



Memorandum from the Office of the Inspector General

April 3, 2006

Chris S. Mitchell, WT 4D-K

FINAL REPORT – INSPECTION 2006-515I – TVA’S ACCOUNTING FOR INSURABLE LOSSES

As part of our inspection plan for fiscal year (FY) 2006, we initiated a review of the processes and key control activities relating to TVA’s accounting for costs associated with non-nuclear insurable losses. Our objective was to assess the adequacy of controls applicable to the accounting for costs associated with non-nuclear insurable losses. In summary, we found that the Corporate Insurance Risk & Analysis Group (CIR&A) is in the process of developing policies and procedures to ensure identification of non-nuclear insurable losses and the accounting for associated costs. According to CIR&A, interim actions have been undertaken to capture the costs of non-nuclear insurable losses. Since this process is currently in a development stage, we plan to defer any further audit work until the process is fully implemented.

BACKGROUND

In 2000, CIR&A began the process of obtaining loss insurance for TVA’s non-nuclear operations. In September 2001, CIR&A was negotiating with underwriters for loss insurance when the terrorist attacks on the World Trade Centers and the United States Pentagon occurred. According to CIR&A, these events caused premium costs to escalate beyond a level that TVA was willing to pay. As a result, CIR&A advised TVA executive management to postpone obtaining non-nuclear loss insurance until the market stabilized and premium costs were once again at an acceptable level.

In 2004, CIR&A concluded that insurance premiums were once again at an acceptable range and the market was adequately stable. TVA allocated funding to the FY 2005 budget in anticipation of obtaining the loss insurance for their non-nuclear operations. According to CIR&A, TVA has negotiated and obtained insurance to cover two areas of non-nuclear operations, (1) non-nuclear property, and (2) unplanned outages.¹

¹ While the insurance coverage for non-nuclear property and unplanned outages is currently in effect, the official policies have not been provided to TVA.

- The property insurance went into effect October 1, 2005, and covers direct physical loss or damage to non-nuclear property. The coverage terms include:
 - An aggregate loss amount of \$1 billion per year
 - A \$10 million deductible per occurrence
 - Other various limits and exclusions
- The unplanned outage insurance went into effect November 7, 2005, and covers Fossil's nine baseload units, and the four units at Raccoon Mountain. Fossil's nine baseload units include Bull Run; Cumberland Fossil Plant Units 1 & 2; Widows Creek Fossil Plant Units 7 & 8; Colbert Fossil Plant Unit 5; and Paradise Fossil Plant Units 1, 2, and 3. Other specific coverage terms include:
 - An aggregate loss amount of \$17.5 million per year
 - A 90-day grace/waiting period, in lieu of a deductible
 - Other various limits and exclusions

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the adequacy of controls applicable to the accounting for costs associated with non-nuclear insurable losses. The scope of our inspection was to review the process and control activities for capturing costs associated with loss insurance for TVA's non-nuclear operations since the plan's inception. To achieve our objective, we:

- Interviewed key personnel from CIR&A to determine the processes and controls in place for identifying and capturing costs associated with non-nuclear insurable losses.
- Reviewed CIR&A information relating to insurance policy negotiation and implementation to determine the scope of non-nuclear insurance coverage.
- Performed a walkdown of TVA's Risk Management Information System (RMIS) with CIR&A to determine how insurable losses are currently being tracked.

This inspection was conducted in accordance with the "Quality Standards for Inspections."

FINDINGS

CIR&A is in the process of developing policies and procedures to ensure the identification of non-nuclear insurable losses and the accounting for associated costs. Their goal is to have the policies and procedures completed by the policy renewal date in October 2006. According to CIR&A, the following steps have been taken to ensure that costs are properly accounted for during this interim period.

- RMIS was implemented in 2002 for the purpose of capturing insurable loss information as it relates to TVA's non-nuclear operations. The RMIS, Dataworx-e-Trax, is operated by a third-party vendor, Dataworx, located in East Lake, Ohio.
- Insurable loss information is manually entered into the RMIS by CIR&A. The data entry is centralized to ensure consistency of the information recorded within the system.
- Insurable loss incidents are identified by maintaining contact with designated site personnel. CIR&A also reviews various reports and data generated within TVA to identify potential insurable loss incidents. Some of these include:
 - TVA Off Normal Report
 - Experience Review Report
 - Weekly Organization Report
 - Weekly Financial Briefing for Management Committee
 - Agendas for Management Committee meetings
 - Media Activities of Interest
 - COO Asset Availability Website (to identify any units that are off line)
- CIR&A has trained TVA business managers and designated site personnel to identify the costs that need to be captured in the event an insurable loss occurs.
- The insurance claims adjuster responsible for handling TVA claims met with TVA business managers and designated site personnel to advise them on the documentation requirements in the event a claim is filed.

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Since CIR&A is in the process of developing and implementing policies and procedures concerning the collection and recording of insurable loss information and costs, we plan to defer any further audit work until the process is fully implemented. Accordingly, this report is being issued for informational purposes only. Therefore, no response is necessary.

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If you have any questions or wish to discuss our observations, please contact Gregory C. Jaynes, Deputy Assistant Inspector General, Inspections, at (423) 751-7821. We appreciate the courtesy and cooperation received from your staff during the inspection.



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