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OFFICE OF THE INSPECTOR GENERAL

9

SEMIANNUAL REPORT

9

OCTOBER 1, 1998 ~ MARCH 31, 1999

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

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

If you want to report any matter involving TVA programs, operations, or employees, you should call the OIG Hotline or write the Inspector General's office.

**TVA
INSPECTOR
GENERAL**

Hotline

Call toll free:
1-800-323-3835
423-632-3550 (Knoxville)

Tennessee Valley Authority
400 West Summit Hill Drive ET 4C
Knoxville, Tennessee 37902-1499



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

George T. Prosser
Inspector General

April 30, 1999

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This, our 26th semiannual report, describes the accomplishments of our office for the six-month period ending March 31, 1999.

During this reporting period, we completed 38 audits which identified more than \$1.1 million in questioned costs and over \$1.4 million in funds that could be used more effectively. Our auditors conducted performance reviews of TVA operations and contract preaward and compliance audits. We also conducted 18 special projects, including reviews of the TVA Concerns Resolution Program and TVA's electricity trading processes.

Our investigations group completed 66 investigations, substantiating allegations in over 40 percent of the cases we closed. During this reporting period, our investigations resulted in over \$3 million in savings and recoveries, six subjects indicted, and nine subjects convicted. Further, as a result of our investigations of alleged misconduct, administrative and disciplinary action was taken against 11 individuals, and other corrective action taken in 4 cases.

When TVA was established almost seven decades ago, it would have been impossible to predict the ensuing changes in government, technology, the utility industry, and even the Tennessee Valley region TVA was designed to serve. Our office continues to strive to help TVA navigate its changing environment. Our efforts during this reporting period ranged from investigating potentially criminal contractor claims, taking part in training TVA procurement officers, and reviewing performance measures TVA developed pursuant to the Government Performance and Results Act of 1993. We hope our work continues to help TVA as the agency and the people of the region move into the next century.

Sincerely,

A handwritten signature in black ink, appearing to read "George T. Prosser".

George T. Prosser

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■ EXECUTIVE SUMMARY

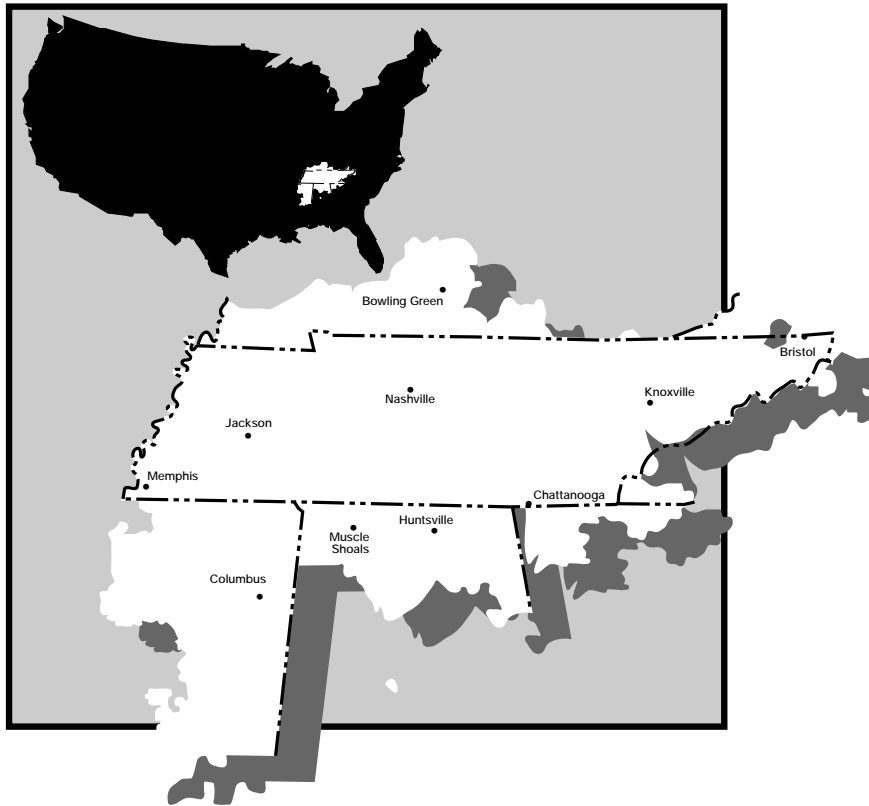
This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending March 31, 1999.

We continued our efforts to support TVA's goals by providing quality service with audits, investigations, and special projects. We completed 38 audits which identified over \$1.1 million in questioned costs and more than \$1.4 million in funds that could be used more effectively. We conducted 18 special projects. We closed 66 investigations which led to over \$3 million in savings and recoveries. Investigations of alleged misconduct led to administrative and disciplinary action taken against 11 individuals and other corrective action in 4 cases.

Our audit activities included performance reviews of TVA programs, processes, and systems, as well as compliance and preaward audits of TVA contractors. Representative audits include reviews of (1) TVA's prescription drug program, (2) preaward audits to assist TVA management in negotiation of contracts, (3) TVA performance measures reported in compliance with the Government Performance and Results Act of 1993, and (4) billings under a construction and modifications contract.

We also conducted special project reviews requested by our customers, primarily the Board of Directors, TVA management, and Congress. During this reporting period, we reviewed TVA's risk management processes and made several suggestions for improvements in policy development and risk management controls. We also conducted a comprehensive review of TVA's Concerns Resolution Program and assessed the workforce's willingness to report safety concerns.

Our investigative activities included inquiries into theft of government property, environmental crimes, workers' compensation fraud, contractors' fraudulent claims for temporary living expenses, health care overpayments, and employee misconduct. Our investigations led to 15 entities being indicted or convicted, including a former executive director of a Kentucky non-profit corporation who was sentenced to 41 months' imprisonment.



TVA's 13,563 employees serve an 80,000-square-mile region spanning seven states.

TVA is a federal corporation responsible for developing and conserving the natural resources of the Tennessee River Valley.

TVA's 13,563 employees are involved in regional development, integrated resource management, and the production of low-cost electricity. The power system is funded by power sales, and TVA's other programs are funded primarily by congressional appropriations.

TVA is governed by a three-member Board of Directors appointed by the President and confirmed by the Senate.

Craven Crowell is the Chairman, and William H. Kenoy is a Director. Johnny Hayes resigned his Director's position during this reporting period.

TVA's vision is to generate prosperity in the Tennessee River Valley. TVA's goals are to supply low-cost reliable power, support a thriving river system, and stimulate economic growth. TVA strives to exceed its goals by valuing integrity, respect for the individual, accountability, teamwork, innovation and continuous improvement, honest communication, and flexibility.

Organization

The OIG's Audit Operations unit consists of three operational departments. One is devoted to contract-related topics, both preaward and post-award reviews; the two other departments focus on performance, financial, ADP-related issues, and special projects.

The OIG's Investigative Operations unit consists of an Investigative Services and Hotline group and two investigative departments—Financial Investigations and Internal Investigations. While both departments work a variety of cases, including employee integrity and environmental issues, Financial Investigations focuses on contract and workers' compensation cases, while Internal Investigations focuses on nuclear issues and benefits and entitlement programs.

Office Authority

The TVA Board of Directors administratively established the OIG during October 1985. When Congress enacted the Inspector General Act Amendments of 1988, TVA's OIG became one of the statutory offices whose Inspector General is appointed by the agency head. TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors.

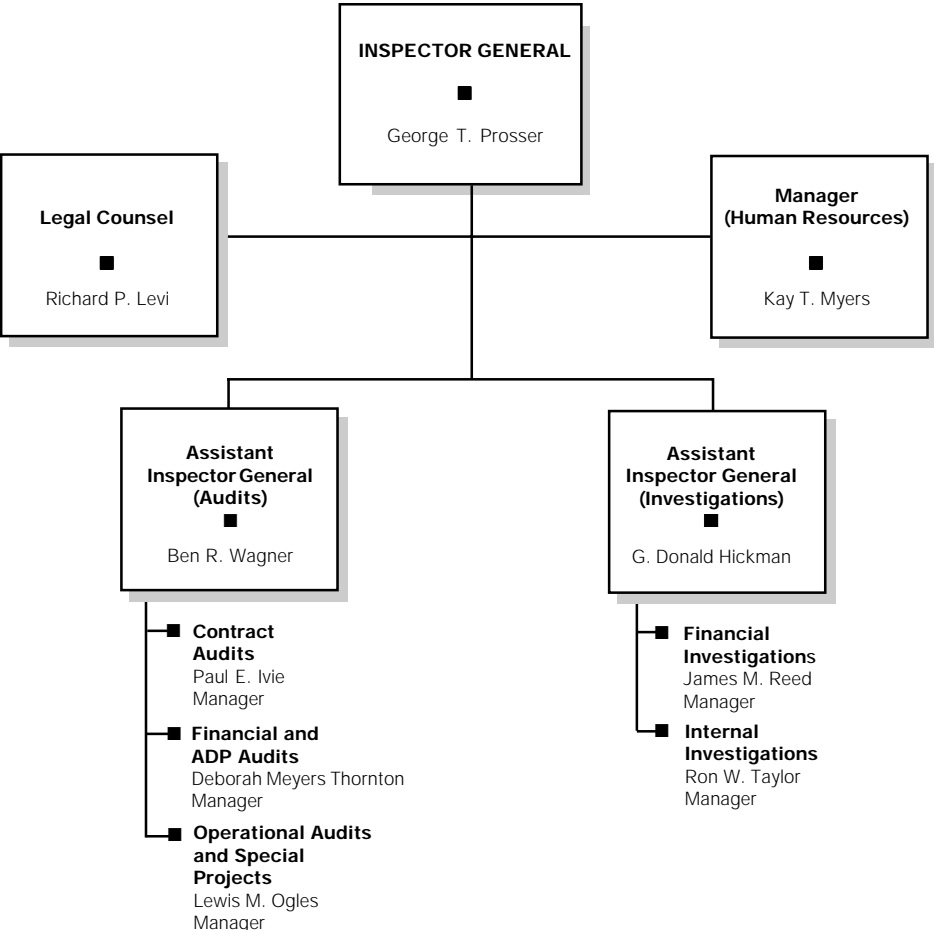
George T. Prosser became TVA's third Inspector General on April 1, 1994.

Staffing and Budget

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee. The OIG also has investigative satellite offices in Chattanooga, Tennessee, and Huntsville, Alabama.

The OIG's fiscal year 1999 budget is about \$7.3 million, and during this reporting period, the OIG had 81 employees.

OFFICE OF THE INSPECTOR GENERAL



**WAGNER APPOINTED ASSISTANT
INSPECTOR GENERAL FOR AUDITS**

Ben R. Wagner was named Assistant Inspector General for Audits (AIGA), effective January 4, 1999, replacing Ted R. Ping who retired. Wagner is a certified public accountant and an accounting graduate from The University of Tennessee at Knoxville. Prior to being named AIGA, Wagner was the Manager, Contract Audits. He has worked in the OIG since April 1986, holding various management positions in Preaward and Special Projects, Inspections, Operational Audits, and Management Services.



**IVIE APPOINTED MANAGER FOR
CONTRACT AUDITS**

Paul Ivie was selected as the Department Manager for Contract Audits. Ivie, a 23-year veteran of TVA, has been with the OIG for 12 years. Ivie has been a team leader in the OIG for over ten years and has been responsible for numerous high-profile and sensitive assignments. Ivie is a registered professional engineer, a certified internal auditor, and a certified fraud examiner. Ivie holds a bachelor's degree in engineering from the Georgia Institute of Technology in Atlanta, Georgia, and master's degrees in engineering and business administration from The University of Tennessee at Knoxville.



AUDIT AND INVESTIGATIONS WORK TOGETHER TO UNCOVER FRAUD

During this reporting period, two former TVA contract employees and the brother of one of the employees pled guilty in federal court to conspiring to steal TVA industrial power and pneumatic tools, valued by TVA at over \$1.17 million. In addition to pleading to the conspiracy

charge, the brother pled guilty to theft of government property. The pleas are the result of an OIG investigation and audit which arose from allegations by employees working in the TVA Tool

Management Program (TMP) at a TVA location in Nashville, Tennessee. Specifically, individuals employed in the TMP voiced concern to the OIG Hotline that two individuals serving in key contract management positions (Project Support Manager and Operations Manager) directed the movement of large quantities of tools from the TVA warehouse to various locations.

TVA contracted with a private company to manage the TMP. Tool management responsibilities included purchasing, inventorying, and dispensing tools to TVA plant sites. To prevent theft, TVA required the tools purchased by TMP to be painted a copper-bronze color, barcode labeled, and inventoried prior to use.



Pictured above are Special Agent James Farr; Gerald H. McDougal, TVA Materials Officer - Retired; and Auditor Jerry Stover. McDougal's concerns about the administration of the tool management program initiated the OIG investigation and audit.

Upon receiving the allegation, the OIG initiated an investigation and an audit. The audit focused on the extent of tools missing from the TVA inventory and provided assistance to investigators.

The audit reported to TVA management that over \$2 million worth of tools could not be accounted for in the TMP. As a result of the company's mismanagement of the tool inventory, TVA withheld substantial funds from the company's performance fee award.

The investigation determined that during the February/March 1994 timeframe, the Project Support Manager and the Operations Manager removed tools—valued at over \$73,000—from the TVA warehouse and delivered them to the Project Support Manager’s brother. The brother sold the tools to another firm through his private company.

During an eight-month period in 1994 and 1995, the contract managers purchased tools valued at approximately \$1.2 million using TVA funds. The two managers obtained and transferred unmarked, non-inventoried tools to and from TVA warehouses and private storage units for the purpose of selling them for personal gain. The Project Support Manager’s brother was actively involved in the scheme and sold large quantities of the tools.

The three individuals are awaiting sentencing in federal district court in Nashville.

OIG SUPPORTS PROCUREMENT TRAINING FOR CONTRACT MANAGERS/CONTRACT AGENTS

TVA Procurement is changing its process for the procurement/management of TVA’s materials and services from a price-focused activity to management of “total cost” throughout the life cycle of the equipment, material, or service. The changes have resulted in the need for a fundamental shift in the role of TVA’s traditional purchasing agent, which had primarily been transaction oriented with a focus on contract administration. In their new role, TVA’s purchasing agents are now called contract managers/contract agents (CM/CA) and will focus on contract management. The CM/CA will proactively seek ways to lower total cost and achieve value beyond contract award.

To determine the skills, education, and knowledge needed for CM/CAs to perform their new role, Procurement

performed a study of the new process and reviewed the best practices of other companies. Based on information obtained in their review, three educational modules were developed which contain classes in areas such as policies and procedures, strategic sourcing, solicitations, terms and conditions, negotiations, etc. The classes, which are taught by Procurement managers or other professionals outside of Procurement, are now required courses for each CM/CA.

The OIG supports Procurement's training efforts. In addition to the OIG's ongoing role of conducting preaward and post-award audits, the OIG is participating in the contract administration training module. In this module, the OIG presents an overview of the audit process and a discussion on the value of using audits in the contract administration process. In addition, an OIG investigator presents an overview of the investigative process and contract fraud awareness.

Audits are initiated from (1) the OIG annual workplan, (2) issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, or (4) concerns raised by TVA management or others. During this reporting period, we issued 38 audit reports which identified over \$1.1 million in questioned costs and more than \$1.4 million in funds which could be put to better use (see Appendix 1).

Summary of Representative Audits

Our audits included performance reviews of TVA programs, processes, and systems, as well as compliance and preaward audits of TVA contractors.

PRESCRIPTION DRUG PROGRAM

In 1994, TVA contracted for administration of the prescription drug program for all TVA medical benefit plans. For calendar year 1995 and subsequent years, the program was limited to TVA's Trades and Labor employees because a contract for administration of a separate prescription drug program for management, specialist, and salary policy employees was awarded to another contractor. The Trades and Labor program provided pharmacy benefit management services, including claims

adjudication and participation in a prescription drug manufacturers' volume discount program.

We assessed whether the contractor (1) complied with the cost and benefit provisions of the contracts in adjudicating prescription drug claims and (2) correctly calculated the drug manufacturer rebates due TVA. In summary, we found the contractor complied with the cost and benefit provisions in adjudicating claims but owed TVA \$401,468 in unpaid prior-year rebates and accrued interest. TVA subsequently received the full amount questioned.

RECOMMENDATIONS FOR POTENTIAL COST SAVINGS IN CONTRACT NEGOTIATIONS

We conducted six preaward audits to assist TVA management in negotiation of procurement actions. One contract compliance audit also resulted in recommendations for forward pricing of the contract. These audits resulted in recommendations that \$749,000 could be put to better use by negotiating contract proposal or forward pricing reductions. Management generally agreed with our findings and negotiated savings of \$307,100.

**REVIEW OF GOVERNMENT
PERFORMANCE AND RESULTS ACT
OF 1993 PERFORMANCE
MEASURES**

TVA submitted a strategic plan covering fiscal years 1997 through 2002 to Congress and the Office of Management and Budget. The strategic plan is supported by annual performance plans, which include performance goals and performance indicators. We reviewed the data sources and information systems that support the Delivered Cost of Power (DCP) and Energy Sales Growth (ESG) performance indicators and found the sources and systems are adequate and reliable.

Additionally, we found TVA's accounting method for power sales to other utilities was not revised to reflect changed circumstances. As a result, their DCP and ESG were affected for fiscal years 1996 and 1997. We also found TVA's presentation of sales to other utilities in the annual income statements for fiscal years 1996 and 1997 did not fully comply with the Federal Energy Regulatory Commission's Uniform System of Accounts and utility industry accounting practice. TVA management has taken corrective actions.

**CONSTRUCTION AND
MODIFICATIONS CONTRACT
OVERBILLINGS**

We audited billings for work performed under a contract for construction and modifications work at TVA facilities. We questioned overbillings totalling \$291,000 for United Way matching contributions, nonmanual wage rates, and payroll tax markups. TVA management agreed with our findings and to date has collected \$152,000. Also, during this period, TVA recovered an additional \$108,000 of overbillings from a review of this contractor reported in a previous period.

**COAL AND COAL FREIGHT
BILLINGS**

During fiscal year 1998, TVA purchased over 44 million tons of coal at a cost of \$936 million. During calendar year 1998, TVA paid \$255.6 million in freight costs associated with over 46 million tons of coal transported. Because these costs are a significant part of TVA's budget, we audited contracts with billings of over \$232 million with TVA's coal and coal freight vendors for contract compliance. We found generally coal and freight costs are billed in accordance with the contracts.

TVA'S FINANCIAL STATEMENTS

PricewaterhouseCooper (PwC) performs the independent audit of TVA's financial statements and performs internal audit work in support of the financial statement audit. We reviewed their audit of TVA's fiscal year 1998 financial statements and determined the audit complied with generally accepted auditing standards, government auditing standards, and other significant contractual requirements. We are also reviewing PwC's internal audit work to ensure compliance with government auditing standards.

MANAGEMENT FORMS CROSS-FUNCTIONAL TEAM TO ENSURE GOOD INTERNAL CONTROLS OVER J-TYPE CONTRACTS

J-Type contracts are blanket purchase orders that do not require end-user organizations to key-enter purchase

order releases or receive reports. TVA Procurement has expanded the use of J-Type contracts in recent years to reduce administrative cost and streamline purchases of services and non-inventory items.

We reviewed internal controls associated with these contracts and selected seven large contracts to review for contract compliance. During our review, TVA management formed a cross-functional team and implemented our recommended control improvements. Also, management agreed to meet periodically to review the adequacy of internal controls over J-Type contracts and ensure the controls are working properly. Five of the seven compliance audits have been completed with no findings of noncompliance.

UNRESOLVED AUDIT REPORTS WHICH WERE ISSUED PRIOR TO OCTOBER 1, 1998

Listed below are audit reports we issued before this reporting period began and for which no management decision was made by March 31, 1999.

| Date Issued | Audit Number | Report Title | Why Management Decision Has Not Been Made |
|-------------|--------------|--------------|---|
|-------------|--------------|--------------|---|

There were no audit reports in this reporting category as of March 31, 1999.

During the last six months, we substantiated allegations in 27 of the 66 investigations we closed—over 40 percent. Our investigations resulted in over \$3 million in savings and recoveries, six individuals indicted, and one company and eight individuals convicted. Representative investigations are highlighted below.

Summary of Representative Investigations

EMBEZZLEMENT

As a result of our investigation with the Federal Bureau of Investigation (FBI) and Kentucky State Police, a former executive director of a Kentucky non-profit corporation pled guilty to eight felony counts—one count of bank fraud and seven counts of money laundering—related to his fraudulently obtaining over \$780,000 from the corporation.

The corporation, which managed a bond-assurance fund to assist minority and female contractors, received contributions from various federal, state, and local government agencies, including \$100,000 from TVA. The former executive director's crimes deprived the previously successful corporation of almost all its funds.

A federal judge sentenced the individual to pay full restitution of \$780,089 to the fund and to serve 41 months in prison, followed by 5 years' supervised release.

FALSE CLAIMS - OFFICE OF WORKERS' COMPENSATION PROGRAMS (OWCP)

To receive benefits through the Federal Employees' Compensation Act (FECA), recipients must periodically submit forms to OWCP that require the recipient to report all employment, including self-employment. OWCP uses the forms to determine a recipient's continuing eligibility for FECA benefits. Failure to disclose employment information to OWCP violates state and federal laws.

During this reporting period, our FECA fraud investigations led to recoveries and long-term savings of over \$2 million. Highlights of investigative results follow.

- A former TVA Construction Services warehouseman pled guilty in the State of Alabama Circuit Court, Lauderdale County, to one count of first-degree theft for making false statements to receive FECA benefits. The individual was sentenced to three years in state prison, suspended. He was placed on one year's supervised probation, followed by four years' unsupervised probation, and was ordered to pay

\$14,732 in restitution to TVA. OWCP terminated the individual's benefits, as well, resulting in long-term savings to TVA of over \$480,000.

- A former Sequoyah Nuclear Plant steamfitter was sentenced to 15 months' imprisonment and 3 years' supervised release; his wife was placed on probation for a term of 3 years. The two were jointly ordered to make full restitution of the loss to TVA—\$100,224. (During a previous period, a jury in the Middle District of Florida convicted the former steamfitter on five counts of making false statements to obtain OWCP benefits. The jury also found the individual and his wife guilty of conspiracy in connection with his fraudulent claims.)
- A federal judge sentenced a former Colbert Steam Plant steamfitter to three years' probation, to include six months' home detention, and ordered him to pay partial restitution to TVA. (During a previous period, the former steamfitter pled guilty to making a false statement to obtain OWCP benefits.)
- A federal judge sentenced a former TVA carpenter to four years' probation, to include six months' home detention. Additionally, the individual was ordered to pay restitution to

TVA. (During a previous period, the former carpenter pled guilty to four counts of making false statements to obtain OWCP benefits. As part of the individual's plea, he agreed to pay \$46,626 in restitution.)

ENVIRONMENTAL CRIMES JOINT TASK FORCE (ECJTF)

During this reporting period, we continued our participation in ECJTF, which is comprised of members from numerous state and federal agencies, including the OIG, FBI, Environmental Protection Agency, and Department of Justice. Our participation in ECJTF furthers one of TVA's corporate goals—"Supporting a thriving river system."

ECJTF focuses enhanced law enforcement resources against individuals and companies involved in environmental crimes and prosecutes those individuals and companies by applying the most effective federal and state criminal and civil statutes.

Highlights of investigative results during this reporting period include the following.

- A Tennessee coal company, its president, and its chief engineer pled guilty to violating the Clean Water Act by negligently discharging, and

causing to be discharged, mine waste water without a permit.

The waste water was discharged from a mine that had not been active in over 75 years. As mining operations nearby approached the inactive mine, concern existed that if the miners "punched through" to the inactive mine, sudden flooding could occur, endangering the active mine and the miners within. Water was subsequently drained from the inactive mine into United States waters, despite the lack of a permit to discharge the waste water. The coal company was fined \$19,000 and agreed to pay \$175,000 to be used for environmental protection. The company's president and chief engineer were each fined \$3,000.

- An individual who previously pled guilty to illegally discharging waste oil into United States waters in Bradley County, Tennessee, in violation of the Clean Water Act, was sentenced during this reporting period to nine months' home detention and three years' probation.

FALSE CLAIMS - TEMPORARY LIVING EXPENSES (TLE)

We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible TLE paid to TVA contrac-

tors. During this reporting period, our TLE investigations led to recoveries of over \$63,800. Specifically,

- A federal judge sentenced a former United Energy Services Corporation (UESC) contractor at Watts Bar Nuclear Plant (WBN) to pay full restitution of \$37,087 and placed him on probation for a term of three years, to include three months' home detention. (During a previous reporting period, the former contractor pled guilty in federal court to two counts of submitting false claims to receive TLE, and he stipulated his responsibility for the acts charged in 60 additional counts.)
- A federal judge sentenced another former UESC/WBN contractor to three years' probation and ordered him to pay a \$1,000 fine and to make full restitution of \$26,263 to TVA. (During a previous period, the former contractor pled guilty to submitting false statements to receive TLE.)

EMPLOYEE MISCONDUCT

- Investigation revealed that a former TVA senior project manager used a TVA credit card for personal purchases (including motorcycle repairs), and evidence indicated he

reimbursed TVA for the purchases of over \$900 only because the OIG questioned them.

The senior project manager resigned during our investigation. In addition, based on our findings, management reminded all employees in the former manager's organization of the responsibilities and limitations associated with the use of TVA credit cards and put in place improved controls and checks for timely reporting and approvals.

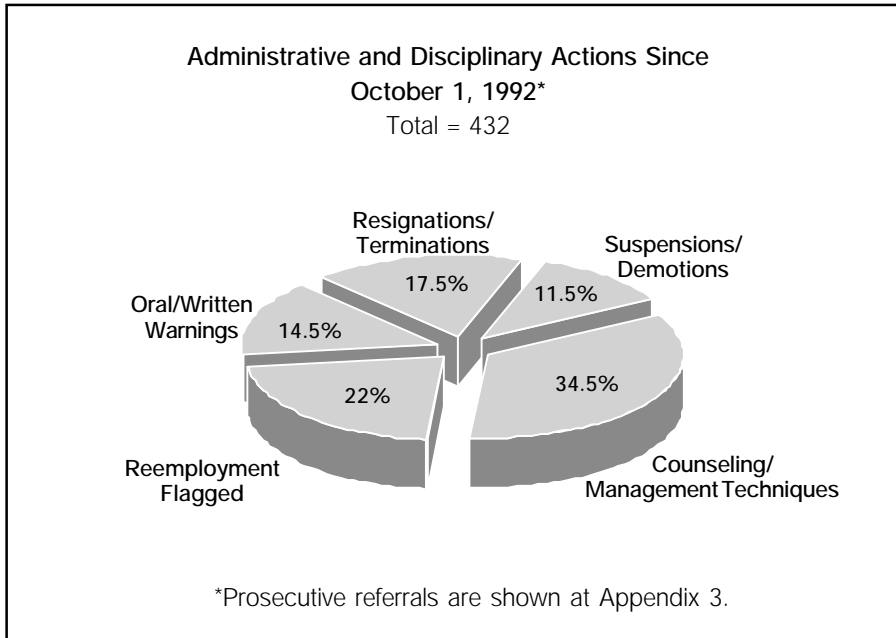
- Investigation revealed a TVA Nuclear (TVAN) employee violated TVAN policy by failing to report he was arrested, and the individual subsequently made false statements to management and the OIG concerning his arrest record. Additionally, evidence indicated the employee attempted to steal TVA property and verbally threatened a subordinate. Following our report to management, the employee resigned in lieu of termination.
- We investigated a report that a TVA employee was observed concealing a weapon on his person and subsequently entering TVA premises. Our immediate investigation determined the employee, who had rented a vehicle for official TVA business, had placed a semiautomatic pistol in the

glove box of the vehicle, then parked it on TVA property.

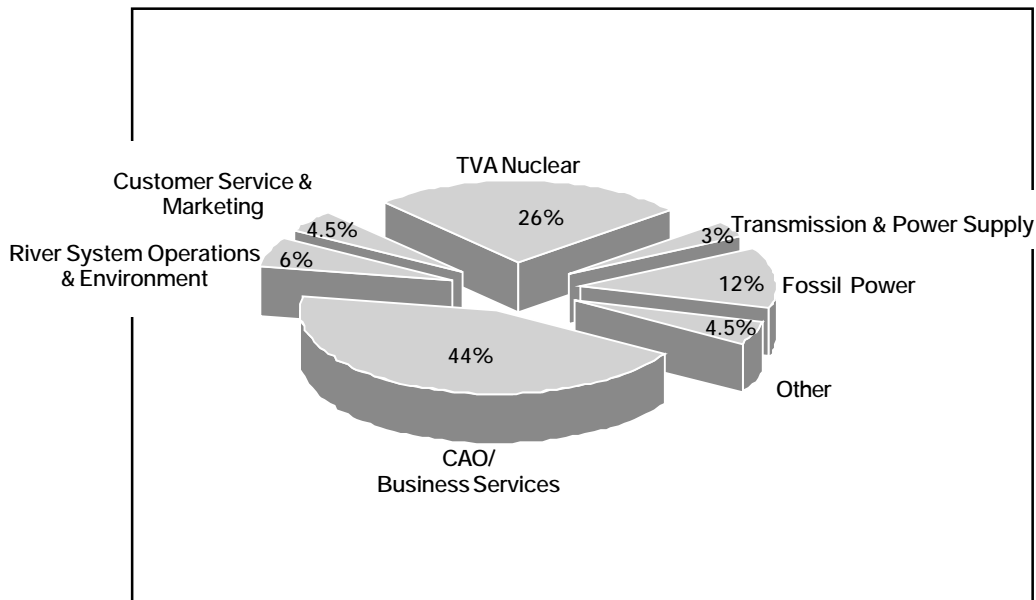
The employee offered to the OIG as mitigating circumstances that he normally carried the pistol for personal protection. (Although we confirmed the employee carried a permit from the State of Tennessee to carry a concealed firearm, such weapons on site are prohibited.) At the conclusion of the individual's OIG interview, he unloaded the firearm and removed it from TVA property. Management counseled the employee and issued a disciplinary warning letter.

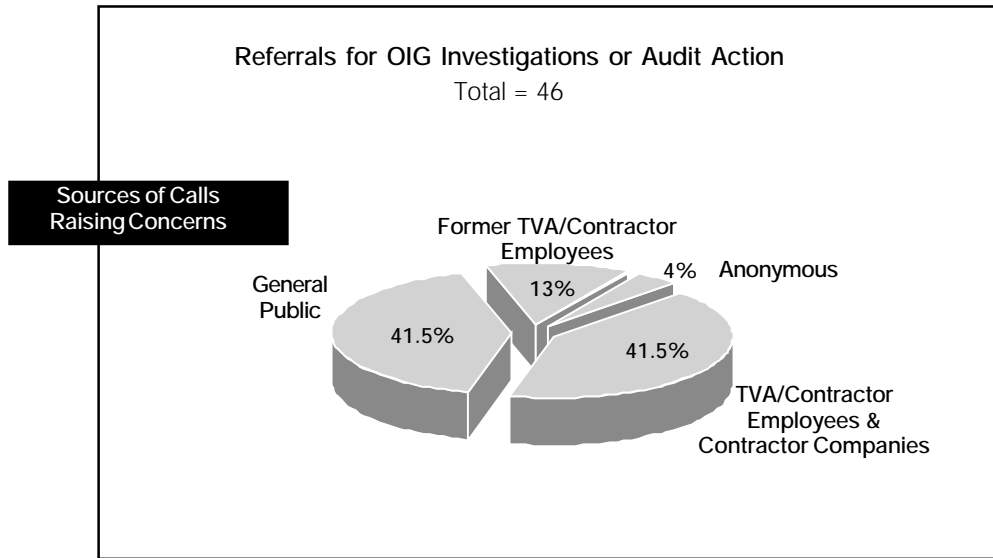
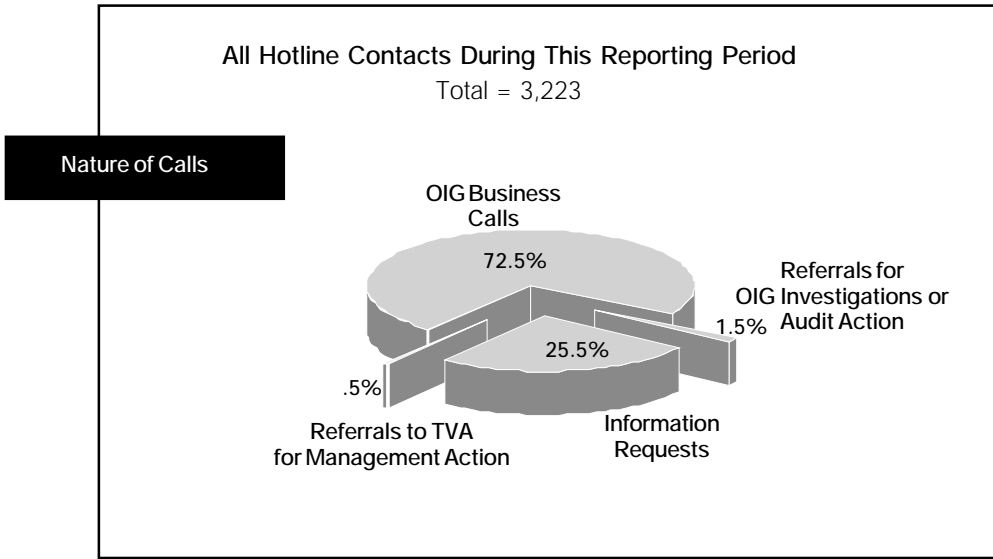
BACKGROUND INVESTIGATIONS

At the request of TVA management, we continued to perform background investigations for sensitive positions and for national security clearances. These investigations ensure individuals being hired for sensitive positions meet applicable requirements. By using the OIG rather than the Office of Personnel Management to perform these investigations, TVA saves an average of over \$2,000 per investigation.



The breakdown of the 66 closed investigations involving TVA organizations are shown below.





In addition to conducting audits and investigations, our office continues to perform special projects upon request by our customers, primarily the Board of Directors, TVA management, and Congress. During this reporting period, we conducted 18 such projects.

CONCERNS RESOLUTION PROGRAM

In 1986, TVA committed to the Nuclear Regulatory Commission (NRC) that this office would periodically review TVA's Concerns Resolution Program regarding employee and contractor willingness to report nuclear safety and quality problems. For the last four review cycles, we used a standardized survey approach which enables us to compare and trend survey results.

During this period, we surveyed a sample of TVAN employees and contractor employees at all nuclear sites. We also reviewed closed investigative files as well as historical NRC allegation data pertaining to the TVA nuclear program. In summary, we found (1) the workforce generally felt free to raise nuclear safety and quality issues, (2) issues associated with the closed files are reviewed, and (3) the number of allegations made directly to NRC by TVAN's workforce has declined since 1993.

TVA RISK MANAGEMENT

At the request of TVA management, we reviewed TVA's electricity trading processes, proposed procedures for limited financial trading, and draft specifications for a new bulk power transaction management system. As a result of these reviews, we suggested that TVA management:

- Consider establishing an enterprise-wide risk policy for TVA that defines TVA's appetite for significant risks.
- Consider establishing an independent risk management function to implement the risk policy.
- Address power trading control concerns in the areas of organizational clarity, risk limits and vulnerabilities, and trading systems and processes.
- Enhance and clarify the audit trail and other security and control provisions in the specifications for a new transaction management system.

TVA's Board subsequently requested us to draft an enterprise-wide risk policy. The project will be completed in April 1999.

■ APPENDICES

Appendix 1

**OIG AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING MARCH 31, 1999**

The following table summarizes final audit reports issued by the OIG from October 1, 1998 through March 31, 1999.

| DATE ISSUED | REPORT NUMBER | REPORT TITLE | QUESTIONED COSTS | UNSUPPORTED COSTS | FUNDS TO BE PUT TO BETTER USE |
|-------------|---------------|---|------------------|-------------------|-------------------------------|
| 10/7/98 | 98-060F | Bear Creek Development Authority | | | |
| 10/7/98 | 98-067C | Hartford Steam Boiler Proposal - Nuclear Inspection Services | | | \$196,000 |
| 10/16/98 | 98-059F | Review of J-Type Contracts and Associated Internal Controls | | | |
| 10/20/98 | 98-053F | Delivered Cost of Power and Energy Sales Growth | | | |
| 10/23/98 | 98-022C-01 | Coopers & Lybrand - Review of Costs Billed Under Knoxville Contracts | \$80,761 | | |
| 10/23/98 | 98-022C-02 | Coopers & Lybrand - Review of Houston Contract | 82,908 | | |
| 10/23/98 | 98-022C-03 | Coopers & Lybrand - Review of Atlanta Contract | 18,956 | | |
| 10/29/98 | 98-062C | P & A Consultants, Corp. - Preaward | | | |
| 10/30/98 | 98-072C | Centennial Resources, Inc. - Contract | | | |
| 11/3/98 | 98-043C | Mesa Associates, Inc. - Contract | 71,498 | | 608,502 |
| 11/3/98 | 98-063C | Ecolchem, Inc. - Contract | 1,043 | | |
| 11/6/98 | 98-068C | Peabody Coal Company - Contract | | | |
| 11/17/98 | 99-010F | TVA Compliance With Federal Energy Regulatory Commission Uniform System of Accounts | | | |
| 11/25/98 | 98-052C | Martin-Williams International, Inc. - Contract | | | 24,000 |
| 12/11/98 | 98-006C | TSW International - Contract | 22,940 | | |
| 12/17/98 | 98-066F | TVA's Annual Financial Statement Audit - FY 1998 | | | |

| DATE ISSUED | REPORT NUMBER | REPORT TITLE | QUESTIONED COSTS | UNSUPPORTED COSTS | FUNDS TO BE PUT TO BETTER USE |
|--------------|---------------|---|--------------------|-------------------|-------------------------------|
| 12/21/98 | 99-012C | Lodestar Energy, Inc. - Contract | | | |
| 1/5/99 | 99-002C | International Business Machines, Inc. - Contract | | | |
| 1/5/99 | 99-004C | Telos Field Engineer - Contract | | | |
| 1/5/99 | 99-006C | A&G Tree Service - Contract | | | |
| 1/11/99 | 99-005C | Porter-Walker, Inc. - Contract | | | |
| 1/11/99 | 99-023C | Utility Translation System - Review of Terminated Contract Costs | \$4,926 | \$1,926 | \$51,750 |
| 1/13/99 | 99-013C | Mountain Coal Company LLC - Contract | | | |
| 1/15/99 | 99-016C | G-UB-MK - Preaward | 7,547 | 7,547 | |
| 1/20/99 | 99-007C | Terra International, Inc. - Contract | | | |
| 1/20/99 | 99-015C | East Tennessee Mechanical Contractors - Contract | 9,933 | 9,933 | |
| 1/25/99 | 99-017C | Roberts & Schaefer - Preaward | | | 320,519 |
| 1/27/99 | 99-011C | Cendant Mobility - Contract | 13,236 | | |
| 2/19/99 | 98-061C | Mesa Associates, Inc. - Contract | 130,764 | | |
| 2/24/99 | 97-004P | Review of Prescription Drug Program Administered by BCBS-TN | 401,468 | | |
| 2/24/99 | 98-055C | BFI - Contract | | | |
| 3/9/99 | 98-075C | Cormetech, Inc. - Preaward | | | 200,800 |
| 3/9/99 | 99-008P | Blue Cross Blue Shield of Tennessee's Proposed Administrative Fees - Preaward | | | |
| 3/18/99 | 98-051C | L. E. Meyers - Contract | 291,142 | 291,142 | |
| 3/18/99 | 99-009C | Marathon Consulting Group, Inc. - Contract | | | |
| 3/22/99 | 99-021C | Union Pacific Railroad - Contract | | | |
| 3/23/99 | 99-033F | Verification of Facts Data | | | |
| 3/26/99 | 99-039C | Gartner Group - Contract | | | |
| TOTAL | 38 | | \$1,137,122 | \$ 310,548 | \$1,401,571 |

OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 1999

The following Tables I and II summarize management decisions made by TVA management on OIG recommendations contained in final audit reports. The tables reflect amounts which were questioned and recommended to be put to better use and track the disposition of these amounts through management decision.

**TABLE I
TOTAL QUESTIONED AND UNSUPPORTED COSTS**

| AUDIT REPORTS | NUMBER OF REPORTS | QUESTIONED COSTS | UNSUPPORTED COSTS |
|--|--------------------------|-------------------------|--------------------------|
| A. For which no management decision has been made by the commencement of the period | 1 | \$44,668 | 0 |
| B. Which were issued during the reporting period | 13 | 1,137,122 | \$310,548 |
| Subtotal (A + B) | 14 | \$1,181,790 | \$310,548 |
| C. For which a management decision was made during the reporting period | 13 | 1,051,026 | 310,548 |
| 1. Dollar value of disallowed costs | 12 * | 990,562 | 308,622 |
| 2. Dollar value of costs not disallowed | 3 * | 60,464 | 1,926 |
| D. For which no management decision has been made by the end of the reporting period | 1 | 130,764 | 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. 1 and C.2 when the same reports contain both costs disallowed and not disallowed by management.

TABLE II
FUNDS TO BE PUT TO BETTER USE

| AUDIT REPORTS | NUMBER OF REPORTS | FUNDS TO BE PUT TO BETTER USE |
|--|----------------------|----------------------------------|
| A. For which no management decision has been made by the commencement of the period | 0 | 0 |
| B. Which were issued during the reporting period | 6 | \$1,401,571 |
| Subtotal (A + B) | 6 | \$1,401,571 |
| C. For which a management decision was made during the reporting period | 6 | 1,401,571 |
| 1. Dollar value of disallowed costs | 5* | 980,252 |
| 2. Dollar value of costs not disallowed | 2* | 421,319 |
| 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 |

* The total number of reports differs from the sum of C. 1 and C. 2 when the same reports contain both costs disallowed and not disallowed by management.

INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

| INVESTIGATIVE REFERRALS | SUBJECTS | RESULTS THIS PERIOD |
|---|-----------------|--|
| Subjects referred to U.S. Attorneys | 4 | 6 Indicted 9 Convicted 10 Referrals Declined |
| Subjects referred to other agencies for investigative or administrative action | 4 | OWCP reduced benefits of one individual, terminated benefits for two individuals, and suspended benefits for another, resulting in long-term savings of \$1,875,958. |
| TOTAL | 8 | |



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

Craven Crowell
Chairman, Board of Directors

May 7, 1999

TO THE UNITED STATES CONGRESS:

We are providing TVA's Report on Final Actions on Inspector General audit recommendations, in keeping with Section 5(b) of the Inspectors General Act of 1978, as amended.

The members of the TVA Board appreciate the work of the Inspector General's office in helping TVA improve its efficiency, productivity, and competitiveness as we strive to meet our goals and position TVA to compete in the global marketplace of the 21st century.

Sincerely,

A handwritten signature in cursive script that reads "Craven Crowell".

Craven Crowell

Enclosure

TVA MANAGEMENT'S REPORT ON FINAL ACTIONS FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 1999

The following Tables I and II summarize final action taken by management on OIG audit reports. The tables reflect amounts which were agreed to by management and track the disposition of these amounts through final action. Table III contains the explanations by audit report for final actions not taken within one year of the management decision dates.

**TABLE I
DISALLOWED COSTS**

| AUDIT REPORTS | NUMBER OF REPORTS | AMOUNTS AGREED TO BY MANAGEMENT |
|--|-------------------------|---------------------------------------|
| A. For which final action by management had not been taken by the commencement of the period | 12 | \$4,359,550 |
| B. On which management decisions were made during the reporting period | 13 | 990,562 |
| Subtotal (A + B) | 25 | \$5,350,112 |
| C. For which final action was taken by management during the reporting period | 15 | 1,613,861 |
| 1. Amounts that were recovered by management | 15 * | 1,353,114 |
| 2. Amounts that were not recovered by management | 7 * | 260,747 |
| D. For which management has taken no final action by the end of the reporting period | 11 | 3,736,251 |

* The total number of reports differs from the sum of C.1 and C.2 when a final audit action includes both amounts recovered and amounts not recovered for a single audit report.

TABLE II
RECOMMENDATIONS THAT FUNDS BE PUT
TO BETTER USE

| AUDIT REPORTS | NUMBER OF REPORTS | AMOUNTS AGREED TO BY MANAGEMENT |
|--|-------------------------|---------------------------------------|
| A. For which final action by management had not been taken by the commencement of the period | 1 | \$1,408,000 |
| B. On which management decisions were made during the reporting period | 6 | 980,252 |
| Subtotal (A + B) | 7 | \$2,388,252 |
| C. For which final action was taken by management during the reporting period | 5 | 371,750 |
| 1. Dollar value of recommendations implemented by management | 5* | 358,850 |
| 2. Dollar value of recommendations not implemented by management | 1* | 12,900 |
| D. For which management has taken no final action by the end of the reporting period | 2 | 2,016,502 |

* The total number of reports differs from the sum of C.1 and C.2 when the same reports contain both recommendations implemented and recommendations not implemented for a single audit report.

TABLE III
EXPLANATIONS FOR FINAL ACTIONS NOT TAKEN

| AUDIT REPORT NUMBER | DATE ISSUED | DISALLOWED COSTS | FUNDS PUT TO BETTER USE | EXPLANATION FINAL ACTION NOT TAKEN |
|---|----------------|---------------------|----------------------------|--|
| Review of Environmental Restricted Awards List Contracting Process 96-056P | 1/3/97 | N/A | N/A | TVA has finalized a new procedure which will be issued to all organizations. |
| Review of Contractor's Financial Condition 96-035P | 6/6/96 | \$1,073,291 | \$1,408,000 | TVA is assessing options. |
| TVA Nuclear Contractor 97-020C | 5/2/97 | 15,195 | 0 | TVA is processing final settlement with the contractor. |

N/A - Not Applicable

NOTE: This table excludes two reports in judicial appeal according to the reporting guidelines of the
Inspector General Act.

OIG REPORTING REQUIREMENTS

Information required by the Inspector General Act of 1978, as amended, is included in this semiannual report as indicated below.

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

* There were no significant legislation or regulations reviewed during this reporting period.

** There were no instances where information or assistance was unreasonably refused or not provided.

*** There were no significant revised management decisions.

**** There were no significant management decisions with which the Inspector General disagreed.

HIGHLIGHTS

| | FOR SEMIANNUAL REPORTING PERIODS | | | | |
|--|----------------------------------|------------------|-----------------|------------------|-----------------|
| | MAR 31, 1999 | SEPT 30, 1998 | MAR 31, 1998 | SEPT 30, 1997 | MAR 31, 1997 |
| ANNUAL BUDGET (In Millions of Dollars) | 7.3 | 7.3 | 7.3 | 7.3 | 7.3 |
| CURRENT STAFFING | 81 | 83 | 81 | 83 | 86 |
| AUDITS & SPECIAL PROJECTS | | | | | |
| AUDITS IN PROGRESS | | | | | |
| Carried Forward | 40 | 46 | 40 | 34 | 41 |
| Started | 42 | 34 | 50 | 46 | 29 |
| Canceled | (11) | (13) | (14) | (10) | (14) |
| Completed | (38) | (27) | (30) | (30) | (22) |
| In Progress at End of Reporting Period | 33 | 40 | 46 | 40 | 34 |
| AUDIT RESULTS (Thousands) | | | | | |
| Questioned Costs | \$1,137 | \$1,769 | \$1,191 | \$552 | \$602 |
| Disallowed by TVA | 946 | 1,656 | 636 | 530 | 542 |
| Recovered by TVA | 607 | 110 | 2,029 | 434 | 434 |
| Funds to Be Put to Better Use | \$1,402 | \$220 | \$2,359 | \$10,585 | \$1,671 |
| Agreed to by TVA | 980 | 5,169 | 696 | 5,707 | 5,262 |
| Realized by TVA | 389 | 136 | 696 | 1,078 | 4,494 |
| SPECIAL PROJECT RESULTS | | | | | |
| Completed | 18 | 11 | 13 | 24 | 15 |
| Cost Savings Identified/ Realized (Thousands) | 0 | \$14,704 | \$843 | \$5,700 | \$38,200 |
| INVESTIGATIONS | | | | | |
| INVESTIGATION CASELOAD | | | | | |
| Opened | 59 | 78 | 78 | 56 | 96 |
| Closed | 66 | 81 | 74 | 77 | 93 |
| In Progress at End of Reporting Period | 133 | 140 | 144 | 139 | 160 |
| INVESTIGATIVE RESULTS (Thousands) | | | | | |
| Recoveries | \$1,145 | \$284 | \$946 | \$481 | \$2,439 |
| Savings | 1,912 | 3,388 | 645 | 9 | 2,377 |
| Fines/Penalties | 27* | | | | |
| ADMINISTRATIVE AND DISCIPLINARY ACTIONS | | | | | |
| Recommended (# of Cases) | 19 | 20 | 24 | 12 | 21 |
| Actions Taken (# of Subjects) | 11 | 22 | 12 | 14 | 15 |
| Counseling/Management Techniques (# of Cases) | 4 | 8* | | | |
| PROSECUTIVE ACTIVITIES (# of Subjects) | | | | | |
| Referred | 4 | 12 | 11 | 15 | 22 |
| Indicted | 6 | 5 | 2 | 7 | 1 |
| Convicted | 9 | 9 | 6 | 3 | 8 |

* Category added to Highlights during reporting period indicated.

OFFICE OF THE INSPECTOR GENERAL OF THE TENNESSEE VALLEY AUTHORITY

400 WEST SUMMIT HILL DRIVE

KNOXVILLE, TENNESSEE 37902-1499