

# *Office of the Inspector General*

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*Tennessee Valley Authority*

## *Semiannual Report*

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*April 1 ~ September 30, 2006*

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, inspections, and investigations.

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.



**EMPOWERLINE™**

A confidential connection for reporting fraud, waste or abuse affecting TVA.

**How to Report a Concern**

Call toll-free:  
**877-866-7840**

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Or report on the web:  
**[www.OIGempowerline.com](http://www.OIGempowerline.com)**



# Tennessee Valley Authority Office of the Inspector General

## Message From the Inspector General

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I am pleased to present to you our semiannual report for the six-month period beginning April 1, 2006, and ending September 30, 2006. The efforts of the men and women of the TVA OIG resulted in almost \$14 million in recoveries, fines/penalties, potential savings, questioned costs, or funds which could be put to better use during this reporting period. Our staff continues to provide wide coverage of the many programs and operations of a very diverse and complex organization. TVA, the nation's largest public power company, produces power through its fossil, hydroelectric, nuclear, and green power facilities for a seven-state region; revenues from power sales total approximately \$8 billion. The focus of the OIG continues to be one of promoting excellence across all of TVA's programs and operations.

Our reviews during this period illustrate both the significance of our work and the cooperation and responsiveness of TVA management. Our reviews encompass TVA contracts, Information Technology security such as the Federal Information Security Management Act, financial-related audits including testing for compliance with the Sarbanes-Oxley Act, inspections, and investigations. As discussed in this report, we addressed topics such as the inherent conflict in TVA serving as a regulator over municipal utilities and cooperatives to which TVA sells electricity, the contracting process at TVA, and TVA's policy on land disposal. In each case, management took our findings seriously, and we are monitoring their corrective actions.

Our work was also recognized by the President's Council on Integrity and Efficiency (PCIE). I note with pride that the PCIE recognized our Contract Audit department and fraud risk assessment team with awards of excellence. The Contract Audit department has found average cost savings of \$32 million per year over the last ten years. Their consistent large dollar findings have led to TVA management both asking for numerous contract audits and seeking advice and training on contracting best practices. Our fraud risk assessment team successfully implemented a novel approach to fraud detection and prevention. This program works because of the willingness of TVA management to embrace its responsibility to protect TVA against fraud by working hand-in-hand with the fraud risk assessment team.

I appreciate the ongoing support of the TVA Board. I look forward to continuing to work with them and their newest member, William Graves, as we move forward.

Richard W. Moore  
Inspector General  
October 1, 2006

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## Executive Summary

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During this reporting period, we continued to support TVA by conducting objective audits, inspections, and investigations. 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 almost \$14 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>April 1 ~ September 30, 2006</b>	
Audit Reports Issued	26
Questioned Costs	\$1,411,000
Disallowed Costs	\$782,000
Funds Recovered	\$793,000
Funds Put to Better Use	\$10,839,000
Funds Realized by TVA	\$2,287,000
Investigations Opened	70
Investigations Closed	105
Fines/Recoveries/Restitution/Savings	\$1,682,362
Criminal Actions	2
Administrative Actions (No. of Subjects)	6
Inspections Completed	20

Our 26 audits and 11 other audit-related projects during this reporting period resulted in questioned costs and the identification of areas for improvement. Highlights include (1) contract audits which identified over \$1.4 million in questioned costs and over \$10.8 million in funds which could be put to better use, (2) information technology (IT) audits which identified needed control improvements, and (3) financial-related and operational reviews which found most internal controls were adequately designed to mitigate risks, but identified opportunities to improve control effectiveness. TVA management used information from our audits to recover or disallow about \$793,000 and negotiated about \$2.3 million in contract cost savings.



Our Inspections unit completed 20 projects which identified several opportunities for improved program operations. Inspection topics included TVA's role as regulator, review of TVA land disposal, benefit reviews, and the TVA Nuclear Concerns Resolution Program.

We continued our initiatives to improve communications with our stakeholders. Highlights include (1) continued publication for our new outsourced hotline program, Empowerline; (2) issuance of an OIG newsletter, the *OIG Connection*; and (3) announcement of a rewards program for information which leads to a felony charge or a substantial monetary recovery from individuals who defrauded TVA.

Investigations highlights include recoveries or avoided costs which totalled almost \$1.7 million. In addition, we continued to implement our proactive fraud detection and prevention efforts, including fraud risk assessments across TVA programs. Our investigative efforts and initiatives led to strengthened internal controls in several TVA processes.

### Definitions

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

**Unsupported Costs** - Questioned costs that are not supported by adequate documentation.

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

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



## TVA Profile

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On March 31, 2006, six new Board members were sworn in. This marked a change after 73 years from a full-time, three-member Board of Directors to a part-time nine-member board. On October 10, 2006, William H. Graves was sworn in as the seventh new Board member. The terms of two members of the prior Board have carried over to complete the new nine-member board.

Below are some highlights of TVA history and operations.

- TVA was created during 1933. President Franklin Roosevelt asked Congress to create “a corporation clothed with the power of government but possessed of the flexibility and initiative of a private enterprise.” On May 18, 1933, Congress passed the TVA Act, creating TVA as a federal corporation. TVA’s threefold mission includes power production, environmental stewardship, and economic development.



President Franklin D. Roosevelt signed the legislation creating TVA in 1933.

- Today, TVA is the nation’s largest public power company. TVA’s power facilities include 11 fossil plants, 29 hydroelectric dams, 3 nuclear plants, 6 combustion turbine plants, a pumped-storage facility, and 17,000 miles of transmission lines. TVA also produces energy from three renewable sources—sun, wind, and methane gas from waste. The TVA service area covers 80,000 square miles in the



TVA provides electricity in seven states.

Southeastern United States, including almost all of Tennessee and parts of Mississippi, Kentucky, Alabama, Georgia, North Carolina, and Virginia. By providing wholesale power to 158 municipal and cooperative 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.



- As a regional development agency, TVA not only supplies affordable, reliable power, but also supports a thriving river system and stimulates sustainable economic development in the public interest. TVA manages the nation's fifth largest river system. TVA dams are part of a totally integrated resource management system for a 41,000-square-mile watershed where each dam operates in relationship to the others for multiple purposes and public benefits, including flood control, maintaining navigation, providing recreational opportunities, and protecting water quality.
- TVA contributes to the Valley economy chiefly by keeping power rates competitive. This 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.



TVA dams produce electricity and provide flood control.





## Office of the Inspector General

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### Office Authority

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Created by the TVA Board of Directors in 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.

### OIG RESPONSIBILITIES

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- Promote economy and efficiency while preventing and detecting fraud, waste, and abuse.
- Conduct and supervise audits and investigations relating to TVA programs and operations.
- Keep the TVA Board and Congress fully and currently informed concerning fraud and other serious problems, abuses, and deficiencies relating to TVA programs and operations.
- Recommend corrective actions concerning problems, abuses, and deficiencies, and report on the progress made in implementing such actions.
- Assure any work performed by non-federal auditors complies with government auditing standards.
- Issue semiannual reports to TVA Board and Congress.

### OIG AUTHORITIES

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- Conduct any audit or investigation the IG deems necessary or desirable.
- Access all TVA records or other material.
- Issue subpoenas and administer oaths.



- Receive complaints and grant confidentiality.
- Have direct and prompt access to the TVA Board.
- Hire employees and contract for services as necessary.

## Organization

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The OIG's primary location is adjacent to 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 Investigations offices in Mayfield, Kentucky, and in Chattanooga. The OIG consists of three primary components: (1) Audits, (2) Inspections, and (3) Investigations.



The OIG is primarily located in the TVA Towers in Knoxville.

## OIG STRATEGIC PLAN

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### VISION

To be a highly effective organization that promotes positive change by identifying opportunities for improvements in the performance and efficiency of TVA's programs and operations.

### MISSION

Promote excellence in TVA's operations through the conduct of investigations, audits, inspections, and advisory services designed to promote economy, efficiency, and effectiveness and prevent and detect fraud, waste, and abuse.

### LEADERSHIP PHILOSOPHY

The TVA OIG strives to be a high performing organization made up of dedicated individuals who are empowered, motivated, competent, and committed to producing high quality work that improves TVA and life in the Valley. Each of us has important leadership, management, team, and technical roles. We value integrity, people, open communication, expansion of knowledge and skills, creative problem solving, and collaborative decisionmaking.



## STRATEGIC GOALS

### PERFORMANCE

Perform timely reviews that address stakeholder concerns and areas of highest risk

### WORKFORCE

Cultivate and retain a highly skilled, innovative, and motivated workforce

### STAKEHOLDER

Effectively communicate with stakeholders and deliver services that meet their needs

## STRATEGIC OBJECTIVES

- Focus efforts on areas of highest impact and risk
- Ensure processes are efficient and effective
- Maintain highest levels of quality
- Stay abreast of emerging issues and industry trends
- Stay abreast of stakeholder concerns
- Continue to develop innovative methods for fraud detection

- Hire and retain the best
- Manage pay to stay competitive with target market
- Develop staff to achieve the highest level of capabilities
- Motivate staff to excel
- Ensure accountability in individual performance
- Promote a balanced lifestyle

- Manage stakeholder perceptions of the OIG to promote (1) high credibility, and (2) independence and objectivity
- Respond to customer needs
- Improve stakeholder awareness of OIG
- Ensure stakeholders are kept informed
- Ensure stakeholders have an opportunity to provide input in the annual audit planning process and each individual review, as appropriate
- Increase effectiveness of OIG hotline



## AUDITS

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Audit Operations (AO) conducts and/or supervises comprehensive financial and performance audits of TVA programs and operations. Based upon the results of such audits, AO makes recommendations to ensure that program objectives and operational functions are achieved effectively and efficiently. AO develops an annual audit plan to effectively allocate audit resources. The audit plan addresses those issues, programs, operations, and activities that most 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.

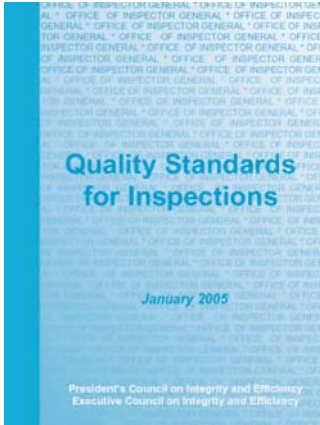




### INSPECTIONS

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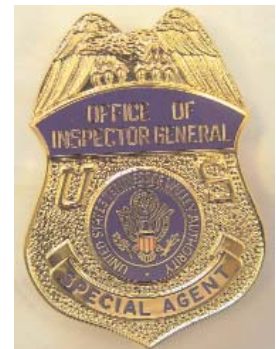
The Inspections unit was formed at the beginning of fiscal year (FY) 2004. Inspections provides flexibility to conduct limited scope policy and program evaluations to promote economy and efficiency in the management and administration of TVA programs. In accordance with the Quality Standards for Inspections, the objectives of the Inspections unit 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.

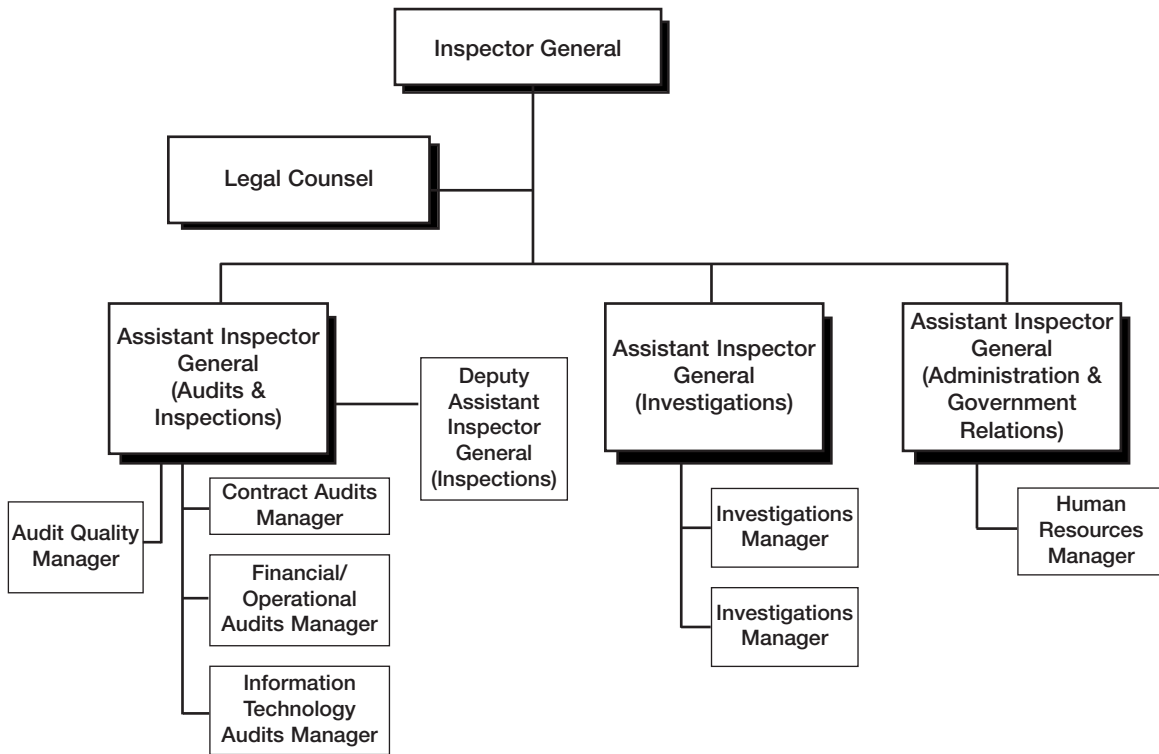


### INVESTIGATIONS

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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, and economic development loan recipients. 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.





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OIG website: <http://oig.tva.gov>



## Special Features

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### PCIE Awards for Excellence

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We nominated three teams for PCIE Awards for Excellence. The PCIE recognized two of those teams with awards. Below we discuss and recognize the achievements of each of these three teams.

#### **FRAUD RISK ASSESSMENTS—AWARD FOR EXCELLENCE**

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The OIG developed an action plan to perform fraud risk assessments (FRAs) as an innovative and valuable tool to prevent and detect waste, fraud, and abuse. FRAs also assist TVA in meeting its obligations under the Sarbanes-Oxley Act of 2002 (SOX) to document, test, and report on the effectiveness of internal controls in each of its annual reports filed with the Securities and Exchange Commission. As set forth below, the



Fraud Risk Assessment Team

results from this initiative have been significant and wide-ranging in scope, subject matter, and outcome. They also have identified several vulnerabilities where we have significant investigations currently underway.

The FRA team has completed a number of reviews across several business processes at TVA. The reviews produced several significant results, including:

- TVA managers and employees have much greater awareness of fraud risks, including the purpose and importance of adequate internal controls. Because of the broad scope of this initiative, this result by itself will pay significant dividends in the long run.
- The identification of process risks and control activities in place to mitigate those risks has improved, resulting in significantly better internal controls which, in turn, will lead to improved fraud prevention and detection.
- Through identification of risks and documentation of processes, process owners are able to more quickly remediate identified weaknesses.



FRA address a broad range of process areas and require team members with subject matter expertise, knowledge of internal controls, and facilitation skills to ensure process owner participation. To ensure each FRA is effective, we use special agents trained in facilitation and auditors who have extensive subject matter knowledge. The agents and auditors work closely together with the process owner to identify fraud risks.

Assessments typically identify anywhere from 2 to 5 fraud risk areas and 20 to 100 potential fraud schemes. Team members and the process owners then rank each scheme's likelihood and significance, identify existing controls, and suggest remediation steps where vulnerabilities are identified. To make the results user-friendly, we use a standardized report format which includes a chart which rates each internal control and provides suggested remediation where appropriate.

Processes reviewed include economic development loans, employee health benefits, bulk power trading, workers' compensation, investment recovery, specific construction, modification and leveraged contracts, and financial statement processes such as depreciation, time keeping, accounts payable, and convenience checks. Our reviews have identified numerous areas for improvement in the design and effectiveness of controls. These improvement areas included (1) additional training on responsibilities and accountabilities, (2) enhancing procedures governing areas such as separation of duties and identity verification, (3) tightening controls in areas such as approvals and write-offs, (4) upgrading IT system edits and notices, and (5) identifying specific areas to use data mining.

The team continues to work with TVA's process owners to expand this initiative to include most major processes across TVA. In addition, IG Richard W. Moore made presentations about our FRA program at the annual IG retreat in May 2006 and to the Central Intelligence Agency OIG in September 2006. We also have received interest from within the IG community for more information about our FRA program. Details about FRAs conducted during this reporting period are contained in the Investigations section of this report.





## Special Features

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### CONTRACT AUDITS—AWARD FOR EXCELLENCE

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Contract Audits (CA) uses proactive and innovative best practices to consistently identify significant cost savings, recoveries, and process improvements for TVA. Their consistent large dollar findings have led to TVA management both asking for numerous contract audits and seeking advice and training on contracting best practices.



Contract Audits Team

TVA is a \$7.8 billion producer of power through its fossil, hydroelectric, nuclear, and green power facilities for a seven-state region. To support its operations, TVA spends about (1) \$2.5 billion annually on labor and services and materials and equipment contracts and purchase orders

and (2) \$1.5 billion a year under coal and coal transportation contracts. CA provides oversight of TVA's contracting activities through the conduct of preaward, postaward (compliance), and contracting process reviews.

- Preaward audits are based on management requests for audit assistance either prior to award of a contract or prior to extension of a contract. Our audit objectives are generally to determine if a contractor's cost proposal is fairly stated.
- We use a risk-based analysis to prioritize contracts for compliance reviews. Our analysis includes assessing materiality, impact, sensitivity, and probability of occurrence.
- We conduct reviews to assess TVA's contracting processes to identify areas for potential improvement.

Historically, audits conducted by CA have had a significant impact for TVA. Over the last ten years, CA has found average cost savings of \$32 million per year. In addition to the monetary savings, our team members have formed a good working relationship with TVA management and are recognized as experts in areas of commercial contracting. TVA management often requests CA to provide advice and training to



various procurement officials within TVA, and outside audit organizations setting up contract audit teams have consulted with us to facilitate their efforts.

### **OIG OUTREACH TEAM—NOMINATED FOR AWARD FOR EXCELLENCE**

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Based on a perception that TVA employees, contractors, and others did not understand the OIG or its statutory role, the IG tasked a team of OIG employees with developing and implementing a comprehensive communication strategy to effectively increase awareness of the OIG’s mission and responsibilities. The OIG team developed a benchmark program to communicate the OIG message to ensure employees, contractors, and others feel free to and will contact the OIG with their concerns. The approach they used included (1) developing an agency-wide electronic survey to set a baseline on perceptions about the OIG then (2) effectively communicating the importance of completing that survey. The team used the results from the survey to develop a three-pronged approach to increase the awareness of and facilitate communication with the OIG: (1) outsource the hotline to provide a more professional service; (2) develop a campaign to promote the hotline; and (3) publish an OIG newsletter to address misperceptions about the OIG and make the OIG more approachable.



OIG Outreach Team

Survey concerns about remaining anonymous or confidential reinforced the team’s belief we needed to revitalize the hotline. To get a fresh start, the team outsourced the hotline to a third-party contractor totally outside of TVA to create an easily accessible, independent mechanism that individuals could use to report concerns. The team worked with various contract proposals and came up with a new concept—Empowerline. The team worked closely with the selected contractor to develop an on-line reporting tool tailored to TVA and the OIG, an auxiliary case-management system, and promotional campaign. (Empowerline is available on-line at <https://www.oigempowerline.com>.)



## Special Features

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Innovative features include (1) specialists at a toll-free number available 24/7 and an on-line system, (2) anonymous tracking so we can provide status reports and follow-up questions to complainants, and (3) trending and tracking data so we can look for patterns in types and locations of concerns. In addition, the team (1) developed guidance for the Empowerline web page on the types of concerns to report to the OIG and where to report other types of concerns, (2) ensured the security of the data systems and reporting mechanisms, and (3) ensured the hotline would fulfill the SOX requirements, which

will apply to TVA, that the agency have procedures for the confidential, anonymous submission of certain concerns and receipt, retention, and treatment of complaints.

In addition to Empowerline itself, the team worked with the contractor to develop a unique and striking “look and feel” for the promotional materials which was adapted for the system’s on-line interface and the OIG web page. To further this outreach, the team also developed a periodic electronic newsletter, the *OIG Connection*, with this same “look and feel.” The newsletter addresses barriers to people coming to the OIG by discussing concerns raised in the survey responses and providing information about OIG activities. (The most recent *OIG Connection* may be accessed at <http://oig.tva.gov/connection/current.htm>.) We believe the newsletter has helped to “brand” the OIG as a recognizable entity to which individuals should report fraud, waste, and abuse affecting TVA.



### SPECIAL FEATURE

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We initiated a best practices exchange with other OIGs to provide a forum to share information to promote innovative thinking and improvements within the OIG community. We believe these types of exchanges will benefit the IG community in several ways. The hosting office will be encouraged to look at the programs they have underway to identify and recognize those they believe should be shared, and the spontaneous reactions and constructive suggestions they receive can help them assess and improve those programs. The visiting office, in turn, will be exposed to new ideas and concepts, which may give them a fresh perspective on innovative ways to accomplish their mission.



NASA OIG (left to right): Agent Keith Tate; Evelyn Klemstine, AIG (Audit); Larry Anderson, Director IT Services; Madeline Chulumovich, Executive Officer; Kevin Winters, AIG (Investigations); and Robert Cobb, IG

Both offices also will benefit from the opportunity to interact with peers and experts in an open forum on better ways to conduct operations.

In June 2006, the NASA OIG visited our offices in Knoxville, Tennessee, and during July we visited their offices in Washington, D.C. We also are working to arrange exchange visits with the Department of Commerce and Postal Service OIGs, and we intend to continue these exchange programs with other offices as time permits.

During our first exchange with NASA, we discussed (1) our high performing organization initiative; (2) the FRA program; (3) the process for evaluating and outsourcing Empowerline, including conducting an employee survey, and our outreach plan to publicize the OIG; (4) IT security audits, including tools and techniques and penetration testing; (5) SOX internal control process reviews; (6) preaward and contract audits; and (7) inspections. After hearing these presentations, Robert W. Cobb, NASA IG, spoke favorably about our people and the programs we have underway.



## Special Features

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When we visited the NASA OIG, they presented information on (1) their Referral Review Committee, which ensures allegations are properly coordinated and evaluated; (2) managing investigative cases through their case management reporting system; (3) developing and implementing IT systems for other OIGs; (4) developing employees through core competencies, leadership training, and individual development plans; (5) their computer crimes division forensic lab and capabilities; (6) addressing technical/scientific issues in audits; (7) handling whistleblower issues; (8) establishing an agency procurement integrity program; and (9) communicating with Congress and the Office of Management and Budget regarding the OIG budget. We were impressed with the depth and scope of these programs and came away with several excellent ideas for new approaches to try.



NASA Visit



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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 26 audits which identified over \$1.4 million in questioned costs and over \$10.8 million in funds which could be put to better use. We also identified numerous opportunities for TVA to improve program operations. Our audits included (1) pre- and postaward contract audits, (2) financial-related audits, (3) IT audits, and (4) operational audits. We also completed 11 other audit-related projects.

### **PREAWARD CONTRACT AUDITS**

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To support TVA management in negotiating procurement actions, we completed six preaward audits of cost proposals submitted by companies for construction, modification, and supplemental maintenance services; archaeological services; design and installation of hydrated lime injection systems; and hydro-generator services. Our audits identified \$0.1 million in questioned costs and \$7.3 million in potential savings opportunities for TVA to negotiate. Some of our specific findings included (1) billing rates being proposed for costs that were already being recovered under other cost recovery rates, (2) overstated fringe benefit rates, and (3) pricing methodologies for fixed-price tasks that would increase TVA's prices 30 percent over the prices it is currently paying. TVA has or is planning to use the results of our findings to negotiate better contract terms.

### **CONTRACT COMPLIANCE AUDITS**

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During this reporting period, we completed nine contract compliance audits that identified \$1.3 million in ineligible and unsupported costs and another \$3.5 million in costs to be avoided. Highlights of the audits follow.



## Audits

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- We determined the compensation clauses in TVA's contracts for boiler pressure parts and burner parts were not adequate for determining and evaluating prices to be billed. We recommended TVA management (1) incorporate specific pricing



TVA's 11 coal-fired fossil plants have a total of 59 generating units.

criteria in the contracts for use in determining and evaluating prices and (2) revise/supplement cost reimbursable payment terms to specifically address costs/rates to be paid by TVA. TVA management agreed with our findings and revised the contracts.

- We reviewed \$5.7 million of payments TVA made to a contractor that provided analysis and licensing support for tritium production at the Sequoyah Nuclear Plant (SQN) from 2000 through 2003. We determined TVA had been overbilled \$78,653, including (1) an estimated \$76,075 in unsupported labor costs and (2) \$2,578 for travel and material costs that were either unsupported or ineligible according to contract provisions. TVA management is planning to recover the overbilled amount.
- We audited \$59.2 million of costs paid by TVA to a contractor providing managed security services for TVA Nuclear (TVAN) and security support for other TVA organizations from 2002 through 2004. We determined TVA had been overbilled \$104,599 including (1) \$84,779 for leased vehicle costs either not incurred or billed at incorrect rates, (2) \$16,221 for labor costs billed at incorrect rates, and (3) \$3,599 of travel costs that were either unsupported or ineligible. TVA management subsequently recovered the overbilled amounts from the contractor.
- We audited \$12.4 million of costs billed to TVA by a contractor for welding services performed for fossil and hydro projects and determined TVA had been overbilled an estimated \$539,194. The overbilling included (1) unsupported labor, excessive subcontractor labor, and labor billed using incorrect rates; (2) ineligible and overstated mobilization, travel, and per diem costs; (3) duplicate billings and calculation errors on certain invoices; (4) overstated equipment rental costs; and (5) miscellaneous unsupported costs. TVA management is working with the contractor to settle the audit findings.



- We reviewed the employee recognition costs billed to TVA by a contractor providing engineering services for TVAN and determined the contractor had billed TVA \$120,499 for costs it had not incurred. TVA management subsequently recovered \$71,406 from the contractor.
- We determined a TVA contractor providing nuclear security services was incurring a high level of overtime due to work schedules and headcount limitations. The headcount limitations resulted in TVA paying \$1.84 million in extra labor costs during 2004 and 2005. We estimated if the trend continued TVA would pay an extra \$3.5 million over the planned three-year remaining term of the contract. TVA management stated they had reviewed the contractor's staffing levels and determined additional full-time positions were needed to man the security posts. Management also stated they had taken action regarding the contractor's security manning requirements and shift scheduling that would reduce overtime to acceptable levels.
- We audited \$3.2 million of costs billed to TVA by a contractor for welding services performed at the Browns Ferry Nuclear Plant (BFN) and SQN by one of its subcontractors and determined TVA had been billed \$450,165 for unsupported and ineligible costs. The overbilling included (1) per diem payments that exceeded limitations or were ineligible under the contract, (2) ineligible mobilization/demobilization and travel expenses, (3) unsupported small tools and consumable costs, (4) labor costs that were either unsupported or billed at incorrect rates, and (5) unsupported subcontractor costs. TVA management is reviewing our findings and recommendations.



TVA has three operating nuclear sites.





## Audits

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### FINANCIAL-RELATED AUDITS

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During this semiannual period, we completed 2 financial-related audits, 1 attestation engagement, and interim testing of controls for 34 financial reporting processes to assist with TVA's initiative to comply with Section 404 of the SOX. Highlights of the audits follow.

- We found no instances where TVA's external auditor's review of TVA interim financial information for the second and third quarters of FY 2006 did not comply with Government Auditing Standards in all material respects, including required communications to TVA Audit and Ethics Committee members and other appropriate parties.
- We completed agreed-upon procedures to assist the Center for Resource Solutions (CRS) in determining TVA's compliance with the annual reporting requirements of CRS' Green Pricing Accreditation Program for the year ended December 31, 2005. The results of these procedures related to TVA's renewable energy initiative, "Green Power Switch<sup>®</sup>," were provided to CRS.
- In support of TVA initiatives to comply with SOX requirements, we completed testing of financial reporting controls for 34 of the more than 80 processes determined to be in scope for SOX 404 compliance and issued interim reports to management. Management has developed a plan for completing corrective action in FY 2007. Testing of the remaining processes, and retesting of controls where deficiencies were identified and remediation has been completed, will continue during FY 2007 to assist TVA in preparing for SOX compliance, currently required in FY 2007.



## IT AUDITS

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During this reporting period, we completed six audits in the IT environment and performed SOX readiness testing for eight IT general control areas. The six audits pertained to (1) TVA's annual Federal Information Security Management Act (FISMA) review, (2) security of TVA's network infrastructure, (3) security controls for a vendor's e-mail protection service, (4) physical security review of contractor facilities for offsite storage of electronic media and paper records, (5) pre-implementation review of TVA's supply chain system, and (6) TVA efforts to protect sensitive information. In these reviews, we noted:



- TVA continues to make progress in meeting FISMA requirements.
- The review of TVA's network security, which included a blind penetration test, showed substantial improvement by TVA from a previous blind penetration test.
- TVA has taken steps or is in the process of implementing additional steps to align more closely with best practices for protecting sensitive information.
- Improvements could be made to address weaknesses in TVA and vendor logical and physical security controls designed to prevent unauthorized access to system programs and data and facilities, and general controls designed to ensure ongoing operations.

We also issued eight interim reports to management for testing of IT general controls processes in scope for SOX compliance and remediation actions. Testing of the remaining IT general controls and application controls will continue into FY 2007.

Management generally agreed with our findings and either has implemented or is in the process of implementing corrective actions.



### **OPERATIONAL REVIEW OF TVA'S CONTRACTING PROCESS**

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Our review of TVA's contracting process identified several areas where improvements could result in better contract management and greater contractor compliance with commercial terms and conditions. Although we noted many instances of good practices being performed by various individuals in TVA's Procurement and Strategic Business Units, these practices were not universal. Overall, we noted (1) deficiencies in 40 percent of the 64 contracts reviewed, (2) Technical Contract Managers approving payments without adequately reviewing pricing on 25 percent of the invoices reviewed, and (3) internal controls were not always followed. Additionally, we surveyed Procurement's contract managers and purchasing agents and a representative sample of TVA's Technical Contract Managers regarding weaknesses and areas of improvement in the contracting process. The most negative survey results were in training, workload, and communications. TVA management instituted several initiatives to address most of the issues identified in the report.



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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 ongoing inspections and FRAs. During this reporting period, we completed 20 inspections that identified various opportunities for TVA to improve program operations. Highlights of our inspections follow.

### **TVA'S ROLE AS A REGULATOR**

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We conducted a review to assess TVA role as rate regulator over municipal utilities and cooperatives (collectively “distributors”) which purchase TVA power. The TVA Act imposes only one regulatory requirement, prohibiting discrimination between consumers of the same class. The TVA Act, however, also gives the Board authority to include terms and conditions in power contracts as needed to carry out the purposes of the Act, which include keeping rates as low as feasible. Pursuant to this authority, most power contracts include, in addition to the required nondiscriminatory provision, terms and conditions related to resale rates, use of revenues, and financial and accounting requirements.

In summary, we determined:

- TVA is in a unique position as both a seller of electric power and a regulator over the rates charged by many of its customers. We believe there is an increasing inherent conflict in TVA serving as a regulator while working to ensure good customer relations.
- TVA routinely reviews and approves resale rates and use of funds for nonelectric system purposes. We determined TVA should develop additional guidelines to assist in their reviews.
- Thirteen distributors used electric system funds for nonelectric purposes, while the joint use agreements may not have been modified to permit such use.



## Inspections

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TVA management agreed with our recommendations, and we concur with their planned actions.

### **CRAFT LABOR TIME REPORTING (BFN UNIT 1 RESTART)**

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At the request of TVAN, we reviewed Stone and Webster Construction, Inc. (SWCI), craft labor time reporting at BFN Unit 1 Restart when SWCI switched from four ten-hour workdays to five eight-hour days.

We determined (1) the AnalyzeTime application—which compares Payroll and Human Resources data to identify potential errors in time calculations—is working as intended, (2) over 99 percent of timesheets reviewed contained all required signatures, and (3) gate-log reviews are being conducted; however, these log reviews provide only limited information for monitoring. We also noted:

- Absences are not tracked when an employee is temporarily assigned to another unit.
- No process exists to ensure that excused absences are monitored to identify potential abuse.

### **TVA'S ACCOUNTING FOR INSURABLE LOSSES**

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We assessed the adequacy of controls applicable to the accounting for costs associated with non-nuclear insurable losses. TVA has negotiated and obtained insurance to cover two areas of non-nuclear operations: (1) non-nuclear property and (2) unplanned outages which covers Fossil Power Group's nine baseload units. In summary, we determined the TVA Corporate Insurance Risk & Analysis Group (CIR&A) is in the process of developing policies and procedures to ensure identification of non-nuclear insurable losses and the accounting for associated costs. According to CIR&A, interim actions have been taken to capture the costs of non-nuclear insurable losses.



## **BLUECROSS BLUESHIELD OF TENNESSEE (BCBST) DENTAL CLAIM ADJUDICATION**

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We performed a limited scope review to determine if claims are being adjudicated in accordance with the provisions of the TVA's Dental Benefit Plan administered by BCBST. For the two months reviewed, TVA paid \$513,476 in total claims. While the majority of claims reviewed were adjudicated properly by BCBST, we did identify an adjudication error associated with charges for preventive services. TVA Employee Benefits had also discovered the error and subsequently addressed the issue with BCBST. BCBST had reimbursed TVA in the amount of \$5,353.22, and reimbursement for 16 additional charges identified by our review is pending.

## **OFFICE OF PERSONNEL MANAGEMENT (OPM) GUIDANCE FOR ADDRESSING THE POTENTIAL INFLUENZA PANDEMIC**

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We reviewed the OPM guidance/requirements regarding a potential influenza pandemic to determine if TVA is in compliance with OPM requirements and/or has taken other proactive solutions. OPM has issued some guidance for federal agencies to follow in the event of a pandemic; however, none are mandatory. TVA is currently reviewing OPM guidance and has taken other proactive actions by adopting and adapting the Nuclear Energy Institute's guidelines.



## Inspections

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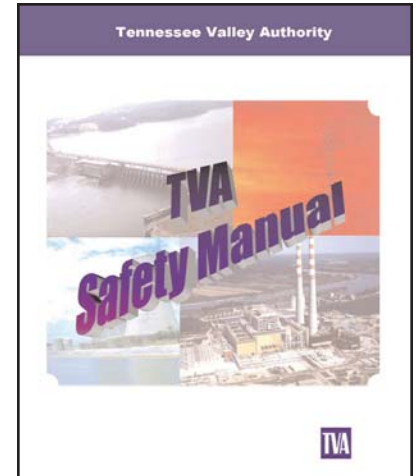
### **TVA'S PRESCRIPTION SAFETY EYEWEAR PROGRAM**

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At the request of TVA Occupational Health and Workers' Compensation, we assessed whether policies, procedures, and key control activities ensure compliance with TVA's Prescription Safety Eyewear Program requirements. In summary, we determined TVA's policies and procedures adequately address the eligibility requirements and process to be followed in order to obtain prescription safety eyewear. However:

- Policies and procedures regarding prescription safety eyewear (1) do not address the retention of supporting documentation for purchases of prescription safety eyewear and (2) are not being complied with by all the TVA Safety Eyewear Coordinators.
- Policies and procedures could be strengthened to clearly identify the time constraints for obtaining replacement eyewear.
- Current identifiers used for employees are not unique to a single employee.

TVA management agreed with our findings and has initiated or plans to initiate corrective action.



### **TVAN CONCERNS RESOLUTION PROGRAM (CRP)**

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TVAN's CRP was designed to help ensure all TVA and contractor employees supporting TVAN are free to express safety issues, concerns, or differing views to TVAN management without fear of reprisal and all such concerns and issues are investigated and resolved in a timely manner. We performed two separate inspections which assessed the willingness of TVA employees and contractors to report nuclear safety and quality issues through various avenues, including TVA's CRP. The scope of the two reviews corresponded to the (1) TVAN workforce, employees, and contractors with unescorted access to TVA's nuclear facilities, and (2) BFN contractors and TVA employees.



Although many of the responses on the overall TVAN assessment were not as affirmative as the prior survey, we determined that TVAN employees and contractors generally felt free to raise nuclear safety and quality issues through some avenue. The BFN responses we received generally compared similarly with the responses in our overall TVAN assessment.

## **TVA'S SUCCESSION PLANNING**

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We conducted a review to determine what TVA has done to address challenges arising from TVA's aging workforce, retirements, and the resulting knowledge loss. Challenges facing power utilities as a result of the aging workforce include the loss of critical knowledge, the inability to find replacements with utility-specific skills, and the lack of bench strength within the organization. We noted TVA has adopted an Integrated Staffing Plan Principle as well as several initiatives to support this principle which address the challenges arising from TVA's aging workforce. We also noted TVA's succession planning initiatives include many recognized best practices, and TVA is a recognized best practice organization related to knowledge retention.

While TVA has taken actions to address the issues arising from an aging workforce, implementation of TVA Corporate Human Resources initiatives by the business units can be improved. We recommended TVA management:

- Consider educating employees on the importance of self-reported retirement dates and how that information is used, along with providing on-going education on retirement benefits and planning from early in a TVA employee's career.
- Ensure complete implementation of the Knowledge Retention Initiative, which supports compliance with and the success of the Integrated Staffing Plan Principle.
- Emphasize the importance of pipeline hiring to move TVA more towards being a developmentally oriented business.

TVA management agreed with our findings and has initiated or plans to initiate corrective action.





## Inspections

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### **FOSSIL PLANTS DAILY COAL REPORT (DCR) VERIFICATION**

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In support of the OIG's FRA of Fuel Supply, Fossil Power Group, we conducted individual inspections to determine the accuracy of the DCR relating to ten fossil plants. The objective of our reviews was to verify that TVA and vendor/terminal shipment weights were accurately entered into the respective DCR for the period December 1, 2005, through May 3, 2006. The results of the inspections were issued to OIG Investigations for review and/or further action and included:

- Of the 546 tested coal shipments from the 10 fossil plants, 34 shipments were not recorded in the DCR in accordance with TVA weight documentation and/or vendor/terminal bills of lading.
- Shipment weights for missing and/or extra rail cars were not consistently accounted for at plants receiving coal by train.
- Missing and extra rail cars were not consistently tracked at all fossil plants receiving coal by train.
- Comments were not consistently noted on the DCR when TVA or vendor/terminal weights were not available or when exceptions existed for certain shipments.

### **REVIEW OF TVA LAND DISPOSAL**

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We assessed TVA's compliance with applicable policies, procedures, and laws/regulations when conducting land disposal transactions. The TVA Act grants TVA authority to transfer land to government agencies, corporations, partnerships, or individuals. TVA's River System Operations and Environment (RSO&E) is responsible for administering the disposal of TVA land. TVA maintains 293,000 acres of reservoir property and 35,000 acres of non-reservoir property. Non-reservoir property is not managed by RSO&E. TVA's overall policy on the use, acquisition, and disposal of land is contained in TVA Code V, which was last updated in 1982. RSO&E has developed the Disposal of Land/Landrights Process to provide disposal guidance and ensure compliance with all applicable laws and regulations.



In summary, we noted:

- TVA's policy on land disposal does not clearly articulate (1) criteria for considering which property is subject to disposal, (2) criteria for accepting or rejecting proposals, and (3) provisions for land swaps.
- RSO&E generally complied with the land disposal processes including (1) obtaining appropriate reviews and approvals, (2) ensuring independent appraisals of land value, and (3) receipt of payment for appraised values. However, we noted two instances where documentation could be improved.
- RSO&E has not scheduled reassessment of TVA's Land Management Plans within their planned ten-year horizon.
- No non-compliance with applicable laws and regulations.

TVA management agreed with our findings and recommendations. During May 2006, the Board established a moratorium on major land transactions to provide time to learn about TVA's real property assets and review past land transactions and current policies. Subsequently, TVA issued a proposed TVA land policy for public comment.



## Investigations

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### Summary of Representative Investigations

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During the past six months, we closed 105 investigations based, in part, on allegations and concerns received from ratepayers, TVA management and employees, and OIG auditors. Our investigations, including task force projects and joint investigations with other agencies, resulted in (1) almost \$1.7 million in recoveries, projected savings, and fines/penalties; (2) one subject indicted; and (3) one other subject convicted.

While our investigations in the past have largely been reactive, we are implementing programs to develop a more proactive fraud detection and prevention program. Below we discuss (1) our proactive efforts to detect and prosecute fraud, (2) FRAs, and (3) control improvements.

During this reporting period, our investigative activities included significant long-term savings in the workers' compensation area, several contractor fraud cases, and a variety of employee investigations. We also continued to support area task forces to focus enhanced law enforcement resources.

### **MORE PROACTIVE FRAUD DETECTION AND PREVENTION PROGRAM**

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We continue to expand our fraud detection and prevention program. During this reporting period, we continued to publicize OIG activities and our hotline, Empowerline, and announced a new reward program.

### **PUBLICIZING EMPOWERLINE AND THE OIG**

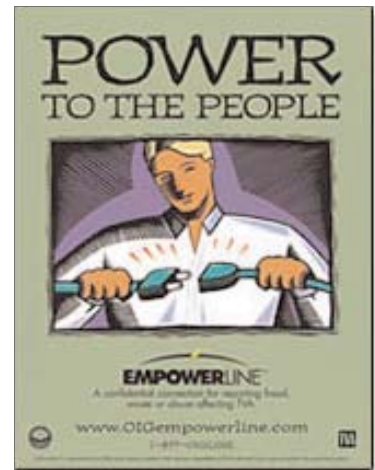


Employees, contractors, and the general public can report suspected fraud, waste, or abuse affecting TVA to a new OIG-sponsored hotline system, Empowerline. Empowerline is administered by a third-party contractor and can be reached 24 hours a day, 7 days a week, either by a toll-free-phone call or over the web. Individuals who report concerns can do so anonymously or they can request confidentiality. They also can use Empowerline to track the outcomes of concerns they report. This outsourced system offers a more convenient

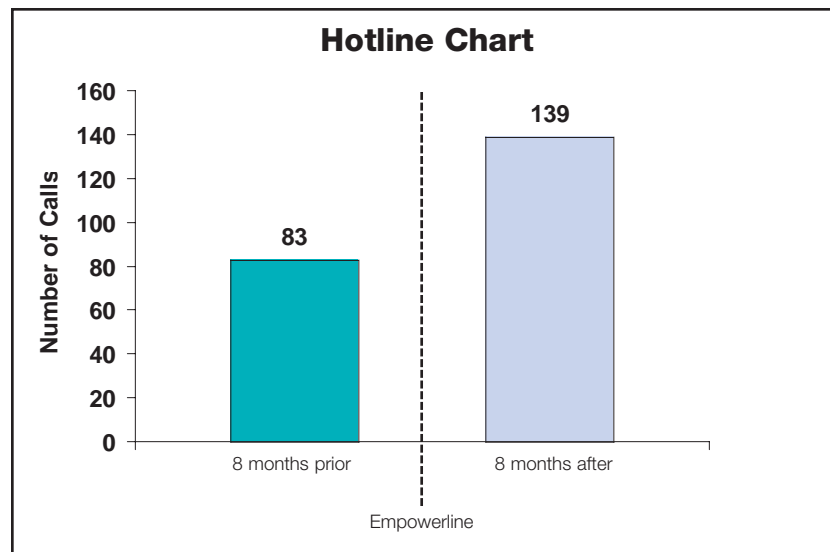


mechanism for individuals to report their concerns and to provide them additional assurances that they can remain anonymous or be ensured of confidentiality.

To publicize Empowerline, we produce posters which we periodically rotate at TVA sites throughout the Valley. We also seek to increase use of Empowerline by publicizing both the existence of Empowerline and OIG activities. We have redesigned our web page (<http://oig.tva.gov>) to a more user-friendly format consistent with the design of the Empowerline posters. We now issue a newsletter, the



*OIG Connection*, in which we directly address employee questions and concerns about the OIG and publicize OIG activities and results. We also now put many audit and inspection reports on our web page, and we have increased visits to employees and others throughout the Valley. These proactive efforts have led to increased reporting of concerns to Empowerline, as shown by the following chart.





## Investigations

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### REWARD PROGRAM

Under our new reward program, a source of information (“source”) may receive a cash reward for disclosing to the OIG information about criminal or unlawful activities



involving TVA programs and personnel. OIG may pay cash rewards to a source who provides substantial information not previously known to the OIG, which leads to a felony charge or a substantial monetary recovery from individuals who defrauded TVA programs. Rewards, which are solely within the discretion of the IG, may be given to any person except current and former OIG employees and employees of other law enforcement agencies.

In considering whether to approve a reward, the IG may consider the timeliness, accuracy, specificity, scope, and usefulness of the disclosure, and whether the OIG likely would have discovered the information without the source’s assistance. The IG also may consider (1) the circumstances under which the source acquired the information; (2) the source’s culpability, if any, for the matters disclosed; and (3) the potential risk to the source, if any, for having made the disclosure. The amount of the reward may not exceed the lesser of \$10,000 or an amount equal to one percent of TVA’s total recovery as determined by the IG.

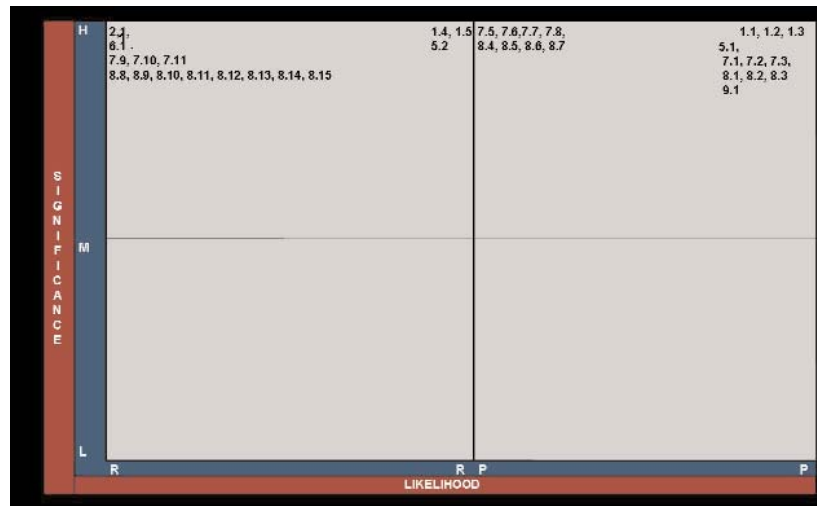
### FRAUD RISK ASSESSMENTS

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We work with TVA management to conduct FRAs of major processes throughout TVA. An FRA is a process for management and business process-owners to identify and analyze fraud risk factors that may be common to general business practices and also specific to the organization and its operations. The OIG serves as facilitator and consultant during the FRA process. This process is intended to identify (1) types of fraud which 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. As part of this process, we also provide fraud awareness training.



Our outreach efforts are successful in achieving cooperation and support from TVA as demonstrated by management requests for FRAs and the candor shown by employees during the assessment process. These efforts also promote working relationships between OIG and other TVA employees.



The fraud scheme risk heat map identifies those risks which are both probable and have a potentially significant impact.

During this reporting period, we completed FRAs in (1) Economic Development, (2) Occupational Health and Workers’ Compensation processes, (3) Bulk Power Trading, (4) the Valley-Wide Leveraged Contracts Program, (5) the Investment Recovery Process, and (6) two partnering contracts. In each case, fraud risk areas, possible fraud schemes, and potential remediation areas were identified, and management is taking or plans to take appropriate corrective action. Examples of corrective actions include additional training, strengthened internal controls, and improved procedures.

**INVESTIGATIONS LEAD TO CONTROL IMPROVEMENTS**

In addition to identifying wrongdoing, our investigations frequently highlight control weaknesses. The following cases illustrate actions TVA management took to strengthen controls in response to our investigations.

**IMPROVED TIME REPORTING**

In response to a finding that a contractor employee was falsifying timesheets, management implemented additional measures to ensure the accuracy of contract employees’ time reporting. Those measures include requiring contractors to report directly to the appropriate TVA supervisor and sign a log sheet prior to beginning and leaving work.



### **IMPROVEMENTS IN PROGRAM TO REDEPLOY SURPLUS GOVERNMENT PROPERTY**

We completed an investigation of TVA's actions during 2001-2003 while participating in a program administered by the General Services Administration (GSA) to redeploy surplus government property. Our investigation identified numerous concerns regarding actions in connection with this program, including (1) TVA's arrangement with a contractor to assist with this program, (2) TVA providing erroneous information to GSA to circumvent GSA processes and obtain surplus property, and (3) the appraisal of equipment "bartered" to a contractor in exchange for services. Management's corrective actions included replacing several managers in key leadership roles, stopping participation in the GSA program unless approved in advance by a designated senior manager, and meeting with GSA officials to resolve outstanding issues.

### **IMPROVED PURCHASING CARD CONTROLS**

Investigation revealed an employee used TVA purchasing cards to obtain services and merchandise for herself and members of her family, activities which were not detected promptly. In response, management in the affected organization implemented the following control improvements.

- All purchasing-card (VISA) receipts are now reviewed and approved monthly at a higher, more independent level.
- All VISA cardholders were required to attend documented mandatory face-to-face training with Purchasing management.
- On-line VISA training is now mandatory for all cardholders.
- The number of purchasing cards was reduced significantly at the plant level.
- Purchasing card limits were reviewed and revised. In most cases, limits were lowered and standardized. Changes to new limits require Senior Vice President approval.



- VISA purchases are now routinely discussed between the Production Manager and the Business Support representative.
- Management audits card holders by random selection.

### **INVESTIGATIONS DURING THIS REPORTING PERIOD**

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Below we discuss investigation results during this reporting period in the areas of workers' compensation, contractor fraud, and employee investigations.

#### **WORKERS' COMPENSATION FRAUD**

This reporting period's results involving workers' compensation included indictment, plea, sentencing, and forfeiture. The total long-term savings and recoveries to TVA from all cases discussed below are projected to exceed \$2.9 million.

Pursuant to the Federal Employees' Compensation Act (FECA), TVA and other civilian federal employees receive compensation benefits for work-related injuries. TVA pays all the workers' compensation charges for TVA employees. While the vast majority of people who receive workers' compensation are entitled to those benefits, there is a significant minority who are not. Our investigations continue to find people who receive total disability benefits while at the same time they engage in strenuous physical jobs or own and operate businesses. These investigations in many cases lead to terminating benefits for these individuals and corresponding savings for TVA.

#### **Potential Costs of Workers' Compensation Program Fraud**

At the end of FY 2005, there were almost 1,700 individuals on TVA's long-term rolls, and TVA paid about \$59 million in claims for that year alone. Individuals on the long-term roll who have one or more dependents receive 75 percent of their salary while those who have no dependents receive 67 percent. They receive these benefits, plus cost-of-living increases, tax-free for life; there is no reduction once an individual reaches retirement age. Thus, for example, a married 40-year-old employee with a \$50,000 salary who is injured on the job would receive \$37,500 tax-free annually, or an estimated \$1.5 million over his lifetime, plus cost-of-living adjustments.





## Investigations

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The following chart illustrates the long-term cost savings to TVA from our workers' compensation investigations over the past five years.

Fiscal Year	Investigations Completed	Indictments/ Informations	Convictions	Recoveries	Costs Avoided	Total
2002	14	0	1	\$145,477	\$1,164,169	\$1,309,646
2003	6	0	0	92,597	892,863	985,460
2004	11	1	0	0	857,514	857,514
2005	12	1	1	168,779	1,090,528	1,259,307
2006	13	3	2	544,265	1,801,426	2,345,691
<b>TOTALS:</b>	<b>56</b>	<b>5</b>	<b>4</b>	<b>\$951,118</b>	<b>\$5,806,500</b>	<b>\$6,757,618</b>

### Investigations of Workers' Compensation Fraud

#### §8148. Forfeiture of benefits by convicted felons

(a) Any individual convicted of a violation of section 1920 of title 18, or any other statute relating to fraud in the application for or receipt of any benefit under this chapter, shall forfeit (as of the date of such conviction) any entitlement to otherwise be entitled to under this subchapter or subchapter III for any injury resulting from such conviction. Such forfeiture shall be in addition to any action the Secretary may take under this chapter.

(b)(1) Notwithstanding any other provision of this chapter (except as provided in this subchapter or subchapter III of this chapter) shall be paid or provided to any individual during which such individual is confined in a jail, prison, or other penal institution pursuant to that individual's conviction of an offense that constituted a felony.

Our workers' compensation investigations focus on an individual's failure to report employment. While there are other types of workers' compensation fraud, such as claiming an injury occurred on the job when in fact it occurred elsewhere, most of our cases involve someone lying in order to continue receiving benefits.

The Office of Workers' Compensation Programs (OWCP) administers FECA. Because FECA is intended to provide wage-replacement benefits to employees who cannot physically continue working, OWCP requires recipients to submit reports of earnings from employment or self-employment. OWCP uses those reports to assist in determining whether an individual has a continuing entitlement.

Congress amended FECA in 1994 to provide that any individual convicted of committing fraud in connection with the application for or receipt of workers' compensation benefits loses his entitlement to any future benefits. The amendment also provided that individuals who were incarcerated based on a felony conviction would not receive benefits while incarcerated, although eligible dependents could receive compensation at a reduced rate.



### Workers' Compensation Results During this Reporting Period—Updates

The following updates occurred on workers' compensation cases reported in our last semiannual.

- A former TVAN employee, previously indicted by a federal grand jury for the Northern District of Alabama on one count of filing a false statement to obtain workers' compensation benefits, pled guilty to a charge that he falsely reported to OWCP that he was not employed or self-employed. Projected long-term savings from this case, based on his guilty plea, total over \$500,000.
- A former TVAN employee, who previously pled guilty to four felony counts of making false statements to obtain workers' compensation benefits, was sentenced during this reporting period to 12 months' home detention and 60 months' probation, and ordered to pay \$98,015 in restitution. OWCP also declared a forfeiture on an additional \$34,282 in benefits he had received. Based on the conviction, the former employee lost his right to further benefits, which will reduce TVA's future workers' compensation costs by almost \$800,000.
- OWCP declared an overpayment of \$138,121 based on the previous conviction and sentencing of a former Fossil Power Group employee who filed false statements to obtain benefits. We estimate the long-term savings based on the former employee not receiving future benefits will exceed \$600,000.

### Workers' Compensation Results During This Reporting Period—New Cases

In addition to the above updates, results in the workers' compensation area during this reporting period included the following.

- A workers' compensation recipient was indicted in state court on charges of theft of property in obtaining prescription drug benefits and unlawful possession of a controlled substance. The recipient allegedly obtained a large number of prescription pills through the workers' compensation program from several physicians.



## Investigations

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- Two former employees failed to report their income to OWCP. A former electrician was performing part-time electrical work for a company owned by his relatives, while a former painter owned and operated a lawn care business. Both reported to OWCP, however, that they had no employment or income. Although prosecution was declined in both cases, OWCP declared forfeitures of \$128,207 and \$101,539, respectively, for amounts paid to the former electrician and painter during the periods covered by the falsified forms.
- During an investigation into a workers' compensation recipient's entitlement to benefits, we found he had been convicted in state court of first degree attempted robbery and sentenced to 20 years' imprisonment. OWCP subsequently suspended his benefits in their entirety from the date of his incarceration until his release, because he had no dependents. The projected savings to TVA over this 20-year period is \$515,320.
- We also referred three cases to OWCP for appropriate action where a computer match showed their income was greater than 25 percent of their loss of wage earning capacity.

### **CONTRACTOR FRAUD**

We continue to pursue various allegations of contractor fraud. Results during this reporting period were as follows.

#### **Falsified Timesheets**

Our investigation substantiated an allegation that a contractor employee was frequently leaving the work area early and falsifying his timesheet to show he worked eight hours on those days. Although prosecution was declined, his employment at TVA was terminated.

#### **Temporary Living Expenses**

We continued reviewing temporary living expenses paid to contractor employees. Those expenses are intended to reimburse contractor employees on temporary assignment who maintain both a temporary residence and a permanent residence



located more than a certain distance from the TVA site. To obtain temporary living expenses, contractor employees must certify that they maintain both a permanent and a temporary residence. During this reporting period, we closed two per diem cases as follows.

- A contractor supervisor claimed a permanent residence that belonged to his daughter. Although criminal charges were dismissed due to a faulty indictment, TVA recovered \$25,560 from the contractor.
- Another contractor employee claimed as a permanent residence a home that had been sold at foreclosure. Although prosecution was declined, the contractor reimbursed TVA \$31,453.

### **EMPLOYEE INVESTIGATIONS**

We conducted several investigations and referred to management numerous issues involving employee conduct during this reporting period. The issues included IT security, ethics, and travel card misuse. Illustrative examples follow.

#### **IT Security Violation**

An allegation that a TVA employee might be involved in the possession and distribution of child pornography was not substantiated. An examination of his computer, however, revealed several violations of TVA policy. The employee was suspended for five days as a result of our findings.

#### **Government Travel Card**

We continue to conduct data mining of TVA records to identify anomalies that could show fraud, waste, or abuse. Our data mining includes credit card payments, contract records, and other available on-line data. During this reporting period, we identified a TVA employee who used her government travel card for travel advances and personal travel, in violation of TVA policy. Her government credit card was cancelled, and she was suspended for ten days.



## Investigations

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### **Use of TVA Time to Further a Fraud**

An investigation revealed a TVA employee used TVA time and property to further a fraud against a third party. The employee sold equipment he did not own to a third party for \$15,000. The employee used TVA time and property to facilitate this scheme. The employee retired before action was taken against him.

### **Sentencing Update**

We previously reported a TVA employee pled guilty to using TVA purchasing cards to obtain services and merchandise for herself and members of her family, such as color televisions, storage sheds, and other items, over nearly a three-year period. During this reporting period, she was sentenced to 21 months' imprisonment, 3 years' supervised release, and ordered to pay \$85,759 in restitution. In addition, the TVA organization has taken corrective action to prevent any similar schemes.

### **Intimidation and Harassment Allegation**

We investigated an allegation that operators at a nuclear plant were not free to express concerns without severe consequences because allegedly unjustified actions were taken over a year-and-a-half period against individuals with operator licenses and disciplinary actions taken in response to a reactor trip were inappropriate. Our review did not indicate any pattern of misconduct in connection with either of these matters.

### **TASK FORCES**

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 Environmental Crimes Joint Task Force, a Health Care Fraud Task Force, and the Joint Terrorism Task Force.



### **Joint Terrorism Task Force (JTTF)**

We continued our participation on the JTTF, led by the FBI's Knoxville Field Division. Because of TVA's critical, energy-related infrastructure, we have devoted one special agent full-time to the task force and have committed audit support on an as-needed basis. As previously stated by FBI Director Robert S. Mueller, "the JTTFs have played a central role in virtually every terrorism investigation, prevention, or interdiction within the United States . . . JTTFs team up FBI agents with police officers, members of the Intelligence Community, Homeland Security, and other federal partners to coordinate counterterrorism investigations and share information. They are also a critical conduit between the FBI and the officer on the beat."

### **Health Care Fraud Task Force**

We continued our participation on the Health Care Fraud Task Force sponsored by the United States Attorney for the Eastern District of Tennessee. TVA operates a self-insured health benefits plan, and claims of health care fraud involving TVA and others are investigated by this task force. The task force includes representatives from the investigative arms of federal, state, and local agencies and BCBST's Special Investigations Unit.

### **Environmental Crimes Joint Task Force**

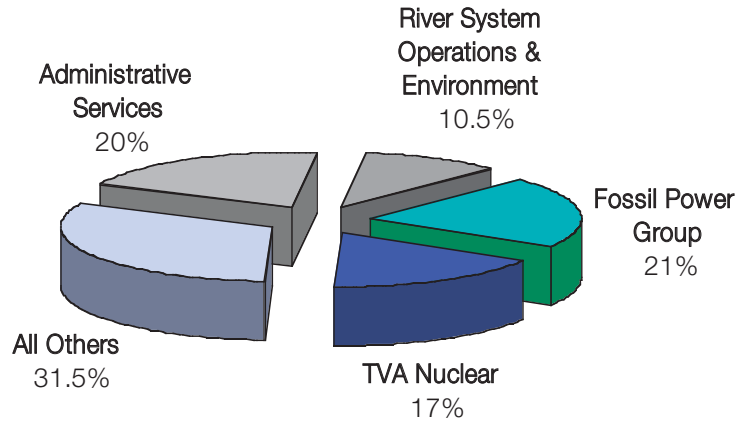
The Environmental Crimes Joint Task Force, which also is sponsored by the United States Attorney for the Eastern District of Tennessee, is comprised of members from numerous federal and state agencies. Our participation on this task force helps support the TVA goal of supporting a thriving river system.



## Investigations

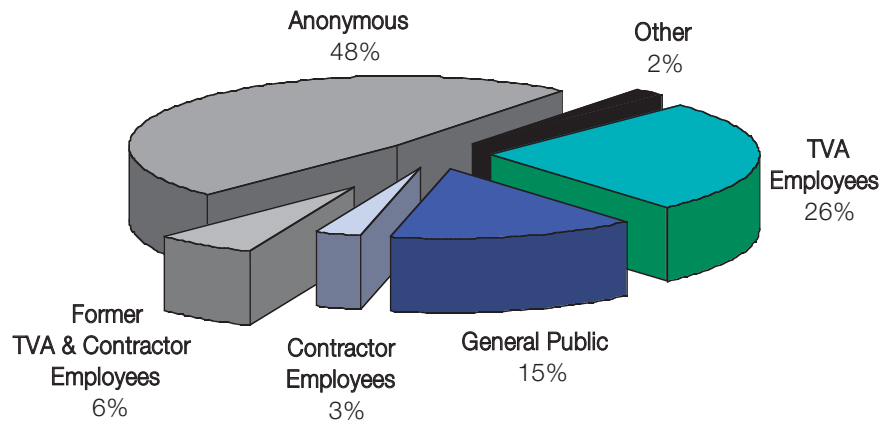
### Closed Cases by Area

Total = 105



### Concerns Reported to OIG Empowerline

Total = 104





Under the IG Act of 1978, one of the IG's responsibilities is to review legislation and regulations which may have an impact on the economy and efficiency in the administration of TVA programs and operations.

Accordingly, we 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. Legislation we reviewed during this reporting period included legislation providing greater public visibility of federal government expenditures, proposed new legislation granting the public better access to government records, and legislation introduced to provide for notification to individuals whose sensitive personal information has been compromised.







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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	44
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	18-42
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	18-42
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	18-42
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
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

**2006-001C-02**

04/03/06	Framatome Contract Issues			
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**2005-049C**

04/06/06	Foster Wheeler Energy Corporation - Contract 99999847			
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**2006-001C-01**

04/20/06	Framatome ANP, Inc.	\$78,653	\$2,010	
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**2006-005C-01**

04/27/06	Pinkerton Government Services Contracts 99999385, 17952, and 17935	104,599	104,599	
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**2006-018C**

05/17/06	L.E. Myers Co. - Request for Rate Increase			
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**2005-004C-03**

06/01/06	Welding Services, Inc. - Review of Fossil Power Invoices	539,194	91,678	
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**2006-010C**

06/13/06	Bechtel Employee Recognition Expenditures	120,499	120,499	
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**2006-017C**

06/15/06	Preaward of Williams Plant Services, LLC Proposal for Maintenance and Modification Services at TVA Nuclear Plants			\$492,000
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**2006-024C**

08/07/06	Nol-Tec Systems, Inc. - Request for Rate Increase	100,642		2,436,000
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**2006-005C-02**

08/09/06	Pinkerton Government Services Contracts 99999385 and 17952 - Excessive Overtime Costs			3,500,000
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**2006-001C-03**

08/10/06	Framatome ANP, Inc.	5,545		
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**2006-012C**

08/10/06	Welding Services, Inc. - Subcontract with Stone & Webster Construction (Contract No. 14703)	450,165	125,941	
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**2006-027C**

08/10/06	Preaward Audit of Panamerican Consultants, Inc.			
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**2006-026C**

08/17/06	Preaward Audit of TRC Garrow Associates, Inc.			
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## Appendix 2

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

<b>2006-023C</b> 08/22/06	National Electric Coil			\$4,400,000
<b>2006-028C</b> 08/22/06	Voith Siemens Hydro Generation, Inc. Contract 5598 - Retroactive Billing Adjustments	\$12,181		

### FINANCIAL

<b>2006-020F</b> 05/17/06	Review of TVA's Second Quarter FY 2006 Financial Information			
<b>2006-031F</b> 08/14/06	Review of TVA's Third Quarter FY 2006 Financial Information			

### INFORMATION TECHNOLOGY

<b>2006-008T</b> 05/30/06	Postini E-mail Protection Service - Logical, Physical, and General Controls			11,400
<b>2006-019T</b> 05/30/06	Pre-Implementation Review of TVA's Passport Upgrade			
<b>2006-037T</b> 09/18/06	Federal Information Security Management Act Evaluation			
<b>2006-035T</b> 09/21/06	Assessing TVA's Efforts to Protect Sensitive Information			
<b>2006-034T-01</b> 09/25/06	Security of TVA's Network Perimeter - Blind Penetration Testing			
<b>2006-032T</b> 09/26/06	Physical Security Review of Iron Mountain			

### PERFORMANCE

<b>2006-021F</b> 06/26/06	Green Power Accreditation Report - 2005			
<b>2006-002C</b> 08/21/06	TVA's Contracting Process			
<b>TOTAL</b>	<b>26</b>	<b>\$1,411,478</b>	<b>\$444,727</b>	<b>\$10,839,400</b>



## 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	8	\$1,411,478	\$444,727
<b>Subtotals of A and B</b>	<b>8</b>	<b>\$1,411,478</b>	<b>\$444,727</b>
C. For which a management decision was made during the reporting period	6	\$860,671	\$318,786
(i) Dollar value of disallowed costs	5	\$782,018	\$316,786
(ii) Dollar value of costs not disallowed	1	\$78,653	\$2,010
D. For which no management decision has been made by the end of the reporting period	2	\$550,807	\$125,941
E. For which no management decision was made within six months of issuance	0	\$0	\$0



## Appendix 3

### 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	\$10,839,400
<b>Subtotals of A and B</b>	<b>5</b>	<b>\$10,839,400</b>
C. For which a management decision was made during the reporting period	3*	\$4,003,400
(i) Dollar value of costs agreed to by management	3	\$2,790,529
(ii) Dollar value of costs not agreed to by management	1	\$1,212,871
D. For which no management decision has been made by the end of the reporting period	2	\$6,836,000
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.



## Audit Reports With Corrective Actions Pending

Final corrective actions on recommendations in 1 contract compliance audit, 1 operational audit, 3 financial audits, and 11 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	<p><b>Application Review of Pegasys</b></p> <p>This report contained recommendations regarding facility access control. The Pegasys upgrade project has been approved by TVA Management and a contract has been awarded. Currently, the IT infrastructure for the upgrade is being implemented. HSPD 12 will be followed as a best practice, and the implementation date for hardware replacement is tentatively planned to begin in January 2007.</p>
<b>2003-004C</b> 03/30/04	<p><b>A&amp;G Tree Service, Inc.</b></p> <p>TVA has asserted a claim against A&amp;G for the amount of \$638,542 for what appears to be unsupported billings under this contract. A formal Contracting Officer's Decision has been rendered which concurs with TVA's claim. A&amp;G has now filed two lawsuits against TVA for (1) payment amounts withheld and (2) appealing the Contracting Officer's Decision. A Contracting Officer's Decision was issued in March 2005 that concurred with the audit findings and directed A&amp;G to reimburse TVA for overpayments of \$638,542 under a closed contract. During May 2005, TVA stopped A&amp;G from performing work under a subsequent contract and recovered part of TVA's damages by withholding payment on invoices under the subsequent contract totaling \$88,362. A&amp;G has sued TVA under the subsequent contract for the withheld payments and has filed suit challenging the Contracting Officer's Decision. The timeframe for resolution of these lawsuits is indeterminate.</p>
<b>2003-024F</b> 11/18/03	<p><b>Review of TVA's Accounts Receivable and the Allowance for Doubtful Accounts</b></p> <p>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 the General Counsel's office. TVA management agreed to implement our recommendations and has transitioned the responsibilities to a new group. Processes and procedures will be evaluated and updated by October 15, 2006, and a new system is planned.</p>
<b>2003-040T</b> 03/30/04	<p><b>Nuclear Plant IT Security</b></p> <p>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 November 30, 2006.</p>
<b>2003-056T</b> 03/18/04	<p><b>Pre-Implementation Review of TVA's New Fuelworx Application</b></p> <p>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 completed in December 2006.</p>
<b>2004-059T</b> 11/24/04	<p><b>Pre-Implementation Review of Security of New Servers for IBS, Fixed Assets, and BOSS Applications</b></p> <p>This report included recommendations that TVA management take action to improve the security of the servers. TVA management is expected to complete planned remediation actions by December 31, 2006.</p>





## Appendix 4

### Audit Reports With Corrective Actions Pending

AUDIT REPORT  
NUMBER  
AND DATE

DESCRIPTION

<b>2004-060T</b> 11/19/04	<b>IT Security Review of New Servers for HR and PR Applications</b> This report included recommendations that TVA management take action to improve the security of the servers. TVA management is expected to complete planned remediation actions by December 31, 2006.
<b>2005-009T</b> 06/30/05	<b>Review of TVA's Information Factory Application, Access, and General Controls</b> This report included recommendations to strengthen controls for the system. TVA management is implementing planned remediation actions which are expected to be completed by March 30, 2007.
<b>2005-012T</b> 06/30/05	<b>Integrated Business System Application, Access, and General Controls</b> This report included recommendations to strengthen controls over the general ledger system. Remediation has been completed on 12 recommendations. TVA management is implementing planned remediation actions for the remaining four items which are expected to be completed by March 30, 2007.
<b>2005-034F</b> 01/30/06	<b>Internal Controls Over Time Reporting</b> The Controller agreed to rewrite AP 14 to emphasize specific information applicable to areas of role definitions, expectations, and accountability and continuing periodic refresher training for SAs, as well as implementing a mandatory on-line training module for SAs. The Controller is currently developing SOX process documentation related to the time reporting process.
<b>2005-039T</b> 01/30/06	<b>eWorkplace Application, Access, and General Controls</b> This report included 15 recommendations to strengthen controls over the time reporting system. Weaknesses were identified in the areas of processing controls, direct data changes, logical access controls, change management, and backup and contingency planning. TVA management is implementing planned remediation actions which are expected to be completed by December 2006.
<b>2005-052F</b> 02/23/06	<b>Followup Review of TVA's Hospitality Program</b> The Controller addressed our recommendations by (1) testing internal controls in related business processes, (2) monitoring trends in hospitality expense through the monthly reporting process, (3) revising form TVA 17901 to make reputation risk a separate field on the form and require a response, and (4) reviewing and scrutinizing each individual miscellaneous voucher request for hospitality expense. The Controller agreed with our recommendation to revise BP 7 and will include specific references to form TVA 17901 and the use of the purchasing card for hospitality spending. The Controller will further clarify what types of expenditures are considered hospitality.
<b>2005-055T</b> 01/24/06	<b>Integrated Contractor System Logical Access and General Controls</b> This report contained 13 recommendations to strengthen logical access and general controls for TVA's Integrated Contractor System. TVA management agreed with our recommendations. All remediation is targeted for completion by October 31, 2006.



## Audit Reports With Corrective Actions Pending

AUDIT REPORT  
NUMBER  
AND DATE

DESCRIPTION

**2005-059F**  
12/06/05

**Summary of Sarbanes-Oxley 404 Process and Controls Documentation Reviews**

The CFO's organization has agreed to implement changes to various business processes and to update the process documentation contained in RCTS to implement our recommendations. CFO's organization identified their planned process changes by making additions to the Summary of Aggregated Gaps (SAG) Report. The planned process improvements on the SAG Report are scheduled to be completed by various dates in FY 2007. As agreed, organizations have made changes to business processes and/or the CFO organization updated the controls documentation in RCTS for the business processes. However, additional changes are likely to be needed as the planned remediation of internal control weaknesses identified on the SAG Report is completed.

**2005-060T**  
01/24/06

**Fuelworx Logical Access and General Controls**

This report contained nine recommendations to strengthen logical and general controls for TVA's fuel management application. TVA management agreed with our recommendations and has (1) completed final action on four and (2) provided an action plan for implementing the other five. The targeted completion date is December 2006.

**2006-003T**  
01/31/06

**IT Security Controls Over Procurement Contracts**

This report contained recommendations to improve controls for managing IT security in Procurement contracts. Management agreed with the findings and recommendations and initiated corrective actions which should be completed by January 2007.



## Appendix 5

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### Investigative Referrals and Prosecutive Results\*

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#### Referrals

Subjects Referred to U.S. Attorneys	3
Subjects Referred to State/Local Authorities	0

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#### Results

Subjects Indicted	1
Subjects Convicted	1
Referrals Declined	7

\* These numbers include task force activities and joint investigations with other agencies.



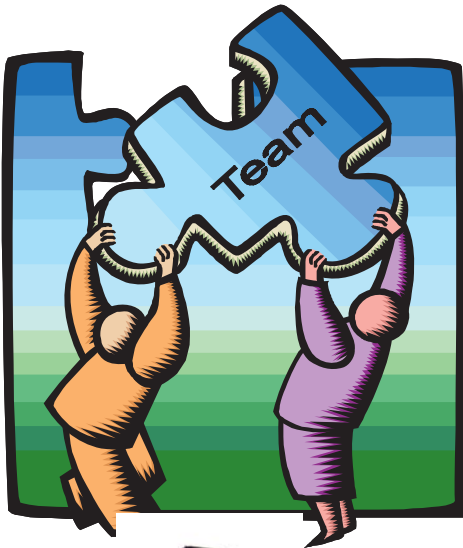
	SEPT 30, 2006	MAR 31, 2006	SEPT 30, 2005	MAR 31, 2005	SEPT 30, 2004
<b>AUDITS</b>					
AUDITS IN PROGRESS					
Carried Forward	20*	24	30	28	29
Started	23	22	41	35	38
Canceled	(1)	3	11	2	5
Completed	(26)	22	29	31	34
In Progress at End of Reporting Period	16	21	24*	30	28
AUDIT RESULTS (Thousands)					
Questioned Costs	\$1,411	\$774	\$6,422	\$8,859	\$1,763
Disallowed by TVA	782	1,122	4,969	7,586	2,948
Recovered by TVA	793	1,641	5,016**	2,312	1,113
Funds to Be Put to Better Use	\$10,839	\$700	\$5,634	\$24,306	\$1,471
Agreed to by TVA	2,790	633	1,251	20,181	7,021
Realized by TVA	2,287	740	6,002	7,886	7,196
OTHER AUDIT-RELATED PROJECTS					
Completed	11	11	10	3	8
Cost Savings Identified/Realized (Thousands)	\$0	\$36	\$0	\$0	\$0
<b>INVESTIGATIONS***</b>					
INVESTIGATION CASELOAD					
Opened	70	80	84	84	118
Closed	105	71	84	103	163
In Progress at End of Reporting Period	113	148	157	157	176
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$643.1	\$2,966.5	\$1,880.3	\$216.3	\$460
Savings	1,038.7	1,625.4	36	1,581.5	447.7
Fines/Penalties	.5	6.2	6.7	.4	451.6
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	16	17	10	11	14
Actions Taken (# of Subjects)	6	9	13	16	30
Counseling/Management Techniques Employed (# of Cases)	14	14	16	12	16
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred	3	5	8	12	25
Indicted	1	3	4	3	9
Convicted	1	3	5	4	3
<b>INSPECTIONS</b>					
Completed	20	14	13	14	8
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$118	\$0	\$226

\* Adjusted from previous semiannual report.

\*\* Includes excess funds recovered by TVA of \$33,219.

\*\*\* These numbers include task force activities and joint investigations with other agencies.

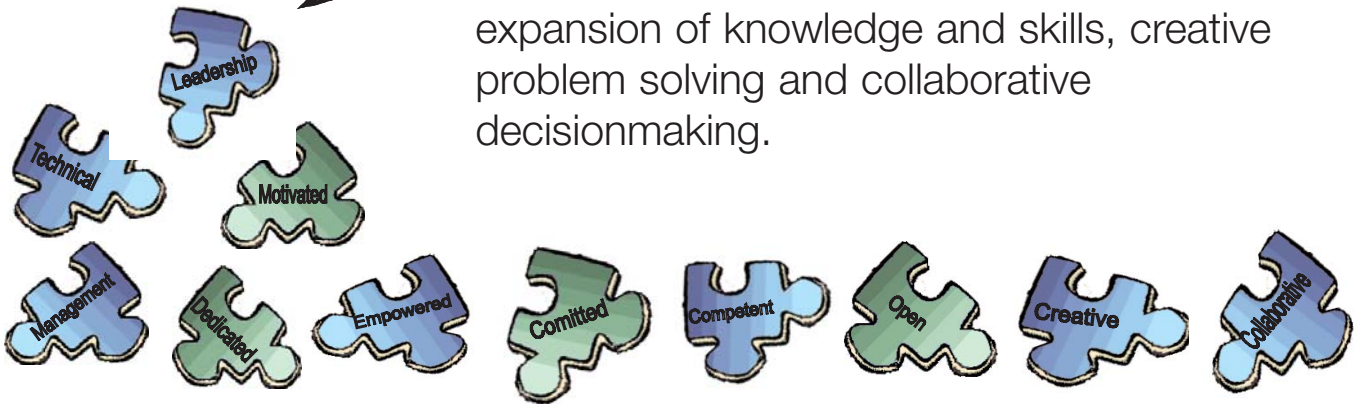
# OIG LEADERSHIP PHILOSOPHY



The TVA OIG strives to be a high performing organization made up of dedicated individuals who are empowered, motivated, competent, and committed to producing high quality work that improves TVA and life in the Valley.

Each of us has important leadership, management, team, and technical roles.

We value integrity, people, open communication, expansion of knowledge and skills, creative problem solving and collaborative decisionmaking.





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