and a new system is planned.
<b>2003-036C-01</b> 06/21/04	<b>Diamond Power-Cost Compliance</b> This report contained recommendations that TVA Procurement recover an estimated \$238,000 overbilled by Diamond Power and require future adjustments in the contract's parts prices to comply with the contract's price change provisions. Subsequently, TVA management working with Diamond Power and the OIG determined the actual overbilled amount due to the contractor's noncompliance with the contract's price change provisions was \$137,588. TVA plans to recover this amount from the contractor.



## Audit Reports With Corrective Actions Pending

AUDIT REPORT  
NUMBER  
AND DATE

DESCRIPTION

<p><b>2003-036C-02</b> 06/04/04</p>	<p><b>Diamond Power-Cost Compliance</b> This report contained recommendations that TVA Procurement execute formal signed contracts that document agreed-upon terms and conditions and specific pricing criteria. TVA management has assembled the contract and is working with the contractor to clarify the contract's pricing terms.</p>
<p><b>2003-040T</b> 03/30/04</p>	<p><b>Nuclear Plant IT Security</b> This report included recommendations to strengthen logical and physical controls at a nuclear generation facility. TVA management is implementing planned remediation actions that are expected to be completed by July 2005.</p>
<p><b>2003-045C</b> 12/02/03</p>	<p><b>Three Rivers Contracting</b> This report included a recommendation to require the contractor to (1) establish appropriate documentation and approval processes and (2) compensate its employees for underpaid wages. TVA management has required the contractor to implement documentation standards. Also, TVA is reviewing prevailing wage rates for right-of-way clearing contractors and plans to have this completed by April 2005.</p>
<p><b>2003-053F-01</b> 06/03/04</p>	<p><b>Controls for Generation Data in Operations Data Store System and Web Based Data Entry Page</b> This report included recommendations to strengthen controls over generation data in the system. TVA management expects to issue a new policy addressing generation data requirements and each organization's responsibilities by May 2005. Changes to organizations' policies and procedures and necessary system modifications are expected to be complete by September 2005.</p>
<p><b>2003-053F-02</b> 06/03/04</p>	<p><b>Operations Data Store (ODS) Logical Security Controls</b> This report included recommendations that TVA management address suggested remediation actions to improve ODS security that are expected to be complete by May 2005.</p>
<p><b>2003-054T</b> 11/13/03</p>	<p><b>Hydro Plant IT Security</b> This report included recommendations to strengthen logical, physical, and management controls over IT assets at a hydroelectric facility. TVA management is implementing planned remediation actions and has established a Security Project to address remaining issues with completion targeted for December 2006.</p>
<p><b>2003-056T</b> 03/18/04</p>	<p><b>Pre-Implementation Review of TVA's New Fuelworx Application</b> This report included a recommendation to strengthen user access controls. The recommendation will be addressed as part of a TVA-wide effort that is expected to be complete in December 2006.</p>



## Appendix 4

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### Audit Reports With Corrective Actions Pending

AUDIT REPORT  
NUMBER  
AND DATE

DESCRIPTION

<b>2003-067P</b> 02/02/04	<b>TVA's Compliance with the National Energy Conservation Policy Act</b> This report included recommendations to continue to evaluate opportunities to reduce energy consumption including (1) promoting sustainable building design when appropriate and (2) determining whether TVA can implement energy reduction requirements in one lease. Due to organizational and functional changes and process and peer review evaluations, the Internal Energy Efficiency process has been delayed. An estimation of implementation is not available at this time. The occupancy test project, IS computer software initiative, energy campaign to reduce energy use, and efficient building energy control settings for the Chattanooga Office Complex are all underway. TVA included model lease provisions on two facilities in February 2005.
<b>2004-004T</b> 07/28/04	<b>Operations Centers IT Security</b> This report included recommendations that TVA management address suggested remediation actions to improve the security for the operations centers' IT infrastructure. TVA management is implementing planned remediation actions that are expected to be completed by December 2006.
<b>2004-006F</b> 07/13/04	<b>Public Power Institute</b> This report included a recommendation that TVA develop improved program performance measures. TVA plans to complete this by September 2005.
<b>2004-007T</b> 01/26/04	<b>Fossil Plant DCS IT Security</b> This report included recommendations to strengthen logical and physical controls over control systems at a fossil generation facility. TVA management is implementing planned remediation actions that are expected to be completed by June 2005.
<b>2004-010P</b> 08/11/04	<b>TVA's Workers' Compensation Claims Process</b> This report contained recommendations that TVA (1) assess the recoverability of the identified workers' compensation overpayments and (2) determine whether additional verification reviews of DOL (DOL) workers' compensation billings would be cost effective. TVA has sought recovery of the DOL overpayments, but DOL has not responded. TVA plans to add staff in April 2005 to begin tracking overpayments and erroneous payments.
<b>2004-013T</b> 05/20/04	<b>Fossil Plant IT Security</b> This report included recommendations that TVA management address suggested remediation actions to improve the security of a fossil plant's IT infrastructure. TVA management is implementing planned remediation actions that are expected to be completed by December 2006.



## Investigative Referrals and Prosecutive Results\*

### Referrals

Subjects Referred to U.S. Attorneys	12
Subjects Referred to State/Local Authorities	1

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### Results

Subjects Indicted	3
Subjects Convicted	4
Referrals Declined	16

\* These numbers include task force activities.



## Appendix 6

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### Unresolved Audit Reports

Listed below is one audit report which we issued before this reporting period began and for which no management decisions were made by March 31, 2005. We expect to report the management decision in our next semiannual report.

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<b>DATE ISSUED</b>	<b>REPORT TITLE</b>	<b>WHY MANAGEMENT DECISION HAS NOT BEEN MADE</b>
09/27/04	Bechtel Power Corporation	TVA management is reviewing the questioned costs to determine which costs it agrees should be disallowed. TVA plans to have this completed in April 2005.



	MAR 31, 2005	SEPT 30, 2004	MAR 31, 2004	SEPT 30, 2003	MAR 31, 2003
ANNUAL BUDGET (In Millions of Dollars)	\$9.1	\$8.8	\$8.8	\$8.5	\$8.5
CURRENT STAFFING	80	82	78	78	84

## AUDITS

### AUDITS IN PROGRESS

Carried Forward	28	29	37	38	35*
Started	35	38	36	41	41
Canceled	(2)	(5)	(5)	(8)	(4)
Completed	(31)	(34)	(39)	(34)	(34)
In Progress at End of Reporting Period	30	28	29	37	38

### AUDIT RESULTS (Thousands)

Questioned Costs	\$8,859	\$1,763	\$14,127	\$1,908	\$1,125
Disallowed by TVA	7,586	2,948	10,453	137	989
Recovered by TVA	2,312	1,113	697	3,499	221
Funds to Be Put to Better Use	\$24,306	\$1,471	\$11,904	\$6,951	\$34,755
Agreed to by TVA	20,181	7,021	5,800	6,551	37,969
Realized by TVA	7,886	7,196	11,708	0	38,172

### OTHER AUDIT-RELATED PROJECTS

Completed	3	8	30	15	36
Cost Savings Identified/Realized (Thousands)	\$0	\$0	0	0	0

## INVESTIGATIONS\*\*

### INVESTIGATION CASELOAD

Opened	84	118	162	100	87
Closed	103	163	76	92	75
In Progress at End of Reporting Period	157	176	221	135	127

### INVESTIGATIVE RESULTS (Thousands)

Recoveries	\$216.3	\$460	\$3,412	\$100	\$879
Savings	1,581.5	447.7	863	875	366
Fines/Penalties	.4	451.6	10	421	56

### ADMINISTRATIVE AND DISCIPLINARY ACTIONS

Recommended (# of Cases)	11	14	8	21	15
Actions Taken (# of Subjects)	16	30	75	24	16
Counseling/Management Techniques Employed (# of Cases)	12	16	13	21	16

### PROSECUTIVE ACTIVITIES (# of Subjects)

Referred	12	25	17	63	12
Indicted	3	9	3	4	6
Convicted	4	3	3	10	4

## INSPECTIONS

Completed	14	8
Cost Savings Identified/Realized (Thousands)	\$0	\$226

\* Adjusted from previous reporting period.

\*\* These numbers include task force activities.



Tennessee Valley Authority  
Office of the Inspector General

# Help Track Down Fraud, Waste, and Abuse at TVA



## Contact the OIG Hotline 1-800-323-3835

### To report:

- Contract or computer fraud
- Computer misuse or crimes
- False statements or false claims
- Irregularities in financial reporting
- Conflicts of interest and other ethics violations
- Travel fraud
- Theft or misuse of TVA property
- Management reprisal
- Workers' compensation fraud
- Bribery, kickbacks, or gratuities
- Health care fraud
- Environmental, health, and safety violations

For additional information, see our Web site at [oig.tva.gov](http://oig.tva.gov)



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