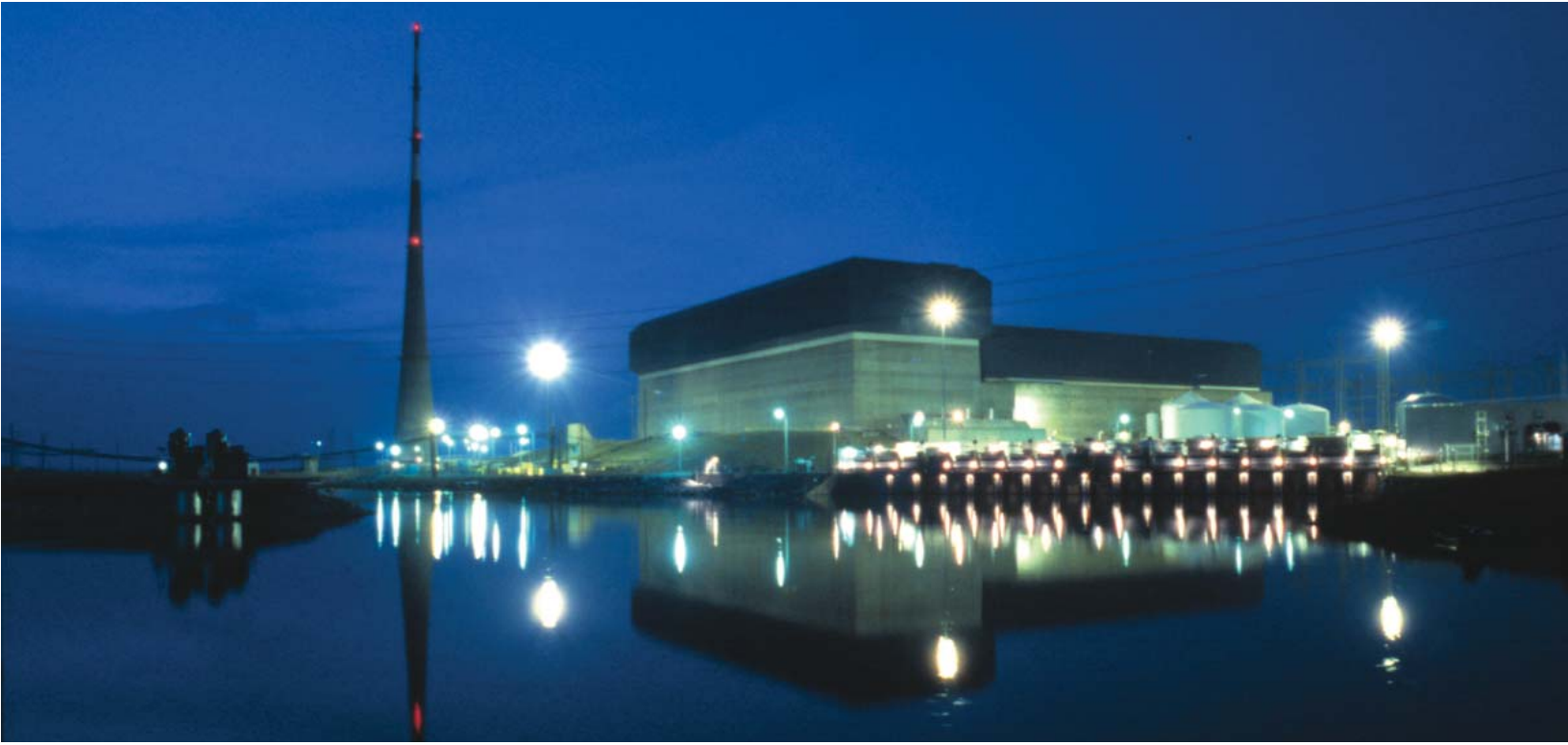


Office of the Inspector General



Semiannual Report

April 1 ~ September 30, 2007



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.



Tennessee Valley Authority Office of the Inspector General

Message From the Inspector General

This reporting period was marked by TVA leading the nation in the resurgence of nuclear power. TVA's commitment to nuclear power was demonstrated by (1) the restart of the Browns Ferry Nuclear Plant (BFN) Unit 1 in North Alabama in May; (2) Board approval in August for completion of a second nuclear reactor at the Watts Bar Nuclear Plant (WBN) in East Tennessee; and (3) Board authorization in September to submit an application to the Nuclear Regulatory Commission (NRC) for a combined construction and operating license for two new nuclear units at TVA's Bellefonte site in Hollywood, Alabama. The anticipated flurry of applications by private sector utilities with the NRC to build new nuclear plants is indicative of the belief within the utility industry that nuclear power is America's best option to meet growing power demands. TVA's successful restart of BFN Unit 1 on time and within budget has sparked renewed optimism that nuclear power is a viable, clean, and efficient source of energy. President George W. Bush recognized the significance of TVA's role in this area by his attendance at a special ceremony at BFN on June 21, 2007.

The TVA Board recently approved a \$9.7 billion budget that includes \$317 million to start work at WBN. The total projected cost to complete the project is \$2.49 billion over the next five years. The Board also approved \$423 million for additional natural gas generation. In addition to this new construction, the Board approved \$22 million for the first phase of a renewed emphasis on energy efficiency and reduction in peak power demand.

With this historic investment comes concomitant risks. The OIG's role is to limit some of those risks by the oversight we provide. The OIG dedicated both investigators and auditors to BFN during the construction there, and we have similarly posted OIG personnel at WBN. The OIG staff is trained to anticipate areas in the construction process that are particularly vulnerable to fraud, our investigators and auditors develop confidential sources at the site, and we provide a confidential hotline, "Empowerline," so people can report concerns anonymously 24/7. As with any major building project, we found fraud, waste, and abuse at BFN. We provided TVA management with details on each of our findings and "lessons learned" to avoid losses and to improve contracting and other processes at WBN. We generally were pleased with management's response to the issues we raised, and we noted significant improvements.

Of course, the work of the OIG extends beyond the oversight of TVA's nuclear program. This report contains an expansive scope of audits, inspections, and investigations that have resulted in a stronger TVA. For example, the OIG recommended that TVA create a Chief Ethics and Compliance Officer position. The need for a more robust and comprehensive ethics program following the best practices of the industry was embraced both by the TVA Board Audit and Ethics Committee and TVA's Chief Executive Officer (CEO), Tom Kilgore. This new more centralized approach to invigorating an already ethical culture will increase accountability and awareness of TVA employees' ethical responsibilities. Peyton Hairston was named as TVA's first Chief Ethics and Compliance Officer; he will report to the CEO and the Audit and Ethics Committee. We applaud TVA's renewed commitment to excellence in this area.

Finally, the work highlighted in this report demonstrates broad oversight coverage of TVA by the many dedicated employees of the OIG. Once again their work has resulted in a healthier and more efficient TVA.

Richard W. Moore
Inspector General
October 1, 2007



Acronyms and Abbreviations

The following are acronyms and abbreviations widely used in this report.

AIGAI	Assistant Inspector General of Audits and Inspections
BFN	Browns Ferry Nuclear Plant
BVI	Bicentennial Volunteers, Inc.
CCT	Calvert City Coal Terminal
CEO	Chief Executive Officer
COF	Colbert Fossil Plant
CQAR	Coal Quality Adjustment Report
CRS	Concerns Resolution Staff
ED	Economic Development
ERS	Employee Reimbursement System
FISMA	Federal Information Security Management Act
FRA	Fraud Risk Assessment
FS	TVA Fuel Supply
FY	fiscal year
GAO	U.S. Government Accountability Office
Gold Card	TVA VISA Gold Executive Expense Card
IG	Inspector General
IG Act	Inspector General Act Amendments of 1988
INS	Immigration and Naturalization Services
IR	Investment Recovery
IT	Information Technology
NEA	National Emergency Assistance
NRC	Nuclear Regulatory Commission
OE&R	Office of Environment and Research
OIG	Office of the Inspector General
PII	personally identifiable information
PR&D	Performance Review & Development
PRIS	Personnel Records Imaging System
PSO	Power Services Operations
PwC	PricewaterhouseCoopers LLP
RFP	Request for Proposal
RO	River Operations
RRC	Retiree Resource Corporation
RSO&E	River Systems Operation & Environment
SAS 70	Statement on Auditing Standards 70
SEC	Securities and Exchange Commission
SOX	Section 404 of the Sarbanes-Oxley Act of 2002
TRP	TVA Tuition Reimbursement Program
TVA	Tennessee Valley Authority
TVAN	Tennessee Valley Authority Nuclear
WBN	Watts Bar Nuclear Plant



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Executive Summary

The results of our audits, inspections, and investigations from the past six months are summarized throughout this report. Highlights include the following.

- TVA created the position of Chief Ethics and Compliance Officer in response to our audit of ethics best practices. Our review noted that a true ethics program includes more than compliance with government-wide ethics regulations.
- We devoted substantial resources to observe and report on TVA's nuclear program, including the multi-billion dollar projects to restart BFN Unit 1 and now to complete the WBN Unit 2. We conducted numerous contract audits and a lessons learned inspection at BFN. A former BFN manager pled guilty to making a false statement by failing to disclose on his financial disclosure report payments he received at the direction of a TVA contractor.
- Eleven contract compliance audits identified \$4.4 million in ineligible or unsupported costs. Our findings included (1) TVA wasted \$689,000 by moving staff augmentation contract employees to a "managed task" contract apparently to avoid reporting the headcount as staff augmentation and (2) TVA incurred excessive cost of \$640,000 by allowing a contractor to charge TVA for safety award costs after TVA management agreed those charges were not billable to TVA.
- We conducted several reviews related to TVA's privacy program. An Information Technology (IT) audit determined personally identifiable information (PII) and other sensitive information were not properly secured on temporary share drives, thus exposing the information to anyone with a TVA network ID. Our review of TVA's overall privacy program found TVA has made progress, but a focused effort is needed to strengthen the program. We also reviewed the physical loss of information contained in the Personnel Records Imaging System (PRIS). Our reviews did not find willful misconduct, but did note numerous human errors and a lack of proper controls.



- Our review of TVA's Economic Development loan programs found, among other things, 13 loans that were made although they did not comply with TVA guidelines; 5 of these loans were in default status. In a separate investigation, two Tennessee businessmen were indicted on fraud charges in connection with a \$500,000 loan from TVA.
- We continued work on initiatives to ensure that OIG employees possess and use the correct tools and incentives to help TVA move forward. These programs include using videos to promote our message and stationing employees at BFN and WBN.

STATISTICAL HIGHLIGHTS	
April 1 ~ September 30, 2007	
Audit Reports Issued	66
Questioned Costs	\$4,634,952
Disallowed Costs	\$3,324,324
Funds Recovered	\$1,273,595
Funds Put to Better Use	\$19,100
Funds Realized by TVA	\$948,399
Investigations Opened	113
Investigations Closed	121
Fines/Recoveries/Restitution/Savings	\$603,438
Criminal Actions	8
Administrative Actions (No. of Subjects)	8
Inspections Completed	16



TVA Profile and the Resurgence of Nuclear Power

Created in 1933, today TVA is the nation's largest public power company. TVA's revenue totalled \$9.2 billion in fiscal year (FY) 2006. 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 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 federal facilities in the Valley, TVA supplies the energy needs of 8.7 million people.

As a regional development agency, TVA supplies affordable, reliable power; supports the nation's fifth largest river system, the Tennessee river system; and promotes economic development. 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.

The nation's nuclear power industry has indicated that 2007 is a year for resurgence of nuclear power. NRC Chairman Dale Klein has said that over the next year and a half the NRC expects to receive 20 license applications in addition to the two new TVA applications reported below. In September 2007, the NRC received its first application in 29 years for a new reactor license. The industry's direction is certainly true for TVA; the TVA Board voted on September 27, 2007, to seek a license for a new nuclear power facility at its Bellefonte site in northwest Alabama. Earlier, in May 2007, TVA launched the historic restart of BFN Unit 1 near Huntsville, Alabama. The plant had been inactive for 22 years. Following the May restart, the TVA Board voted on August 1, 2007, to complete and seek an operating license for WBN Unit 2 in Spring City, Tennessee.



	WBN Unit 2	BFN Unit 1
Projected dollar cost to complete	\$2.49 billion	\$1.8 billion
Completion schedule	5 years	5 years
Number of evaluation studies	4	2
Megawatts of added capacity	1,180	1,280
Homes that can be provided power	650,000+	700,000+
Tons of carbon-dioxide emissions from operation	0	0
Increase in number of employees for operation	271	150



Watts Bar Nuclear Plant

Browns Ferry Nuclear Plant





Office Authority

Created by the TVA Board of Directors in 1985, the TVA OIG became statutory under the Inspector General Act Amendments of 1988 (IG Act). The authority to appoint the TVA Inspector General (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

- 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 work performed by non-federal auditors complies with government auditing standards.
- Issue semiannual reports to TVA Board and Congress.



OIG AUTHORITIES

- 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

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 Investigations offices in Mayfield, Kentucky, in Chattanooga, Tennessee, and at BFN near Athens, Alabama, as well as an Inspections unit located in Chattanooga. The OIG consists of three primary components: (1) Administration, (2) Audits and Inspections, and (3) Investigations.



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



Office of the Inspector General

OIG STRATEGIC PLAN

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.

STRATEGIC GOALS

PERFORMANCE

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

WORKFORCE

Cultivate and retain a highly skilled, productive, and fully engaged workforce

STAKEHOLDER

Communicate effectively 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
- Stay abreast of emerging issues and industry trends
- Stay abreast of stakeholder concerns
- Produce work that is timely, relevant, and of high quality

- Hire and retain a well qualified workforce
- Maintain competitive pay and reward programs that allow for rewarding team and individual contributors
- Develop leadership, team and technical skills for each employee
- Ensure accountability in individual performance
- Promote effective communications within OIG staff

- 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



AUDITS

Audits conducts and/or supervises comprehensive financial and performance audits of TVA programs and operations. Based upon the results, Audits makes recommendations to ensure that program objectives and operational functions are achieved effectively and efficiently. Audits develops an annual plan to achieve the most beneficial allocation of resources. The annual plan addresses those issues, programs, operations, and activities that have the greatest likelihood of placing TVA at risk for fraud, waste, abuse, or in regards to IT, malicious, or other intrusion.

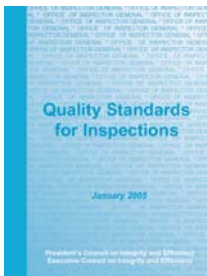


Audits consists of three departments—Contract Audits, Financial/Operational Audits, and IT Audits.

- Contract Audits has lead responsibility for contract compliance and pre-award 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 audit and related services 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



The Inspections unit was formed at the beginning of 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

Investigations 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 ED loan recipients.

Investigations 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.

Investigations 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.





NEW FACES AND ROLES IN THE OIG

The TVA OIG welcomed Robert E. Martin as the Assistant Inspector General of Audits and Inspections (AIGAI) on Monday, October 15. Mr. Martin will be responsible for managing all audits and inspections performed by the OIG.



Robert E. Martin
Assistant Inspector General
(Audits and Inspections)

Mr. Martin served as the Assistant Inspector General of Aviation & Special Program Audits for the Department of Transportation after serving as a Director in the Financial Management and Assurance Division for the U.S. Government Accountability Office (GAO) in Washington, D.C., for nearly five years. While with the GAO, Mr. Martin was a lead auditor of TVA.

Ben Wagner, former AIGAI, was named Deputy Inspector General in July. He took on the position full-time in October after Mr. Martin was selected as his replacement for AIGAI. Mr. Wagner originally started with TVA in 1979, and he was one of the first employees hired into the OIG after the office was created in 1985.



Ben Wagner
Deputy Inspector General

Former Chief of Investigations for the Alabama Attorney General's Office, John E. Brennan, has been named Assistant Inspector General of Investigations replacing Charles Kandt, who has been detailed to the U.S. Attorneys' Office for the Eastern District of Tennessee and will assist in the prosecution of future OIG criminal cases. Mr. Brennan, a veteran Federal Bureau of Investigation agent, has specialized in white collar fraud and public corruption.



John E. Brennan
Assistant Inspector General
(Investigations)



Office of the Inspector General



Richard W. Moore - Inspector General



Richard P. Levi
Legal Counsel



Ben R. Wagner
Deputy Inspector General

Administration & Government Relations



Ronald Wise
Assistant Inspector General



Kay Myers
Manager
Human Resources



Stefanie Hoglund
Communication Specialist

Investigations



John E. (Jack) Brennan
Assistant Inspector General

Audits and Inspections



Robert E. Martin
Assistant Inspector General



David P. Wheeler
Director
Contract Audits



Gregory C. Jaynes
Deputy Assistant Inspector General
Inspections



Lisa M. Hammer
Director*
Financial & Operational Audits



Louise B. Beck
Audit Quality Manager



Jill M. Matthews
Director
Information Technology Audits

*This position is a 6-month assignment.

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



Below we highlight innovative and noteworthy OIG management practices, such as extended telework and using videos, and our recent review of ethics at TVA.

OIG Innovates to Improve

We are continuously seeking ways to improve our operations. To further this goal, we initiated a best practices exchange with other OIGs to share ideas and solutions. Our meetings to date with several other offices have led us in many cases to re-examine our practices and consider new techniques. Our efforts have included conducting a SWOT analysis, where we analyzed OIG strengths, weaknesses, opportunities, and threats, and the development of a dashboard to better manage our cases. Below we outline some other concepts we are implementing.

TVA OIG RELEASES REVEALING AND INFORMATIVE VIDEOS

The OIG is on a mission. That mission is to educate TVA employees about the role of the OIG. Recognizing that in the modern age we need to seek out new methods of communicating our message, we have produced two videos toward that end. One video is shown to all new TVA employees during their orientation and outlines who and what the OIG is. The other video shows real-life examples of fraud cases involving TVA employees and contractors.





Special Features

As stated in the video by IG Moore, it is important to note that the vast majority of TVA employees and contractors do the right thing. There are those few who may succumb to the temptation of fraud, however, and it is up to each person to alert the OIG to any suspicions they may have. This video is designed to give TVA employees examples of what fraud may look like, so to speak, and to educate them on what to do if they suspect fraud.

The video gives information on the OIG hotline, called Empowerline, and explains that the hotline is outsourced to a neutral third party and provides those reporting a concern the choice of anonymity. The Empowerline is accessible by calling 1-877-866-7840 or by going to the web site at www.OIGempowerline.com.

EXTENDED TELEWORK PRODUCES FAVORABLE RESPONSES

During this semiannual reporting period, we piloted an extended telework program, defined as employees spending three or more days a week teleworking. The evaluation process included obtaining feedback from participants, their supervisors, and their coworkers on this pilot. Overall, the feedback was supportive of extended telework and led to only minor adjustments.

The responses also negated concerns about productivity, communication, and teamwork. Based on that feedback, the program is being extended to include all agents and auditors and others in the office as appropriate. While extended telework may not work or be available to everyone, we expect to expand the program to the fullest extent possible.

FOCUS ON ETHICS

Ethical lapses such as those which have recently rocked corporations, universities, and even government agencies can lead to scandals and loss of a positive public image. Following a review of ethics and compliance at TVA, the OIG issued a report that recommended TVA create a Chief Ethics and Compliance Officer position. The presentation included a formal definition of ethics, along with a simple description of “the spirit of doing the right thing.” The benefits of an ethics program include promoting



the desire most people have to do the right thing in an ethical environment, the competitive edge ethical organizations maintain over time, and the fact that a free market system operates on trust and trust makes business and commercial efforts both more effective and efficient. The OIG team concluded that TVA's current ethics and compliance program has many pockets of activities that, in themselves, appear to be well-managed. The OIG further noted, however, that a centralized and more broadly defined program would provide a coherent approach to address the key elements of (1) creating a more extensive program through training, communications, and principles to guide behavior; (2) reviewing and tracking ethics issues; and (3) organizing a corporate approach to ethics and compliance. To address these key elements, the OIG recommended establishing the position of Chief Ethics and Compliance Officer at TVA. With the advent of Sarbanes-Oxley and other ethics and compliance initiatives across the country, many large companies have established such a position. As recommended by the OIG, this position would be responsible for, among other things, directing the ethics program and coordinating compliance programs across TVA and sharing ethics and compliance issues across business units. TVA subsequently appointed an Chief Ethics and Compliance Officer.

The team's other findings include that only about 20 percent of TVA employees take annual ethics training. TVA OIG recommended that all employees receive annual ethics training, including training on basic principles to guide behavior. In regard to personnel practices, the OIG recommended that all performance evaluation tools include commitment to basic TVA values, behavior-based interviewing techniques be incorporated in hiring practices to probe for ethical behavior traits, and all rewards and promotions be reviewed for consistency regarding ethical behavior. The OIG recommended TVA create a process for centrally tracking ethical issues from identification to resolution, summarizing and trending issues, and sharing the information across business units. We will be working with the Chief Ethics and Compliance Officer to address these other issues.



Summary of Representative Audits

Audits are initiated from (1) the OIG annual workplan, (2) additional issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, and (4) concerns raised by TVA management or other stakeholders. During this reporting period, we completed 66 audits which identified approximately \$4.6 million in questioned costs and over \$19,000 in funds which could be put to better use. We also identified several opportunities for TVA to improve program operations. Our audits include (1) pre- and post-award contract audits, (2) financial-related audits, (3) operational audits, and (4) IT audits. We also completed 17 other audit-related projects.

CONTRACT COMPLIANCE AUDITS IDENTIFIED \$4.4 MILLION

During this semiannual period, we completed 13 audits, including 11 contract compliance audits that identified \$4.4 million in ineligible and unsupported costs. We also provided advice to TVA management regarding deficiencies in certain contracts and evaluations of contractor proposals. In addition, we provided assistance to OIG investigations on various contractor investigations and fraud risk assessments. Highlights of these audits follow.

- We audited \$37.4 million of costs billed by a TVA contractor for providing specialty fire protection systems and determined the contractor had billed TVA an estimated \$408,100 of excessive or unsupported costs. Specifically, the contractor billed TVA (1) an estimated \$257,400 of extra labor costs because it paid certain local craft employees wage and benefit rates that exceeded standard rates included in TVA's labor agreements, (2) \$87,700 of labor adjustments that were either not in accordance with the contract or were duplicates of adjustments that had already been made, and (3) \$63,000 of miscellaneous overpaid and unsupported labor and travel costs. We recommended TVA revise its contract to include specific criteria for paying wage and benefit rates that exceed standard rates included in TVA's labor



agreements, determine if any of the previously billed costs should be recovered, and recover or avoid paying the remaining overbilled costs.

TVA management subsequently decided not to recover the \$257,400 of extra labor costs but plans to require annual preapproval by the contractor to pay rates that are higher than rates included in TVA's labor agreements. Additionally, management recovered about \$124,000 of the remaining overbilled costs.

- We audited \$2.49 million of costs billed to TVA by a contractor from January 2005 through December 2006 for the administration of TVA's vision benefit program. We found TVA was billed (1) an estimated \$69,928 for miscalculated and unsupported claim costs, (2) \$4,210 for duplicate claims, and (3) \$22,255 for claims that exceeded the contract frequency limitations. Additionally, TVA was billed an estimated \$56,748 in ineligible claim costs that occurred because eligibility information was not updated on a timely basis. TVA management has or is planning to recover the overbilled costs including the estimated \$56,748 that occurred because the contractor did not update eligibility information on a timely basis.
- Our audit of costs billed to TVA by a contractor who provided engineering and technical support found that most of the contractor employees had been transferred from staff augmentation contracts where they had been performing the same duties at a substantially lower cost to TVA. In total, we determined TVA's costs increased \$689,000 when the staff augmentation contract employees were moved to the "managed task" contract, primarily due to a high overhead markup rate. By moving the contract employees to the "managed task" contract, it appeared TVA was attempting to avoid reporting this headcount as staff augmentation. Since it appeared doubtful TVA had received \$689,000 worth of management oversight from the contractor, it is our opinion that TVA wasted \$689,000 when it moved staff augmentation contract employees to the "managed task" contract.



Audits

- We audited \$58.5 million of costs billed to TVA by a contractor for staff augmentation support services during FYs 2005 and 2006. We determined TVA was overbilled about \$540,000 for labor costs due to duplicate billings, overpayments of labor hours, and the use of incorrect wage rates. We also found the contractor had not maintained documentation to support approximately \$340,000 of travel expenses billed to TVA. The contractor and TVA management agreed with our findings, and TVA is planning to (1) recover the overbilled amount and (2) implement a requirement for the contractor to maintain documentation of travel expenses that are billed to TVA.
- We audited \$249 million of costs for parts and services for BFN paid by TVA to a contractor from January 1, 2000, through May 31, 2006, and found TVA had been overbilled \$960,000 because the contractor had not always discounted its prices as required by the contract. TVA management is working with the contractor to determine what impact, if any, a previous verbal agreement regarding the contract discount structure may have on the amount owed to TVA.
- Contrary to a previous decision by TVA management that safety award costs were not billable to TVA, we found a contractor had billed TVA an additional \$895,000 for the safety award costs. Additionally, we found that TVA approved a contract work authorization that apparently contradicted TVA's previous decision regarding the direct billing of the safety awards. As a result, TVA may have been obligated to pay part of the \$895,000 billed by the contractor. Procurement subsequently decided to only pursue recovery of \$255,000 of the cost that had been billed to TVA.



FINANCIAL-RELATED AUDITS

During this semiannual period, we completed 27 audits, including 6 financial-related audits and testing of financial reporting controls for 21 various business processes to assist with TVA's initiative to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX). Highlights of these projects follow.

EXTERNAL AUDITOR COMPLIES WITH GOVERNMENT AUDITING STANDARDS

TVA contracted with the independent certified public accounting firm of PricewaterhouseCoopers LLP (PwC) to audit TVA's balance sheets as of September 30, 2006 and 2007, and the related statements of income, changes in proprietary capital, and cash flows for each of the three years in the period which ended September 30, 2007. In addition, the contract called for the review of TVA's quarterly financial information associated with the filing of its quarterly reports on Form 10-Q with the Securities and Exchange Commission (SEC). The contract required that audit and related work be done in accordance with generally accepted government auditing standards. We reviewed PwC's reports and related audit documentation for the quarterly reviews, interviewed their representatives, and performed such other procedures as we deemed necessary in the circumstances to provide reasonable assurance the audit and related work were performed in accordance with these standards. Our reviews disclosed no instances where PwC did not comply, in all material respects, with generally accepted government auditing standards.

END-USE BILLING ANALYTIC COULD BE IMPROVED

Currently, 158 distributors (including municipalities and cooperatives) purchase power from TVA. Each month, all distributors collect power usage data from their end-use customer meters and summarize that data into the applicable end-use revenue categories. This information is reported by the distributors to TVA in one file called Schedule 1. Monthly, TVA bills its distributors based on the revenue category breakdown reported on the Schedule 1s.



Audits

TVA's Annual Report on Form 10-K, filed with the SEC for FY 2006 disclosed "a material weakness in internal controls related to TVA's end-use billing arrangements with wholesale power customers." The material weakness in financial reporting controls stemmed from the fact that TVA placed considerable reliance on distributors to accurately report the data to TVA supporting their own monthly power bills (and thus determine TVA's end-use revenues).

To address the material weakness, in FY 2006 TVA requested from each distributor and the distributor's third-party billing processor, if applicable, an annual Statement on Auditing Standards 70 (SAS 70) Type II internal control report covering 12 specific control objectives. Based on the results of the SAS 70 audits and the Controller organization's evaluation of these results, some distributors were classified as needing additional analytic review. For those distributors, TVA developed a quarterly end-use revenue analytic to determine whether end-use billing revenues reported by those distributors were materially misstated for financial reporting purposes.

We reviewed TVA's methodology for preparing its FY 2007 end-use revenue analytic. We generally believe the methodology used was a reasonable approach to calculate a quarterly maximum potential error for comparison with TVA's quarterly financial reporting materiality threshold. However, areas were identified to improve the precision of the analytic results. We found the rationale for applying an assumed error rate to a percentage of revenue categories was not documented. In addition, we determined that guidance did not (1) specify that management would review and approve the component calculations and completed analytic prior to its use and (2) address procedures to be performed in instances where the quarterly potential error estimate exceeded TVA's quarterly financial reporting materiality threshold.

Management agreed to revise its end-use process narrative to reflect the basis for applying assumed error rates. In addition, management stated that (1) procedures have been implemented related to the review and approval of the analytic calculation and (2) errors identified in the FY 2007 Quarter 1 analytic were corrected in the preparation



of the FY 2007 Quarter 3 analytic. Management drafted procedures to be performed when the calculated net error is greater than TVA's financial reporting materiality.

SOX READINESS TESTING

In support of TVA initiatives to comply with SOX, we completed 21 projects to test or retest financial reporting controls in 19 of about 70 key business processes determined to be in scope for SOX compliance. These projects were designed to provide the Vice President and Controller with information to assess TVA's readiness to comply with SOX. The deficiencies included needed improvements in control design, control not being performed as intended, inadequate documentation retained to demonstrate the control operated in the period tested, and other documentation-related improvements.

OPERATIONAL AUDITS

During this semiannual period, we completed five operational audits. Highlights of two of these audits follow.

IDENTIFICATION AND MANAGEMENT OF SURPLUS MATERIALS

We reviewed the processes related to identifying and managing surplus materials to determine if surplus material is identified and managed in accordance with TVA policies and procedures. In summary, we found:

- Inconsistencies in the methods used to identify surplus.
- Surplus inventory overages totaling \$58,756 and inventory shortages totaling \$617,524 at the Hartsville facility.
- Receipts of surplus material redeployed from Hartsville to a facility not being completed or cancelled in PassPort (TVA system used for supply chain management) in a timely manner.
- Discrepancies between actual bids and awarded bids for the April 2006 sealed-bid auction.



Audits

We recommended (1) Procurement management ensure compliance with process documentation related to identification of surplus materials, (2) Investment Recovery (IR) personnel ensure the accuracy and completeness of the information in PassPort related to the locations and quantities of the surplus material at the Hartsville facility, (3) Procurement management ensure transfers are completed in PassPort in a timely manner, and (4) IR management ensure the accuracy and completeness of the sealed-bid process.

Procurement management stated they had (1) received confirmation from each site procurement manager that they are complying with process documentation related to identification of surplus material, (2) corrected all items addressed in the draft audit report related to accuracy of surplus inventory, (3) planned to issue a reminder to site procurement managers regarding the timely completion of transfers in PassPort, and (4) established guidelines to ensure the completeness and accuracy of the sealed-bid process.

COAL QUALITY ADJUSTMENT REPORTS (CQAR)

We assessed the accuracy of 58 CQARs representing \$48 million or 40 percent of the total dollar adjustments processed during FYs 2003 through 2006. During FYs 2003 through 2006, TVA paid approximately \$6.4 billion for coal and related transportation costs to fuel its 11 fossil plants. Coal sampling and analysis is an essential aspect of the overall power production program. Without it, TVA has no assurance that the coal received is of the quality necessary to effectively operate the plants within environmental standards and operating guidelines. Also, sampling is necessary to provide a basis for price adjustments to ensure the price paid for coal reflects the quality of the coal received. CQAR adjustments can significantly affect the net cost that TVA pays vendors for coal.

In summary, we found that CQARs were not calculated accurately in 27 instances (about 47 percent). The miscalculations were due to errors resulting from either, or a combination of, (1) sample analysis data keyed incorrectly into the CQAR, (2) incorrect tonnage used when calculating the CQAR, (3) all sample data not being used to



calculate the CQAR, (4) calculation rounding not in accordance with contract terms, and (5) incorrect contract guarantee applied to the CQAR calculation. In addition, we found that one CQAR adjustment was based upon a handwritten change made in a contract that was not initialed to show agreement by both parties.

We recommended TVA management (1) adjust future payments to coal vendors to compensate for overpayments and underpayments, (2) take corrective action to prevent processing errors, and (3) ensure all contract changes are documented and approved by both parties. TVA management concurred with our recommendations and agreed to recalculate the CQARs identified as needing correction and submit the appropriate financial adjustments to the coal vendors (overpayments to vendors totaling \$395,071 and underpayments totaling \$150,717), with the exception of two coal vendors who no longer exist. TVA management further agreed to take corrective action to prevent processing errors and ensure contract guarantees are correct.

IT AUDITS

During this semiannual period, we completed 21 audits, including 8 audits in the IT environment and 13 reviews in support of TVA's readiness efforts to comply with SOX. Highlights of a selection of these audits and reviews follow.

SOX READINESS TESTING—IMPROVEMENTS NEEDED

We performed testing of primary controls in three IT general control areas—Change Control, Access to Programs and Data, and Computer Operations. In addition, we tested primary controls specific to ten applications which were considered in scope for SOX. Overall, we noted opportunities to improve SOX documentation, operating effectiveness of controls, and areas where control gaps existed. TVA management has taken or is in the process of taking action to remediate issues noted in these reviews.



AREAS OF IMPROVEMENT NOTED IN FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

FISMA was enacted to call attention to IT security within the government. As a part of FISMA, the OIG performs an annual review. Our review determined while TVA continues to make progress in implementing IT security controls required by FISMA, additional controls are needed to improve (1) oversight and evaluation of contractor systems, (2) the Privacy Program, and (3) consideration of e-authentication risks at TVA. TVA management generally agreed with our findings and is in the process of implementing corrective action.

IMPROVEMENTS NEEDED IN PRIVACY PROGRAM AND PROTECTION OF PII AND SENSITIVE INFORMATION

We performed (1) an overall review of TVA's Privacy Program and (2) a review targeted at the protection of PII and other sensitive information residing on temporary share drives. In the overall Privacy Program review, we found (1) TVA's privacy policies and procedures were generally consistent with federal requirements, however, we noted areas where further guidance is needed; (2) while TVA has made progress in implementing privacy program components, a focused effort is needed to strengthen the program in areas, e.g., better integration among TVA groups who have privacy responsibilities; and (3) improvements are needed in certain privacy practices.

In the second review, we determined PII and other sensitive information were not properly secured on temporary share drives thereby exposing the information to anyone with a TVA network ID. We also determined these shares were being used to store non-business related information. In addition, TVA does not have a policy or guidance for management of temporary shares to address their proper use. TVA had drafted updates to three policies or business practices regarding protection and classification of information and notification procedures when PII has potentially been exposed, but these had not been implemented at the time of our review. TVA management generally agreed with our findings and is in the process of implementing corrective actions.



WEAKNESSES IN SECURITY AND INTERNAL CONTROLS IDENTIFIED

We performed five other reviews pertaining to (1) pre-implementation of a new system, (2) security of a critical system, (3) backup and server failures for a system, (4) handling of a computer incident at a critical facility, and (5) verification of backups for production systems. In these reviews, we noted:

- Improvements could be made to address weaknesses in logical and physical security controls designed to prevent unauthorized access to system programs, data and facilities, and general controls designed to ensure ongoing operations.
- Backup and server failures were due to (1) human error and (2) the lack of proper controls to detect when backups are no longer occurring. In addition, PII was not adequately secured when efforts were made to recover data.
- Improvements could be made in the backup process to better ensure all systems are backed up in accordance with system requirements.
- IT Security and TVA organizational procedures need to be enhanced to ensure (1) timely coordination between TVA organizations and IT Security when a computer incident occurs and (2) organizations consider cyber-based factors when investigating a computer incident.

TVA management generally agreed with our findings and is in the process of implementing corrective actions.



Summary of Representative Inspections

Inspections may be initiated from various sources including (1) annual project planning, (2) management requests, (3) audit/investigative referrals, and (4) spin-off reviews resulting from an ongoing inspection. During this semiannual period, we completed 16 inspections which identified over \$15,000 in questioned costs. We also identified various opportunities for TVA to improve program operations. Highlights of our inspections follow.

TVA SECTION 26A PERMITTING AND LICENSING PROCESS AND PROCEDURES

We performed a review to determine whether River Systems Operation & Environment (RSO&E) permitting policies and procedures (1) ensure reviews and approvals are conducted consistently and in accordance with applicable requirements and (2) are being followed. TVA regulations (18 C.F.R. Part 1304) related to Section 26a of the TVA Act of 1933 (Section 26a) require that TVA's approval be obtained prior to the construction, operation, or maintenance of any dam, appurtenant works, or other obstruction affecting navigation, flood control, or public land or reservations along or in the Tennessee River or any of its tributaries. Our review included Reservoir Land Records established in RSO&E's Automated Land Information System during the period October 1, 2004, through July 31, 2006. In summary, we found:

- RSO&E has implemented permitting guidelines which should ensure (1) TVA regulations (18 C.F.R. Part 1304) pertaining to Section 26a of the TVA Act are followed and (2) consistent review and approval of Section 26a applications. However, documentation requirements supporting permitting decisions could be improved.
- For the 101 Reservoir Land Records we reviewed, 37 had varying noncompliance issues and an additional 15 had Reservoir Land Records data entry issues.



TVA management agreed with our findings and recommendations and has initiated or plans to initiate appropriate corrective actions. Some of the corrective actions being considered include (1) revising guidelines to clarify proper record management and Shoreline Management Policy waiver documentation, (2) providing refresher training on processing Section 26a applications, and (3) enhancing the Section 26a electronic data system.

TRAVEL REIMBURSEMENTS AT TVA

We performed an inspection to assess the reasonableness of travel reimbursements where employees (1) were in travel status for an extended period of time and/or (2) received significant reimbursements. Our review included a sample of all reimbursements made to employees during FYs 1999 through 2006.

TVA employees are reimbursed for travel and travel-related expenses through TVA's Employee Reimbursement System (ERS). Based on ERS data beginning with FY 1999, travel reimbursements have exceeded \$15 million each year with FY 2002 having the highest amount of travel reimbursements—about \$20.4 million. More recently, total TVA employee travel reimbursements were over \$17.7 million in FY 2006. TVA travel reimbursements are governed by (1) TVA policies and procedures and (2) federal travel regulations.

We found many TVA employees received significant travel reimbursements and traveled to the same location for extended periods in multiple years. Therefore, we identified the top 100 travelers based on the number of days spent in travel status in a single location during FYs 1999 through 2006 and requested justifications from management for the extensive travel.

In summary, we found for the 8 years of travel reimbursements reviewed, there were 434 different TVA employees that were identified as a top 100 traveler during any of these FYs. During this period, the 434 individuals received reimbursements totaling over \$9.6 million. While the organizations provided explanations, no documentation was provided to support that consideration was given to changing any official duty



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stations. The lack of specific justification for extended travel for several individuals over several years to one location raises questions about whether there may be cost savings opportunities.

Management generally agreed with our findings and recommendations and has initiated or plans to initiate appropriate corrective actions.

TVA VISA GOLD EXECUTIVE EXPENSE CARD (GOLD CARD)

We conducted a review to determine whether Gold Cards were being used in accordance with TVA policies and procedures. Gold Cards are issued to TVA Board members, officers, and other designated employees for travel, entertainment, hospitality, and incidental miscellaneous expenses, and these charges are directly billed to TVA. Our review included Gold Card purchases made from October 1, 2004, to August 28, 2006. Of the 272 cardholders with charges during this period, 10 accounted for about 34 percent of all charges. In summary, we found:

- Gold Cards are generally being used in accordance with TVA policies and procedures.
- Policies addressing Gold Card use could be improved.
- Gold Card expenditures were for various purposes, including travel, meals, hospitality/gifts, economic development, and employee meetings. We noted instances where documented justifications (i.e., purpose, risk to TVA, and benefit to TVA) did not appear adequate to show the potential benefits warranted the expenditures.

Management generally agreed with our findings and recommendations and indicated that modifications would be made to policies and forms to strengthen controls governing Gold Card usage.



TVA AND CONTRACTOR HIRING PRACTICES

We conducted a review of TVA and contractor employment procedures to determine whether TVA policies and procedures ensure the hiring of non-citizens complies with legal requirements. Our review included a sampling of all new hires from June 1, 2004, through May 31, 2007. In summary, it appears that TVA has appropriate policies and procedures in place to ensure (1) its hiring process is in compliance with applicable legal requirements and (2) contractors are responsible for ensuring that principals/employees under contract to TVA meet Immigration and Naturalization Services (INS) requirements.

However, we selected 34 employees to verify TVA compliance with the INS requirements and found required information could not be provided for 9 employees due to the loss of electronic files. The PRIS backup and server failures were addressed in a separate audit. TVA management agreed with our findings and will determine what actions, if any, are necessary since required information was lost due to system failures.

BFN UNIT 1 RESTART LESSONS LEARNED

TVA's successful effort to restart Unit 1 at BFN provided an opportunity to transfer knowledge to future generation projects to (1) improve project oversight, (2) improve project efficiency and effectiveness, (3) generate cost savings opportunities, and/or (4) reduce TVA's risk of fraud, waste, and abuse. Currently, TVA is planning to meet the need for additional base-load capacity on the TVA system and maximize the use of existing assets by completing and operating WBN Unit 2.

We conducted a review to identify improvement opportunities from the BFN Unit 1 Restart project taking into consideration (1) previously reported audits, inspections, investigations; and (2) TVA management evaluations. OIG reviews of the BFN Unit 1 Restart project and TVA management's evaluations of the restart activities have identified opportunities for improvement in future generation projects. Specifically:



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- The OIG conducted reviews throughout the course of the project focusing on (1) payment of overheads and direct expenses, (2) craft time labor reporting, (3) equipment and tools controls, (4) inventory management and accounting, (5) the restart incentive program, and (6) contract compliance.
- TVA management identified areas they felt were “hard spots” during the project and developed key project control activities to avoid the issues in the future. Some “hard spots” identified related to (1) staffing and training, (2) self assessments, (3) development of a comprehensive plan, (4) turnover, and (5) material and equipment availability.

We plan to periodically review management’s progress in implementing improvement opportunities.

ENSURE NEW HIRES MEET PHYSICAL JOB REQUIREMENTS

We conducted a review to assess the procedures in place at TVA to ensure that new hires meet physical job requirements. Our review was limited to the pre-employment medical examination process conducted for job applicants. In summary, we found TVA has a policy in place that requires all new hires to have a medical screening before starting work (i.e., preplacement exam). However, the TVA Medical Examiners Guide and Health and Safety Practice 1, Occupational Health, do not specify (1) who is responsible for providing examiners with job descriptions to be used in their examination and (2) that examiners are required to utilize the job description information in conducting their physical job requirement evaluation.

We suggested that the Chief Administrative Officer consider:

- Strengthening the TVA Medical Examiners Guide and/or Health and Safety Practice 1, Occupational Health, by specifying (1) who is responsible for providing examiners with job descriptions and (2) that examiners should consider job description elements in their evaluation.



- Reemphasize the roles and responsibilities that supervisors/managers and medical examiners have in ensuring new hires meet physical job requirements.

Management agreed with our findings and has already initiated some corrective actions and plans to initiate additional corrective actions.

CALVERT CITY COAL TERMINAL (CCT)

We reviewed the key control activities and the scale certification process applicable to TVA coal shipments at CCT. Our review included coal shipments delivered to and shipped from CCT from January 1 through December 31, 2006. We found the terminal had processes and key control activities in place for the receiving, blending, weighing, and loading of the coal it handles for TVA. The terminal also appears to have adhered to the scale certification requirements prescribed by the TVA contract. However, we also:

- Identified one barge shipment where terminal documentation showed the barge being sent to the TVA Colbert Fossil Plant (COF). According to TVA Fuel Supply (FS) personnel, the barge sank in August 2006, in route to COF.
- Found discrepancies with some barge and some train shipments that apparently resulted from keying errors on the part of TVA and CCT personnel. This included six train shipments recorded in FuelWorx as received at the wrong terminal.

Management generally agreed with our findings and recommendations and has initiated or plans to initiate appropriate corrective action. Subsequent to our review, FS initiated and received reimbursement for the sunken barge.

TVA TUITION REIMBURSEMENTS

We conducted a review of TVA's Tuition Reimbursement Program (TRP) to assess compliance with TRP policies and procedures. Full-time annual employees are eligible to participate in the TRP. The use of the program has grown significantly since FY 2003. Payments to employees increased from about \$339,000 in FY 2003 to over



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\$985,000 in FY 2006. In summary, we identified opportunities for improvement in TRP program controls. Specifically, we noted:

- Instances of non-compliance with Business Practice 18, Tuition Reimbursement, related to (1) required documentation for program approvals, (2) evidence of satisfactory completion, (3) approval for cost increases, (4) reimbursements for non-allowable expenses, and (5) the requirement to drop inactive participants.
- Opportunities to improve controls over the program including (1) requiring all participants to sign service agreements, (2) follow-up on satisfactory course completion when tuition reimbursement is approved prior to completion of coursework, (3) ensuring maximum reimbursements are not exceeded, and (4) clarifying acceptable coursework and active participation.

Management generally agreed with our recommendations, and we concur with TVA management's planned actions.

NON-COMPETE CONTRACTS

We conducted a review of 52 TVA non-compete contracts to determine whether or not non-competed contracts are issued and administered in compliance with TVA policies and procedures, including assessing the justification for the non-competed contract award. Our review included non-competed contracts classified as emergency, sole source, single source, small dollar procurements, and supplements that had a status of approved, pending, or issued as of December 31, 2006. In summary, we found:

- Two contracts could not initially be located for review and seven did not have Form 17388 (Request for Approval Non-Competed Contracts or Supplements) and/or the appropriate notification/approval required by TVA policies and procedures. Form 17388 is required with the appropriate signatures and justification for the contract.



- Three of the contracts reviewed did not appear to have an appropriate justification as outlined in Section 9(b) of the TVA Act and INSTRUCTION 1, Business Practice 9, Implementing Procedures.
- Multiple contracts not governed by Business Practice 9 are classified under a justification in PassPort that does not apply to the contract.

Management generally agreed with our findings and recommendations and has initiated or plans to initiate corrective actions.

REVIEW OF TVA'S INITIAL DESKTOP REVIEW OF THE OVERALL PANDEMIC PLAN

At the request of the Executive Vice President, Administrative Services, we initiated a review to provide independent verification that key actions of the TVA Pandemic Plan were completed. In summary, we found while some progress had been made, the TVA Pandemic Plan had not been completed and planning efforts had changed.

Specifically, (1) Business Unit and Strategic Business Unit plans were still being developed and reviewed and (2) the Pandemic Planning Team plans changed whereby it will conduct tests of telework capabilities rather than conduct additional table-top exercises in which different scenarios are provided and attendees from TVA organizations determine what actions are warranted based on the TVA Pandemic Plan. While some specific actions had been completed, we recommended TVA Administrative Services consider expediting the completion of the TVA Pandemic Plan before risks increase with the beginning of the next influenza season. Subsequent to our review, the TVA Pandemic Plan was completed and tests of telework capabilities had begun.

FORCE MAJEURE POLICIES AND PROCEDURES

We conducted a review to determine (1) vendor compliance with contract force majeure provisions and (2) the adequacy of coal contract terms and conditions related to force majeure events. Our review included force majeure contract language in TVA coal contracts with vendor mines and rail companies that were active during calendar year



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2006 and related force majeure events which occurred from January 1, 2005, through March 1, 2007. In summary, we found:

- No documented instances in which (1) a vendor did not provide formal notification of a force majeure event and (2) the force majeure justification was not in accordance with the force majeure contract language.
- Standard contract language exists for the development of a contract force majeure clause, however, the force majeure clause is often modified either in initial contract negotiations or subsequent contract supplements. This variation could result in increased cost to TVA.
- Most of the force majeure events were not verified.

In addition, we also found (1) no policies and/or procedures specifically governing how to manage force majeure events, (2) no central repository for documenting force majeure events declared and the impact resulting from these force majeure events, and (3) limited and/or inconsistent documentation pertaining to force majeure events and FS actions.

Management agreed with our findings and recommendations and has initiated or plans to initiate appropriate corrective actions.

TRUST FUNDS ADMINISTERED BY RIVER OPERATIONS (RO) AND THE OFFICE OF ENVIRONMENT AND RESEARCH (OE&R)

We conducted a review to determine whether the trust funds administered by RO and OE&R were administered in accordance with the terms of the agreements and applicable laws and regulations. Based on information obtained in OIG Audit 2007-005F, Identification of TVA's Cash Accounts, we initiated a review of trust funds identified as being administered by RO and OE&R. In summary, we found:

- No policies or procedures applicable to the creation or administration of trust funds existed.



- The majority of the trust funds were basically inactive; trust funds were established with appropriated funding; and the trust funds received limited oversight.

Management generally agreed with our findings and recommendations and has already initiated some corrective actions and plans to initiate additional corrective actions.

TVA'S ECONOMIC DEVELOPMENT (ED) LOAN PROGRAM

ED, along with energy production and environmental stewardship, are the integrated purposes of TVA. TVA's ED goals are to increase capital investment and attract and retain better paying jobs for the TVA service area. To aid in achieving these goals, ED has four types of loan programs: Economic Development, Minority Business Development, Business Incubator, and Special Opportunities Counties. Our objectives during this review were to (1) determine if TVA's ED loans are being executed and administered in accordance with TVA policies and procedures and (2) assess loan defaults to identify any actions taken in approving the loans which could have contributed to the defaults. In summary, we found:

- Management had not fully implemented procedures governing the loan administration process after closing.
- Noncompliances with ED loan guidelines were identified in 13 of 42 loan files reviewed.
- Uncollectible ED loans were not written off in a timely manner as required by generally accepted accounting principles.
- Explanations provided by ED management for 10 of the 13 loan files where noncompliances were noted indicated the Loan Approval Committee made exceptions and approved loan applications even though they were not in compliance with program guidelines. Of these ten loans, five were identified as being in default status indicating that departure from guidelines could potentially contribute to loan defaults. Our review noted no other specific trends in the loan files that appeared to contribute to loan defaults.



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In addition, at ED's request, we reviewed ED's draft Loan Manual and identified improvement opportunities. Management generally agreed with our findings and recommendations and has initiated or plans to initiate appropriate corrective actions. Management has informed us that the Loan Manual was completed and approved by the Loan Committee.

TVA NUCLEAR (TVAN) MEDICAL SERVICES

We initiated a review to determine whether (1) the objectives of TVAN Medical Services program are being met and (2) to assess compliance with applicable regulations. Our review included only the services being performed by TVAN Medical Services. In summary, we found no stated objectives, policies, or procedures relating specifically to TVAN Medical Services. In addition, varying services are being performed at the TVAN Medical Services site offices, and supervision of nurse practitioners may not be adequately ensured.

Management generally agreed with our findings and recommendations and has already initiated some corrective actions and plans to initiate additional corrective actions.



Summary of Representative Investigations

During the past six months, we closed 121 cases. Our investigations, including task force projects and joint investigations with other agencies, resulted in two convictions and six indictments. We also completed three fraud risk assessments and referred numerous concerns to management for appropriate action. These investigations were based on allegations and concerns received from ratepayers, TVA managers and employees, contractor employees, and OIG auditors. Below we discuss criminal and administrative investigative results, fraud risk assessments, management referrals, and our support of investigative task forces.

ACTIONS IN CRIMINAL CASES

We continued our efforts to focus more resources on potential fraud cases. As reported in past semiannual reports, our proactive efforts to identify fraud include using technology such as data mining, outsourcing our hotline to provide further assurances of anonymity to those who want it, and reaching out to TVA employees through visits and training, an OIG newsletter, and a reward program for individuals who bring new information to the OIG about criminal or unlawful activities involving TVA programs and personnel. The following indictments and convictions took place during the past six months.



FORMER TVA MANAGER PLEADS GUILTY

John Symonds, a former manager at BFN, pled guilty to a felony charge of making a false statement on his 2002 financial disclosure report. Mr. Symonds certified on the financial disclosure report that neither he nor his spouse had a source of earned income other than TVA. Contrary to this certification, he owned a separate limited liability company that received checks for \$29,212 and \$25,000 during February 2002 from another company. That money was used to pay personal expenses of Mr. Symonds



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and his spouse. At the time he received those checks, Mr. Symonds knew that a TVA contractor had directed that those checks be sent to him.

FORMER TVA EMPLOYEE CONVICTED OF WORKERS' COMPENSATION FRAUD

A former TVA employee, Carl Hall, pled guilty to theft in the first degree in Alabama state court for making false statements to obtain workers' compensation benefits. For the period December 15, 2001, to August 29, 2003, Mr. Hall obtained prescription narcotics such as oxycodon and hydrocodone and other controlled substances such as muscle relaxants through nine different doctors and six pharmacies. He received these prescription drug benefits through TVA's Workers' Compensation Program. He was placed on probation for three years. Based on the conviction, we requested the Office of Workers' Compensation Programs terminate his benefits. The projected long-term savings for TVA is \$546,499 over his life expectancy.

TVA EMPLOYEE INDICTED FOR THEFT OF FUEL CARDS

James Jackson, a Yard Equipment Technician at a TVA fossil plant, was indicted for theft of property in Tennessee state court. Evidence shows Mr. Jackson charged over \$12,000 on stolen Wright Express fuel cards. We are working this case jointly with the TVA Police.

OWNERS OF HICKMAN MILLS INDICTED

Neal Gordon Wall and Lloyd Aaron Smith, Tennessee businessmen, were indicted on August 14, 2007, by a federal grand jury in Kentucky. Both Mr. Wall and Mr. Smith were charged with 3 counts of bank fraud, 1 count of mail fraud, and 12 counts of money laundering. The indictment charges that Mr. Smith and Mr. Wall during 2003 engaged in two separate fraudulent schemes involving loans they arranged for a textile company they owned and operated in Hickman, Kentucky, called Hickman Mills. One fraudulent scheme involved a \$5 million bank loan guaranteed by a federal agency. The other scheme involved a \$500,000 loan from TVA that was to be used solely to purchase textile equipment for use at the Hickman Mills facility. The indictment charges that Mr. Wall and Mr. Smith provided false information to TVA to obtain the loan and



deposited the money into an account of another business they owned and operated that was incurring serious financial difficulties at the time. Hickman Mills subsequently defaulted on the loan.

FORMER TVA EMPLOYEE INDICTED

Milton Fuqua, a former TVA employee, was indicted by a federal grand jury in Alabama on charges that he made a willful false statement when he claimed he suffered an on-the-job injury at TVA. Based on the OIG investigation, TVA terminated his employment. In addition, his claim for workers' compensation benefits was denied, resulting in long-term avoided cost for TVA of approximately \$848,000.

FORMER BICENTENNIAL VOLUNTEERS, INC. (BVI) COMPTROLLER INDICTED

BVI is a non-profit organization that has provided experienced retirees to support TVA projects and programs for more than 25 years. In early 2002, BVI was divided into three distinct organizations. The volunteer work remained with BVI, while the Retiree Resource Corporation (RRC) was established to handle staff augmentation work and the National Emergency Assistance (NEA) was established to handle the federal emergency assistance work. A former BVI comptroller, Phyllis Giger, was indicted on wire fraud charges. The indictment alleges that Ms. Giger, in providing comptroller services for NEA and RRC, fraudulently caused the electronic transfer of funds from NEA's and RRC's AmSouth accounts to her personal bank accounts. The indictment further alleges that Ms. Giger fraudulently concealed her wire transactions by falsely identifying the electronic fund transfers as payments to other individuals. Ms. Giger is awaiting trial.



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ADMINISTRATIVE INVESTIGATIONS

Because our mission also includes preventing fraud, waste, and abuse, during our investigations we look for control weaknesses that might allow fraud to occur. We also conduct some purely administrative investigations when the potential risk and significance is high enough to warrant an independent investigation. Examples would include allegations of misconduct by senior managers or issues related to the operation of TVA's nuclear plants. Below we discuss the results of several administrative investigations completed during this reporting period.

ALLEGATION INVOLVING CONCERNS RESOLUTION STAFF (CRS)

We investigated an allegation that the CRS fabricated interview information in order to mislead the NRC. While several individuals either did not remember statements attributed to them by CRS or stated they would not have made those statements, the evidence did not show any intent to mislead the NRC. We made several recommendations to avoid future issues concerning interview write-ups. Management agreed with our recommendations and took appropriate corrective action.

ALLEGED INAPPROPRIATE ALTERING OF NUCLEAR RECORDS

Investigation found that although there was evidence supporting the allegation that a TVA manager altered data, namely the amount of lithium in the reactor coolant system, in our opinion there was insufficient evidence to conclude the manager improperly changed the results to achieve an acceptable value. We informed management of our finding.



INVESTIGATION OF INTIMIDATION AND HARASSMENT ALLEGATION

Our investigation found a nuclear manager violated TVA policy when he gave an employee a verbal warning, at least in part, in reprisal for the employee initiating a Problem Evaluation Report. That manager subsequently left TVA employment.



PRIS INVESTIGATION

PRIS is the official repository for TVA personnel documents such as employment applications, offer letters, disciplinary letters, performance evaluations, termination papers, etc. In March 2007, PRIS had two hard drive failures. As Information Services began work to recover the PRIS system, they discovered a system backup had not been performed. In trying to recreate the PRIS data, they placed Performance Review and Development (PR&D) forms on an unsecured temporary share that could be accessed by anyone with a TVA network ID. We investigated whether there was any willful misconduct in connection with the PRIS server failure, the failure to back up PRIS, and the subsequent placing of PR&D files on an unsecured temporary share in connection with the effort to restore PRIS data. The evidence did not show any willful misconduct, although it did show numerous errors and that employees in Information Services did not give a high enough priority to security considerations.



INVESTIGATION OF EMPLOYEE DOWNLOAD OF PR&D FORMS FROM SHARED SERVER

In connection with the PRIS failure, we investigated a TVA employee's apparent actions in downloading PR&D files from the unsecured temporary share. The TVA employee admitted downloading PR&D forms from a shared server to his computer and then copying that information to a CD. He stated, however, that he deleted the data once he realized it contained personnel information. While we found no direct evidence showing he knew what the downloaded files contained, we also found circumstantial evidence suggesting he knew what he was downloading. Management suspended the employee for three days.

SEXUAL HARASSMENT ALLEGATION

Investigation found a male TVA supervisor engaged in inappropriate behavior toward another male. The supervisor was given a written warning and transferred to a position with no supervisory responsibility.



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INVESTIGATION OF FALSIFIED DOCTOR'S STATEMENTS

Our investigation found a TVA employee submitted forged doctor's statements to support her use of sick leave. The employee was terminated during our investigation for being unavailable for work.

FRAUD RISK ASSESSMENTS

We work with TVA management to conduct fraud risk assessments (FRA) 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, which involves a



methodology to identify (1) the types of frauds which can occur, (2) the likelihood and significance of fraud occurring, (3) the internal controls in place to prevent fraud, and (4) the actions needed to improve internal controls. As part of this process, we provide fraud awareness training. Because the purpose of an FRA is only to identify potential areas of risk, existing controls are not tested to determine their effectiveness.

Three FRAs were completed during this period. In each case, we facilitated a meeting where representatives from the process owner first brainstormed to identify potential fraud schemes and their possible significance and likelihood, and then identified internal controls already in place to prevent those frauds from occurring. This methodology helps the process owner recognize areas where internal controls may not be adequate, given the level and significance of risk for particular schemes. Based on this evaluation, the process owners identified several additional controls that could be implemented to further mitigate risks. The controls included requiring additional TVA employees to complete financial disclosure forms, requiring contractors to provide further supporting documentation, and conducting additional testing.



The specific FRAs conducted during this reporting period were as follows.

- We worked with Procurement to issue a fraud risk assessment of the Fleet Management process, including the processes (1) to manage the contracts for fuel and vehicle maintenance, (2) to control the use of Wright Express fuel cards, and (3) to purchase and dispose of vehicles. Six fraud risk areas were identified and 33 possible fraud schemes were considered.
- We assisted the Employee Benefits organization in conducting an FRA of TVA's employee benefits programs. That FRA identified 4 fraud risk areas and 49 potential fraud schemes.
- We worked with Power Services Operations (PSO) to conduct an FRA of the processes related to the design and construction of transmission lines and substations. This included hiring and management of contractors, purchase and management of construction materials, management of equipment, clearing right-of-ways for new construction, and building infrastructure and disposing of excess material. PSO identified 8 fraud risk areas and considered 53 possible fraud schemes.

MANAGEMENT REFERRALS

As noted on the Empowerline site, the OIG investigates allegations in areas such as fraud, accounting irregularities, reprisal, environmental crimes, sabotage, and waste and abuse. Other avenues exist within TVA to address concerns in other areas such as personnel issues, protection of property, Equal Employment Opportunity, union grievances, and benefits issues. Because we receive concerns in these other areas, we have developed a process for referring them to the appropriate organization and tracking that organization's response. In this manner, we maintain a central repository of concerns raised and the resulting action taken. Illustrative examples of these referrals follow.

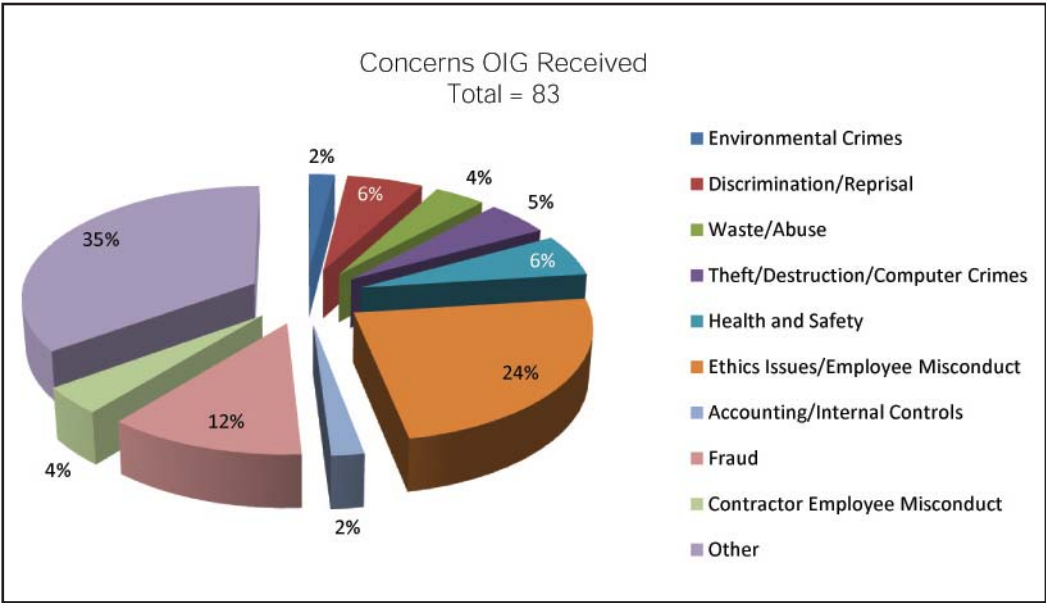
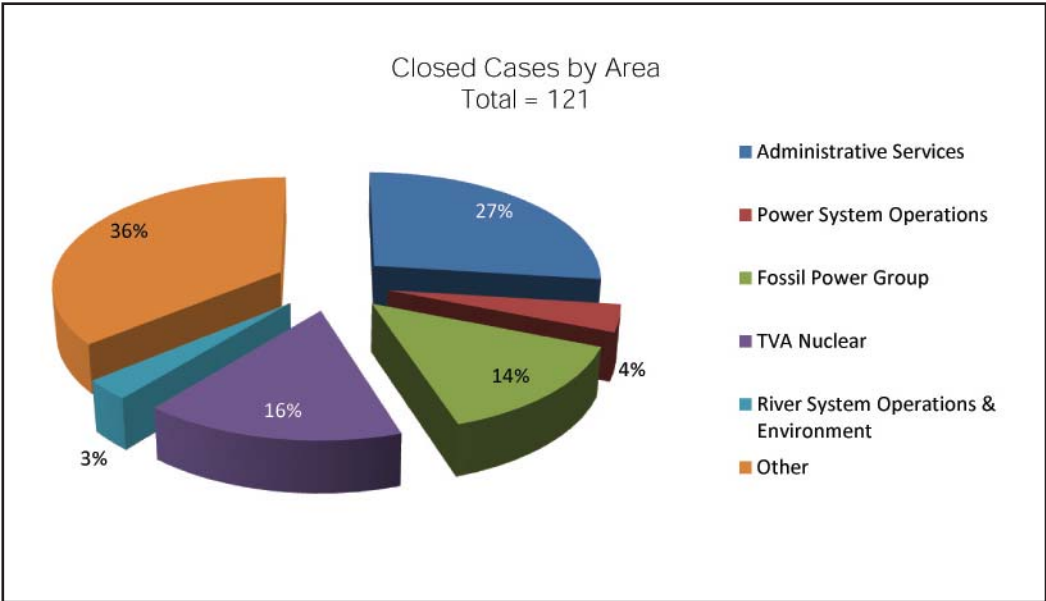


Investigations

- Management suspended an employee for 14 days based on their finding of a wide pattern of frequent and inappropriate use of the travel card. Management also stated it would review its expectations on travel-related issues with all employees to ensure employees understand when it is and is not appropriate to use the travel card.
- In response to a concern about problems with a crane boom being used by a contractor at a TVA site, management had a crane inspector look at the boom in question. The inspector found the boom was damaged. Accordingly, the crane was tagged out of service and the contractor used a crane rented from TVA and a boom truck rented from a rental company to continue the work.

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 reporting period, we provided investigative resources to the Environmental Crimes Joint Task Force, the Joint Terrorism Task Force, the Health Care Fraud Task Force, and the Tennessee Drug Diversion Task Force.





Legislation and Regulations



We are responsible under the IG Act for reviewing proposed legislation and regulations that relate to the programs and operations of TVA. Although TVA's Office of the General Counsel reviews proposed or enacted legislation that could affect TVA activities, the OIG independently follows and reviews proposed legislation that affects the OIG and/or relates to economy and efficiency or waste, fraud, and abuse in TVA programs or operations.

Major pieces of legislation being followed by the TVA OIG include, The Improving Government Accountability Act, H.R. 928, which was passed by the House of Representatives on October 3, 2007, with an overwhelming vote of 404 yeas to 11 nays. After being received by the Senate, it was referred to the Senate Committee on Homeland Security and Government Affairs where a companion bill, S. 1723 introduced by Senator McCaskill, is currently pending.

As passed by the House, H.R. 928 includes provisions to (1) establish a seven-year renewable term of office, as well as conditions for removal for newly appointed IGs; (2) inform the appropriate committees of Congress when the agency IG budget is insufficient; (3) establish an Inspector General Council on Integrity and Efficiency; (4) prohibit cash bonuses or awards to IGs; (5) establish IG pay at Level III of the Executive Schedule; (6) clarify IG subpoena power; (7) make inspection reports and evaluation reports applicable to the semiannual reporting process; and (8) establish requirements for IG web sites.

We are in general support of this bipartisan legislation which we believe will enhance IG independence and improve OIG operations. The TVA OIG has been working to have language inserted into the Senate bill which would enhance our independence by having our funding by TVA proceed through the appropriation process. IG Moore is a member of the PCIE Legislation Committee.



APPENDICES



Appendix 1

Index of Reporting Requirements Under the Inspector General Act

REPORTING REQUIREMENT	PAGE
Section 4(a)(2) Review of Legislation and Regulations	45
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	15-43
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	15-43
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	15-43
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

2006-030C 04/30/2007	McDaniel Fire Systems	\$408,105	\$11,713	
2007-015C 05/30/2007	The L.E. Myers Company	490	490	
2007-010C 06/22/2007	Voith Siemens Hydro Generation, Inc.	380,589	45,639	
2007-022C 06/25/2007	EyeMed Vision Care	153,141	56,748	
2007-012C 06/26/2007	Stone & Webster, Inc.	30,645	1,077	
2007-11081 06/28/2007	Stone & Webster, Inc.	689,000		
2007-014C 07/11/2007	Retiree Resources Corporation	538,250		
2006-029C 07/12/2007	General Electric Company	959,580	959,580	
2007-11070 07/30/2007	Preaward Audit for TVA Request for Proposal (RFP) 021407			\$19,100
2007-013C 08/10/2007	Preaward Audit for RFP 110105			
2007-11036 08/16/2007	Stone & Webster Construction, Inc.	895,313		
2007-033C 09/14/2007	Nol-Tec Systems, Inc.	310,818	2,791	
2007-11047 09/18/2007	Parker's Bushhogging Services	33,521	33,521	

FINANCIAL

2007-032F 04/24/2007	SOX 404 Readiness Testing - Acquire and Develop Fixed Assets			
2007-037F 05/01/2007	SOX 404 Readiness Testing - Disposal of Fixed Assets			
2007-038F 05/03/2007	2nd Quarter FY 2007 Coal Mark-to-Market Review			



Appendix 2

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

2007-11018 05/17/2007	Audit of PwC's Review of TVA's 2nd Quarter FY 2007 Financial Information			
2007-11057 06/15/2007	SOX 404 Readiness Testing - Managing Derivatives Process			
2007-040F 07/18/2007	SOX 404 Readiness Testing - Regulatory Assets and Liabilities			
2007-11106 07/18/2007	3rd Quarter FY 2007 Coal Mark-to-Market Review			
2007-11077 07/20/2007	SOX 404 Readiness Testing - Posting Payments to Accounts Receivable Subsidiary Ledgers			
2007-029F 07/25/2007	SOX 404 Readiness Testing - Bulk Power Trading			
2007-026F 07/30/2007	SOX 404 Readiness Testing - Power Billing Invoice Generation for Direct Serve Customers (I)			
2007-11041 07/30/2007	SOX 404 Readiness Testing - Power Billing Invoice Generation for Direct Serve Customers (II)			
2007-10981 08/08/2007	Review of End-Use Billing Control Analytic			
2007-11132 08/09/2007	SOX 404 Readiness Testing - Nuclear Decommissioning Trust Investment Funds			
2007-11075 08/10/2007	SOX 404 Readiness Testing - Distributor Short-Term Prepayments			
2007-11058 08/14/2007	SOX 404 Readiness Testing - Manage Overdue Customers (Aging)			
2007-11126 08/17/2007	SOX 404 Readiness Testing - Acquire and Develop Fixed Assets			



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

2007-11068 08/20/2007	SOX 404 Readiness Testing - Processing & Accounting for Interchange Transactions			
2007-11159 08/20/2007	Audit of PwC's Review of TVA's 3rd Quarter FY 2007 Financial Information			
2007-11172 08/23/2007	SOX 404 Readiness Testing - Depreciating Fixed Assets			
2007-11135 08/30/2007	SOX 404 Readiness Testing - Disposing of Fixed Assets			
2007-11190 09/13/2007	SOX 404 Readiness Testing - Fuel Cost Adjustment			
2007-11056 09/21/2007	SOX 404 Readiness Testing - Generate Power Billing Invoice – Distributor			
2007-11088 09/25/2007	SOX 404 Readiness Testing - Acquire and Process Power Billing Data			
2007-11117 09/27/2007	SOX 404 Readiness Testing - Unbilled Revenue			
2007-11136 09/27/2007	SOX 404 Readiness Testing - Liability Account Accrual and Reconciliation			
2007-11099 09/28/2007	SOX 404 Readiness Testing - PSO Revenue Metering			
2007-11130 09/28/2007	SOX 404 Readiness Testing - Recording Time			



Appendix 2

AUDIT REPORT

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

2007-10989

04/30/2007	IT General Controls - Computer Operations: Help Desk & Problem Management			
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2007-006T

05/03/2007	Pre-Implementation Review of TVA Contract Central			
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2007-11009

05/30/2007	SOX 404 Readiness Testing - eDebt Application Exception Narrative			
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2007-10997

06/13/2007	Review of Temporary Shares for Sensitive Information			
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2007-11008

06/15/2007	SOX 404 Readiness Testing - Cash Collections System Application Exception Narrative			
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2007-11024

06/20/2007	SOX 404 Readiness Testing - HED Fleet Application Exception Narrative			
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2007-009T

06/22/2007	Hydro Automation Security – Hydro Dispatch Control Cell			
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2007-11044

06/22/2007	SOX 404 Readiness Testing - MAS200 Application Exception Narrative			
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2007-11091

07/23/2007	SOX 404 Readiness Testing - WebTrader Application Exception Narrative			
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2007-11040

07/24/2007	SOX 404 Readiness Testing - IT General Controls - Change Control			
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2007-039T-01

07/25/2007	PRIS			
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2007-008T

07/31/2007	Privacy Protection – TVA Use of Information in Identifiable Form			
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2007-036T

08/07/2007	SOX 404 Readiness Testing - Integrated Business System Application Exception Narrative			
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AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS*	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
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INFORMATION TECHNOLOGY (continued)

2007-11164 08/22/2007	SOX 404 Readiness Testing – CWMi (Contractor Workforce Management interface)			
2007-11079 08/28/2007	SOX 404 Readiness Testing – Access to Programs and Data			
2007-11062 09/05/2007	Handling and Reporting the Shutdown of BFN Unit 3 on August 19, 2006			
2007-11162 09/10/2007	SOX 404 Readiness Testing – PassPort Application			
2007-11184 09/13/2007	FISMA Evaluation			
2007-11173 09/18/2007	SOX 404 Readiness Testing - eRemittance Application			
2007-039T-02 09/20/2007	Backup Verification			
2007-11163 09/20/2007	SOX 404 Readiness Testing - Fuelworx Application			

OPERATIONAL

2007-11006 05/29/2007	2nd Quarter FY 2007 Nuclear Contracts' Contract Review Checklist			
2007-11012 06/14/2007	Green Power Accreditation Report – 2006			
2007-004F 07/23/2007	Review of TVA CQAR Payments	\$235,500		
2007-020F 06/28/2007	Review of Surplus Material			
2007-034F 06/28/2007	Review of TVA Funding for Essential Stewardship Services			
TOTAL	66	\$4,634,952	\$1,111,559	\$19,100

* Questioned costs include \$1,328,732 for unreasonable or unnecessary expenditures not recoverable.

NOTE: A summary or the full report for many of the audits listed above can be found on our web page
<http://insidenet.tva.gov:8042/2007audits.html>.



Appendix 3

Audit Reports Issued With Questioned Costs

	NUMBER	QUESTIONED COSTS	
		TOTAL	UNSUPPORTED
A. For which no management decision has been made by the commencement of the reporting period	0	\$0	\$0
B. Which were issued during the reporting period	12	\$4,634,952	\$1,111,559
Subtotals of A and B	12	\$4,634,952	\$1,111,559
C. For which a management decision was made during the reporting period	11*	\$4,592,248	\$1,111,559
(i) Dollar value of disallowed costs	11	\$3,324,324	\$1,108,985
(ii) Dollar value of costs not disallowed	5	\$1,267,924	\$2,574
D. For which no management decision has been made by the end of the reporting period	1	\$42,704	\$0
E. For which no management decision was made within six months of issuance	0	\$0	\$0

* The total number of reports differs from the sum of C(i) and C(ii) when the same reports contain both costs disallowed and not disallowed by management. This number also excludes one report on which management decision was made on some, but not all, recommendations during the reporting period.



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	1	\$8,510,000
B. Which were issued during the reporting period	1	\$19,100
Subtotals of A and B	2	\$8,529,100
C. For which a management decision was made during the reporting period	2	\$8,529,100
(i) Dollar value of costs agreed to by management	2	\$8,529,100
(ii) Dollar value of costs not agreed to by management	0	\$0
D. For which no management decision has been made by the end of the reporting period	0	\$0
E. For which no management decision was made within six months of issuance	0	\$0



Appendix 4

Audit Reports With Corrective Actions Pending

Final corrective actions stemming from one contract compliance audit and five IT audits are not complete; however, corrective action is underway and scheduled for completion in accordance with the current revised milestones, where determinable.

AUDIT REPORT NUMBER AND DATE

DESCRIPTION

2003-004C 03/30/04	A&G Tree Service, Inc. TVA asserted a claim against A&G for \$638,542 for unsupported billings under the contract. A formal Contracting Officer's Decision was rendered in March 2005 that concurred with our audit findings and TVA's claim and directed A&G to reimburse TVA for overpayments of \$638,542 under a closed contract. During May 2005, TVA stopped A&G from performing work under a subsequent contract and recovered part of TVA's damages by withholding payments totaling \$88,362 on invoices under the subsequent contract. A&G filed two lawsuits against TVA (1) for the payments withheld and (2) to appeal the Contracting Officer's Decision. The timeframe for resolution of these lawsuits is indeterminate.
2003-040T 03/30/04	Nuclear Plant IT Security This report included recommendations to strengthen logical and physical controls at a nuclear generation facility. TVA management has completed remediation action on all but one recommendation which is targeted for completion by October 31, 2007.
2005-039T 01/30/06	eWorkplace Application, Access, and General Controls This report included 15 recommendations to strengthen control over the time reporting system. Weaknesses were identified in processing controls, direct data changes, logical access controls, change management, and backup and contingency planning. TVA management has completed remediation action on 12 recommendations and is implementing planned actions for the remaining 3 recommendations. Actions are expected to be complete by September 30, 2008.
2006-032T 09/26/2006	Physical Security Review of Iron Mountain This audit contained two recommendations regarding improving physical security of TVA electronic and paper data. TVA is taking action to remediate the findings and is targeting completion on December 31, 2007.
2006-034T-01 09/25/2006	Security of TVA's Network Perimeter – Blind Penetration Testing TVA management agreed with our recommendations and provided their action plan to address the recommendations. The target date for completion is April 30, 2008.
2006-035T 09/21/2006	Assessing TVA's Efforts to Protect Sensitive Information We identified four areas for improvement. Management agreed and is taking action to remediate the findings. The target completion date is December 30, 2007.



Investigative Referrals and Prosecutive Results*

Referrals

Subjects Referred to U.S. Attorneys	4
Subjects Referred to State/Local Authorities	1

Results**

Subjects Indicted	6
Subjects Convicted	2
Referrals Declined	4

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

**Results include referrals from prior periods.



Highlights

	SEPT 30, 2007	MAR 31, 2007	SEPT 30, 2006	MAR 31, 2006	SEPT 30, 2005
AUDITS					
AUDITS IN PROGRESS					
Carried Forward	36	16	20*	24	30
Started	72	42	23	22	41
Canceled	(7)	(4)	(1)	(3)	(11)
Completed	(66)	(18)	(26)	(22)	(29)
In Progress at End of Reporting Period	35	36	16	21	24*
AUDIT RESULTS (Thousands)					
Questioned Costs	\$4,635	\$1,252	\$1,411	\$774	\$6,422
Disallowed by TVA	3,324	1,429	782	1,122	4,969
Recovered by TVA	1,274	695	793	1,641	5,016**
Funds to Be Put to Better Use	\$19	\$8,913	\$10,839	\$700	\$5,634
Agreed to by TVA	8,529	4,534	2,790	633	1,251
Realized by TVA	948	3,603	2,287	740	6,002
OTHER AUDIT-RELATED PROJECTS					
Completed	17	12	11	11	10
Cost Savings Identified/Realized (Thousands)	\$0	\$103	\$0	\$36	\$0
INVESTIGATIONS ***					
INVESTIGATION CASELOAD					
Opened	113	73	70	80	84
Closed	121	50	105	71	84
In Progress at End of Reporting Period	140*	148*	113	148*	157
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$27.26	\$332.5	\$643.1	\$2,966.5	\$1,880.3
Savings	574.9	87.9	1,038.7	1,625.4	36
Fines/Penalties	1.28	10.2	.5	6.2	6.7
MANAGEMENT ACTIONS					
Disciplinary Actions Taken (# of Subjects)	8	4	6	9	13
Counseling/Management Techniques Employed (# of Cases)	3	7	14	14	16
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred	5	6	3	5	8
Indicted	6	2	1	3	4
Convicted	2	2	1	3	5
INSPECTIONS					
Completed	16	7	20	14	13
Cost Savings Identified/Realized (Thousands)	\$15	\$15	\$0	\$0	\$118

* 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 decision making.



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