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OFFICE OF THE INSPECTOR GENERAL

9

SEMIANNUAL REPORT

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APRIL 1, 1999 ~ SEPTEMBER 30, 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

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1-800-323-3835

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

Robert L. Thompson
Interim Inspector General

October 29, 1999

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This semiannual report describes the accomplishments of our office for the six-month period ending September 30, 1999.

During this reporting period, I was appointed as the Interim Inspector General for an indefinite period. Inspector General George Prosser is on administrative leave pending completion of an investigation by the Federal Bureau of Investigation into allegations sent by TVA Chairman Craven Crowell to the Integrity Committee, Executive Council on Integrity and Efficiency.

As Interim Inspector General, I have continued the independent efforts by the Office of the Inspector General to support and improve the efficiency of TVA, including the identification and elimination of fraud, waste, and abuse affecting the agency. I am impressed by the results achieved by OIG employees who continue to do their part in serving as a catalyst for excellence at TVA.

During this reporting period, OIG audits, investigations, and special projects identified numerous opportunities for TVA to save or recover money and to make process improvements. TVA management continues to respond favorably to OIG recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Thompson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Robert L. Thompson

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■ EXECUTIVE SUMMARY

This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending September 30, 1999.

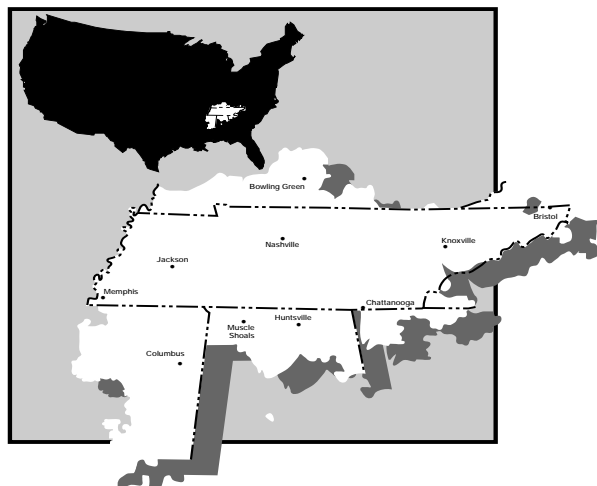
We continued our efforts to support TVA by providing quality audits, investigations, and special projects. During this reporting period, our reviews identified over \$14 million in potential savings, recoveries, or funds which could be put to better use. Management took numerous actions in response to our recommendations.

We completed 36 audits in which we identified over \$1.6 million in questioned costs and more than \$9.8 million in funds that could be used more effectively. Representative audits include (1) preaward and postaward contract audits, (2) audits of TVA performance measures under the Government Performance and Results Act, (3) reviews of security and access controls in TVA systems, and (4) audits of TVA's year 2000 readiness. Our auditors also conducted 11 special projects, including (1) a review of TVA's Economy Surplus Power Program, (2) drafting a risk policy for TVA, and (3) conducting a TVA-wide intellectual capital assessment.

We closed 81 investigations which led to over \$3.19 million in savings and recoveries, administrative or disciplinary action taken against 17 individuals, and other corrective action in 3 cases. Our investigations included product substitution, workers' compensation fraud,

environmental crimes, contractors' fraudulent claims for temporary living expenses, health care overpayments, and employee misconduct. Our investigations also led to seven subjects being indicted and five convicted.

During this reporting period, Inspector General George Prosser sent a Seven-Day Report to the TVA Board of Directors and the Congress. In that report, dated May 26, 1999, Mr. Prosser reported "an attempt to impede the independence" of the OIG. By letter dated June 1, 1999, Chairman Craven Crowell referred various allegations against Mr. Prosser to the Integrity Committee of the Executive Council on Integrity and Efficiency. The Integrity Committee referred these allegations to the Federal Bureau of Investigation (FBI). Subsequently, Chairman Crowell placed Mr. Prosser on administrative leave pending completion of the FBI investigation. Robert L. Thompson, Director, TVA Police, was appointed as the Interim Inspector General. In addition, the General Accounting Office (GAO) was asked to investigate Mr. Prosser's and Chairman Crowell's allegations. GAO issued its report on September 15, 1999. Because Congress already is aware of these matters, they will not be further discussed in this report.



TVA is a federal corporation, the nation's largest electric power producer, a regional economic development agency, and a national center for environmental research. TVA's statutory responsibilities include management of the nation's fifth largest river system.

TVA's mission, as stated in its Annual Performance Plan, is "to develop and operate the Tennessee River system to minimize flood damage and improve navigation, and to provide energy and related products and services safely, reliably, and at the lowest feasible cost to residents and businesses in the multi-state Tennessee Valley Region."

TVA's programs fall into two separate but interrelated activities—the power program and the resource management programs. TVA's power system consists of 11 coal-fired plants, 3 nuclear plants,

29 hydroelectric dams, and a pumped storage plant. These plants provide over 28,000 megawatts of net dependable generating capacity. TVA's electric power business is entirely self-funding.

TVA's major functions include (1) multiple purpose management of the Tennessee River system; (2) generation, sale, and transmission of electricity to wholesale and large industrial customers; (3) investment in economic development activities that generate a higher standard of living for citizens of the Tennessee Valley; (4) stewardship of TVA assets and provision of recreation opportunities on federal lands entrusted to TVA; and (5) research and technology development that addresses environmental problems related to TVA's statutory responsibilities for river and land management and power generation.

TVA is governed by a three-member Board of Directors appointed by the President and confirmed by the Senate. At the end of this reporting period, Chairman Crowell was the only sitting Board member.

TVA's 13,322 employees serve an 80,000-square-mile region spanning seven states.

Organization

The OIG's Audit Operations unit consists of three departments. One is devoted to contract-related audits, both preaward and postaward reviews; the two other departments focus, respectively, on (1) performance and special projects and (2) financial and ADP-related issues.

The OIG's Investigative Operations unit consists of two investigative departments—Financial Investigations and Internal Investigations. 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. In addition, an Investigative Services and Hotline group reports to the Assistant Inspector General for Investigations.

Office Authority

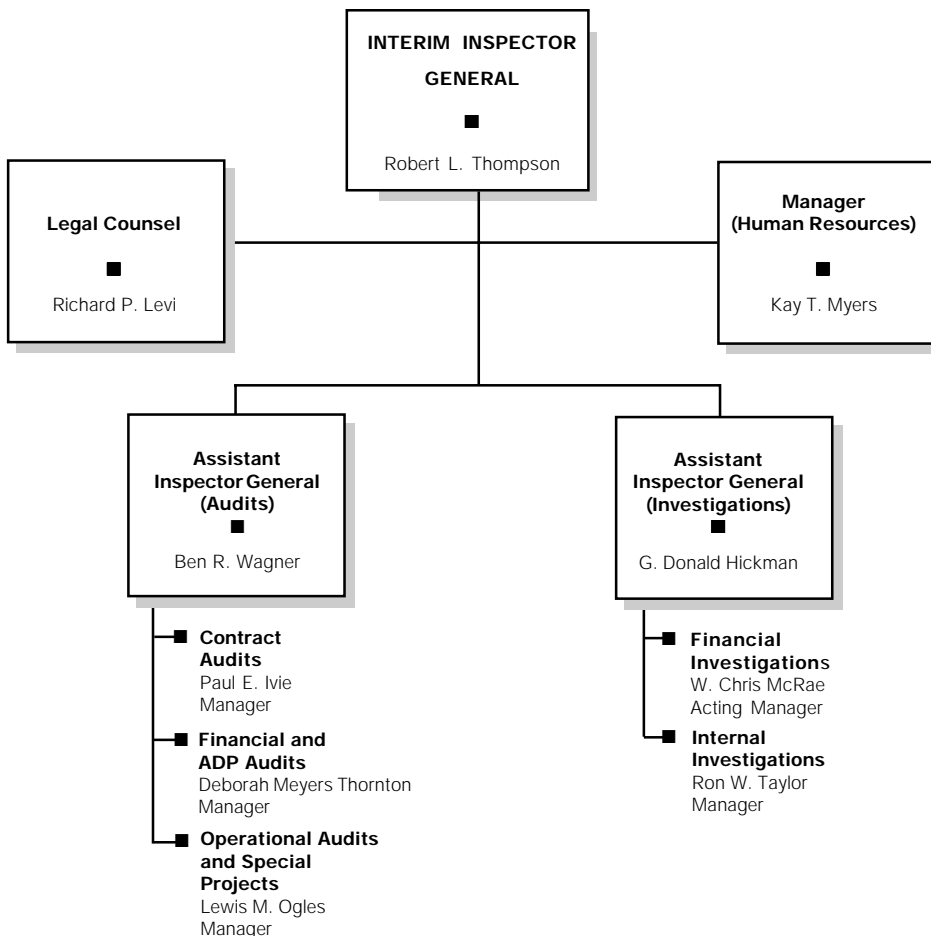
The TVA Board of Directors administratively established the OIG during October 1985. When the Inspector General Act Amendments of 1988 were enacted, TVA's OIG became one of the statutory offices whose Inspector General is appointed by the agency head. TVA's Inspector General is independent and subject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

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 was about \$7.3 million, and during this reporting period, the OIG had 78 employees.

OFFICE OF THE INSPECTOR GENERAL



Joint Projects Produce Results

During this reporting period, we conducted (1) joint audits/investigations within the OIG and (2) joint investigations with other law enforcement agencies. These joint efforts led to significant results. By pairing auditors and investigators, we combined the skills and talents of both to uncover and pursue fraudulent activities. In addition, our joint efforts with other law enforcement agencies also combined resources and expertise to produce results. Some of our joint projects are described more fully below.

CONVICTION AND GLOBAL SETTLEMENT WITH INFORMATION TECHNOLOGY CONTRACTOR

The work of an audit and investigative team led to a felony conviction and the recovery of \$1.6 million. During 1994,



The United States Attorney, Western District of Tennessee, praised Ron Hudson and Deborah Kearnaghan (pictured above) for their "exemplary efforts" in this investigation and credited the successful outcome to their efforts.

TVA entered a two-year contract with an information technology (IT) company. TVA paid the company approximately \$8.2 million during the contract period.

Under the contract, TVA reimbursed the company for labor at a set hourly rate for each employee, and TVA agreed to pay per diem for each day an employee spent at a TVA site. An OIG audit of the TVA contract found indications of billing irregularities, including possible overbilling of labor hours and per diem expenses. As a result of the audit, the OIG opened an investigation to determine whether company personnel fraudulently over-billed labor hours or charged TVA per diem for days when the employees were not at a TVA site. The investigation was conducted by OIG special agents and OIG auditors.

The investigation focused on the claims of the two company officers and an executive secretary. We found evidence showing the company submitted false claims for labor and per diem expenses totaling approximately \$500,000.

We referred this case to the United States Attorney's Office for the Western District of Tennessee. The former Chief Operating Officer of the company subsequently pled guilty to one felony

count of submitting false claims to the United States; and, on May 5, 1999, a federal judge sentenced him to 2 years' probation, 200 hours of community service, a \$10,000 fine, and restitution to TVA in the amount of \$9,322.

Also on that date, TVA, the Department of Justice, and the IT company entered a global settlement associated with the contract. Under this settlement, the IT company denied any liability but agreed to pay \$1.6 million in return for a release of any claims related to the contract.

CHIROPRACTOR PLEADS GUILTY TO HEALTH CARE FRAUD

As a result of a joint OIG-FBI investigation, a Chattanooga-area chiropractor pled guilty in federal court to one count of health care fraud.

Investigators found the chiropractor devised a scheme to fraudulently circumvent the reimbursement limits on chiropractic treatments for TVA employees as follows.

- Treatment decisions were based on the nature of patients' insurance coverage—patients with no chiropractic coverage were referred to an on-site physician or physical therapist employed by the chiropractor.

- In some instances, the chiropractor directed staff members to bill the TVA plan for physical therapy or a physician's office visit when the



On September 30, 1999, the Special Agent in Charge of the Knoxville Division of the FBI presented OIG Special Agent James F. Farr with a citation for outstanding work in this case. The citation was signed by FBI Director Louis J. Freeh.

services were not provided by a licensed physical therapist or physician but actually were provided by the chiropractor.

- On occasion, the chiropractor created, or instructed others to create, fraudulent documents which appeared to be medical records of a physician. The paperwork bore the physician's stamped signature, but he had not authorized the documents.

A federal judge sentenced the individual to eight months in federal prison, followed by two years' supervised

release, and ordered him to pay \$8,985 in restitution to TVA and a \$5,000 court fine.

TASK FORCE PARTICIPATION

During this reporting period, we continued our participation in the Environmental Crimes Joint Task Force and the East Tennessee Health Care Fraud Task Force. These task forces are comprised of members from numerous state and federal agencies.

Our participation in these task forces emphasizes TVA's interests in supporting a thriving river system and deters fraud against the TVA health care plan.

PRODUCT SUBSTITUTION— INDICTMENT

As a result of our audit and investigative efforts, a federal grand jury indicted a Tennessee coal corporation and its owner on one count of major fraud against the United States and one count of mail fraud.

The indictment charged the company and its owner (1) fraudulently supplied coal blended with petroleum coke (petcoke) to TVA and (2) used the United States Postal Service facilities in their scheme to defraud the government.

Petcoke is a by-product of the petroleum refining process; and, although petcoke resembles coal, the two products are not interchangeable. Petcoke has a higher sulfur content than coal and specifically was prohibited in the corporation's contracts with TVA.

Our investigation and audit revealed that TVA purchased more than 145,000 tons of coal tainted with petcoke, at a value exceeding \$1.5 million, which the corporation purported to be coal meeting contract specifications.

The judicial proceedings are continuing, and we will report the results when they occur.

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 36 audit reports which identified over \$1.6 million in questioned costs and more than \$9.8 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 preaward and postaward audits of TVA contractors.

RECOMMENDATIONS FOR POTENTIAL COST SAVINGS IN CONTRACT NEGOTIATIONS

We conducted seven preaward audits to assist TVA management in negotiation of procurement actions. These audits identified opportunities for TVA management to negotiate savings totaling about \$8.8 million. Our preaward findings included suggestions for:

- Negotiating cost reimbursable contract terms and reducing or eliminating certain indirect cost markups.
- Adjusting proposed indirect cost rates, overhead rates, and certain wage rates to their actual costs.
- Adjusting proposed markup rates for payroll taxes, fringe benefits, and overhead costs to actual costs.
- Obtaining discounted hourly rates and other discounts provided to other customers.

During this reporting period, TVA management successfully negotiated total savings of \$1.5 million as a result of audits issued during this and previous reporting periods. TVA management is continuing negotiation of other contracts we audited during this reporting period.

CONTRACT COMPLIANCE AUDITS

We completed 14 contract compliance audits and questioned \$1.68 million in overbillings and excessive costs to TVA. Our audit findings included questioned costs related to:

- Material costs, fringe benefits, travel expenses, personnel labor cost while traveling, and billing errors.
- A cost reimbursable project being billed as a fixed price project, ineligible travel expenses, and other miscellaneous unsupported and/or unallowable costs.

- A duplicate subcontractor billing and an overstated subcontractor claim for overhead.
- Rebates to TVA prompted by our review.

Management generally agreed with our findings and has taken or plans to take action to recover questioned costs where appropriate.

GOVERNMENT PERFORMANCE AND RESULTS ACT OF 1993

We performed six audits pertaining to indicators provided by TVA to Congress as part of its strategic plan to comply with the Government Performance and Results Act. Our objective in each audit was to assess the adequacy and reliability of the information used to calculate the indicator. We determined in five of these audits the information used to calculate the indicators was adequate and reliable.

The review of the remaining indicator, TVA's Dam Safety Performance Indicator, determined that TVA could improve the reliability of its data sources and information systems and thus its compliance

with federal guidelines. In an effort to correct deficiencies identified by our audit, TVA management has implemented a new Dam Safety organizational structure and established three teams to map and correct key program components.

REVIEWS OF SECURITY AND ACCESS CONTROLS IN TVA SYSTEMS

We audited security and access controls for TVA Windows NT servers, sensitive information on TVA's Intranet and Internet sites, and non-TVA personnel in TVA's electronic mail system—Microsoft Exchange. Our objective in these audits was to ensure that adequate security and access controls were in place to protect TVA systems and information from unauthorized access.

We identified opportunities for improvement in security (1) for all of the Windows NT servers reviewed and (2) in the access to sensitive information through TVA's Intranet by non-TVA employees. Also, during the Microsoft Exchange audit, we identified opportunities for improvement in the areas of (1) compliance with TVA's security manual, (2) guidance given to

owners of information available through Microsoft Exchange, and (3) implementation of TVA procedures. TVA management is currently considering our recommendations.

YEAR 2000 READINESS

The OIG participated on a team that selected a consultant to perform an external assessment of TVA's year 2000 program. Based on the results of the consultant's assessment, we decided to perform independent reviews to determine if (1) mission-critical items reported as closed were supported by appropriate closure documentation and (2) continuity plans support operational readiness and safety.

We subsequently performed two audits of mission-critical items reported as closed and found these were supported by appropriate closure documentation. As of September 30, 1999, three OIG audits of TVA's year 2000 continuity plans were in progress.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP)

In August 1996, TVA established SERP for selected TVA executives to promote the recruitment and retention of executive talent. As of September 30, 1998, TVA had placed \$5.1 million in a trust for investment and subsequent payment of annuity benefits. To assist in making financial decisions related to such matters as SERP, TVA contracted with a private firm for actuarial services.

We found (1) the year-end actuarial calculations included multiple errors, but the errors were not viewed as material by management; (2) SERP activity was not recorded in accordance with the Financial Accounting Standard (FAS) 87, which governs employers' accounting for pensions; and (3) some SERP participants' statements showed inaccurate projected benefits. In responding to a draft of the report, TVA management said (1) TVA's accounting practice would be changed to comply with FAS 87 and (2) plan participants would be made more aware of the potential effect of offsets on SERP benefits.

During the last six months, we substantiated allegations in 20 of the 81 investigations we closed—over 24 percent. Our investigations resulted in over \$3.19 million in savings and recoveries, seven subjects indicted, and five convicted. In addition to investigations discussed previously in the special feature, other representative investigations are highlighted below.

Summary of Representative Investigations

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

To receive benefits through the Federal Employees' Compensation Act (FECA), recipients must periodically submit to the OWCP forms 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 \$1.53 million. Highlights of investigative results follow.

- A former TVA ironworker, while receiving permanent total disability benefits, owned and operated a full-service gasoline station. Based on our findings, the former TVA employee entered into a settlement agreement with the Department of Justice. (The agreement does not constitute an admission of guilt by the individual.) Under the terms of the settlement, the former employee paid the United States \$30,289.
- A former TVA boilermaker, while receiving total disability benefits, was engaged in property-management activities. Additionally, we found that over a period of years, the former employee avoided diagnostic procedures which were recommended by several physicians to determine the extent of his work-related injury. A recently conducted examination determined the former boilermaker had suffered no continuing disability from his injury at TVA. Subsequently, OWCP terminated his benefits, creating a long-term savings to TVA of \$839,056. (Federal prosecution was declined in favor of administrative action.)

- A former TVA laborer, while receiving permanent total disability benefits, was actively involved in harvesting and selling mussels. As a result of our inquiry (1) the former employee pled guilty in federal court to one count of making false statements to obtain FECA benefits and to one count of mail fraud; and (2) effective the date of the individual's guilty plea, OWCP terminated his benefits, creating a long-term savings to TVA of \$192,765. (The subject is awaiting sentencing.)

Additionally, as a result of our investigations, two former TVA employees were indicted by federal grand juries as follows.

- A former TVA cement mason, while receiving partial disability benefits, owned and was actively involved in a vinyl siding business. As a result of our investigation, the individual was indicted on three counts of making false statements to obtain FECA benefits and four counts of mail fraud related to receipt of those benefits.
- A former TVA pipefitter, while receiving disability benefits, was actually employed by three different businesses performing welding, fabricating, mechanic work, and general labor (operating mowers, farm equipment, and other machinery). The individual was indicted on two counts of making false statements to obtain FECA benefits and two counts of mail fraud related to receipt of those benefits.

EMPLOYEE MISCONDUCT

Our investigations of alleged employee misconduct included the following.

- A fossil plant employee, using TVA telephones while on duty, placed long-distance calls to sex-oriented telephone answering services, which primarily were located in the Caribbean. TVA was charged over \$16,000 for the calls. As a result of our investigation, the employee resigned and made full restitution to TVA. This case has been referred for prosecutive consideration.
- The OIG received a report of a TVA employee, who worked as an aircraft mechanic when off duty, possessing

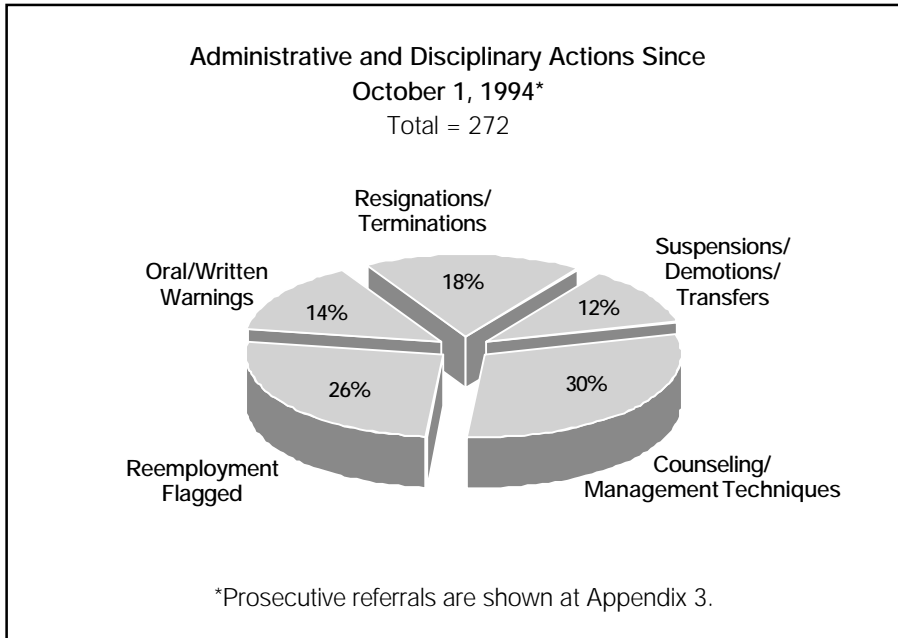
TVA tools in his personal aircraft hangar. Subsequently, the individual consented to a search conducted by OIG special agents. During that search, the agents found TVA tools. The OIG seized the tools, and as a result of our investigation, the individual's TVA employment was terminated.

- In a prior period, we reported that a former employee charged over \$4,000 on a TVA credit card (1) to rent a car for her personal use over a three-month period, (2) for personal food and entertainment, and (3) to pay a bail bondsman. (The employee was arrested for selling cocaine to a county undercover officer; she conducted the transaction from a TVA vehicle.) The individual subsequently pled guilty to theft of government property.

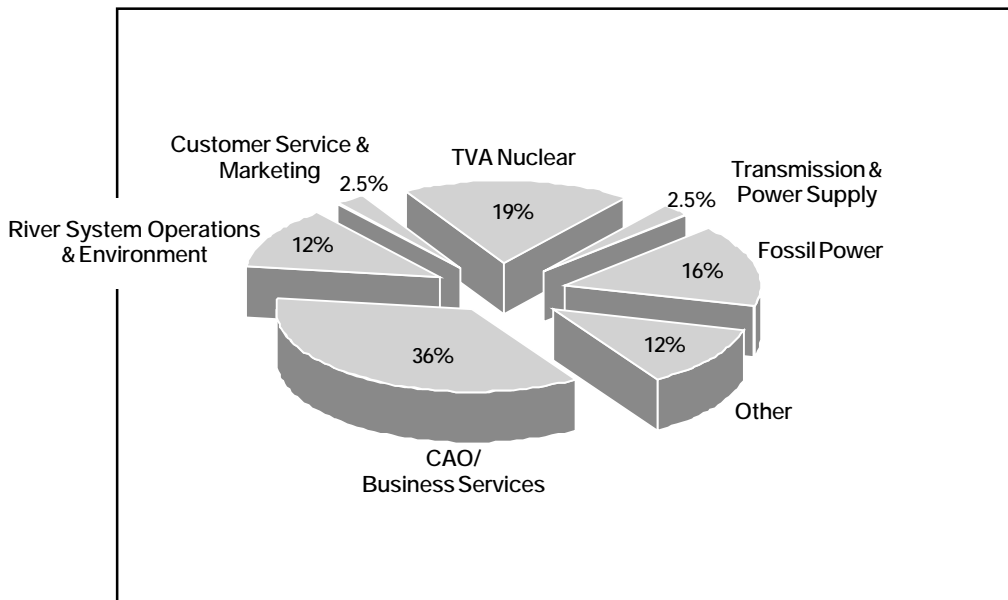
During this reporting period, this former TVA employee was ordered to pay full restitution to TVA (\$4,466), was placed on 42 months' probation, and was ordered to an inpatient drug-treatment facility for an indefinite period of time.

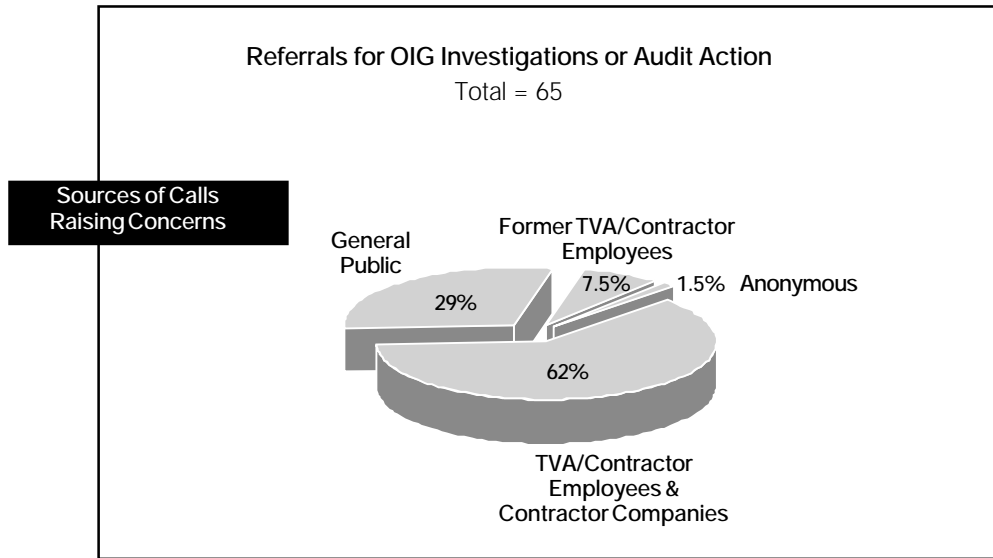
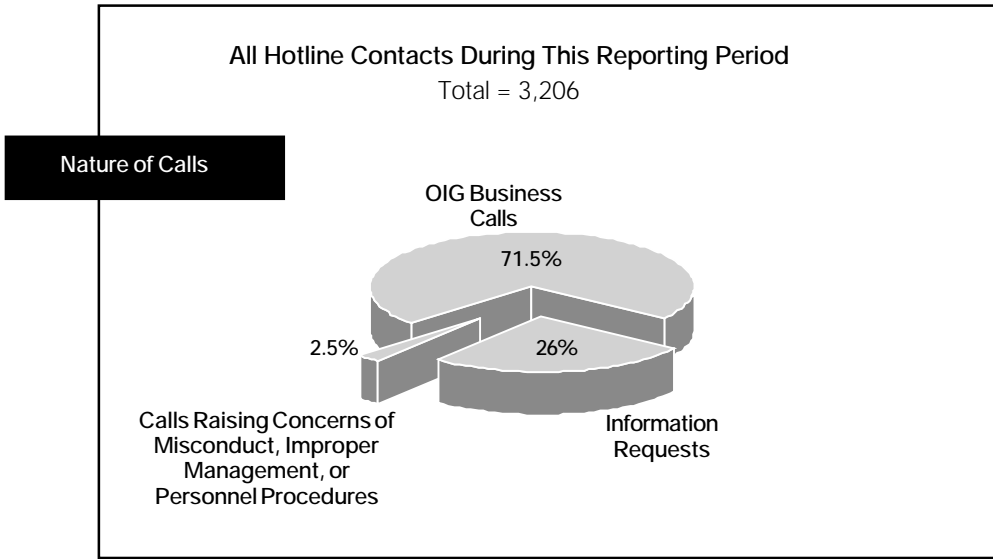
BACKGROUND INVESTIGATIONS

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 to perform these inquiries, rather than the United States Office of Personnel Management, TVA saved over \$2,000 per investigation during this reporting period.



The breakdown of the 81 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 11 special projects. The most significant projects are summarized below.

ECONOMY SURPLUS POWER (ESP) PROGRAM

ESP is an interruptible power program that provides some of TVA's direct-served and distributor-served customers the opportunity to purchase power with charges varying from hour to hour based on TVA's incremental cost of providing ESP.

We assessed whether TVA properly billed ESP customers during the summer of 1998 when a volatile power supply situation existed. Various allegations had been made concerning events that occurred related to TVA's handling of ESP customers, including charges that TVA made windfall profits at the expense of ESP customers.

We found TVA included the cost of forwards driven by market pricing as a component of the incremental cost for ESP customers and gave ESP customers \$9 million in rebates. TVA decided to give the rebates because some of TVA's gain on hourly off-system sales was attributable to TVA purchasing power to meet an ESP load that did not materialize due to self-curtailments in the face of high prices.

In our opinion, TVA did not make windfall profits at the expense of ESP customers. TVA's methodology for calculating ESP was reasonable, most of the charges represented cost recovery rather than profit, and TVA was not legally obligated to give the \$9 million in rebates. As a business matter, we believe TVA would have been justified in not giving any rebates. We did, however, identify several different types of pricing errors and discrepancies, including estimated overbillings totaling about \$1.6 million. TVA management is taking action to alleviate future problems and refund the overbillings.

DRAFT RISK POLICY

At the request of TVA's Board, we drafted a risk policy and standards for managing significant, enterprise-wide risks. The draft policy (1) provided for establishing a risk management organization, including a Chief Risk Officer position; (2) identified several areas of risk TVA should manage and suggested exposure limits; and (3) provided a mechanism for defining the Board's risk tolerance.

TVA's Board subsequently issued a TVA Risk Policy authorizing the creation of a Risk Management Committee, appointment of a Chief Risk Officer, and adoption of an enterprise-wide risk management approach. The Board also forwarded our suggested exposure limits to the Risk Management Committee for consideration.

TVA-WIDE INTELLECTUAL CAPITAL ASSESSMENT

At the request of TVA's Chairman, we assessed whether TVA is effectively managing its intellectual capital. Intellectual capital includes protected knowledge that provides an economic and competitive advantage. We found that TVA has several policies which address protection of sensitive information and proper use of computing resources. However, while these policies provide a foundation for protecting intellectual capital, our review disclosed opportunities for improvement. Those potential improvements include issuance of a policy, which could include additional strategies for protection and utilization, increased employee training and confidentiality agreements, and steps to further grow and use intellectual capital. TVA management is considering implementation of the suggestions.

During this reporting period, we reviewed several bills and proposed regulations relevant to the OIG community. These included a bill which would require agencies to conduct fraud recovery audits, proposed amendments to the Inspector General Act, and regulations involving health care investigations. We have worked with other Inspectors General in submitting comments through the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency.

■ APPENDICES

**OIG AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1999**

The following table summarizes final audit reports issued by the OIG from April 1 through September 30, 1999.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
4/7/99	1999-022C	Ingram Barge Company - Contract	\$60,000		
4/14/99	1998-058P	Review of Prescription Drug Program Administered by Blue Cross Blue Shield of Alabama	242,207		
4/28/99	1998-050F-01	Government Performance and Review Act of 1993 - Review of TVA's Dam Safety Performance Indicator			
4/28/99	1998-074C	ABB Environmental Systems - Preaward			\$6,710,000
4/28/99	1999-003C	Petroleum Source and Systems Group, Inc. - Contract	6,572		
4/28/99	1999-043F	Review of Environmental Research Center RCRA Cleanup			
4/28/99	1999-046F	Indus International, Inc. - Supply Chain Management Software - Preaward Audit			693,900
4/30/99	1999-040C	Preaward Audit of Carl E. Smith for Johnsonville Pipeline Project			105,600
5/6/99	1999-034F	Conventional Hydro Equivalent Availability Factor			
5/21/99	1999-049C	SAP Preaward Audit			788,000
5/25/99	1999-024F	Review of Access Controls Over Non-TVA Personnel and Organizations in Microsoft Exchange			
5/26/99	1999-014F	Windows NT Server Security Assessment			
6/1/99	1999-030P	Identification of Improper Vendor Payments			
6/8/99	1999-027C	Roberts & Schaefer	158,236		
6/8/99	1999-032C	Pacific Engineering Corporation - Subcontractor Under TVA's Contract With Siemens Power	5,700		
6/9/99	1999-038F	Year 2000 Critical Items Closure Documentation			
6/9/99	1999-052F	Capital Investment Leveraged			

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
6/24/99	1999-051C	Parsons Energy & Chemicals Group, Inc. - Preward Audit			\$566,000
7/6/99	1999-042C	Tennessee Mining, Inc. - Contract	\$(8,500)		
7/14/99	1999-048F	Review of Security Over Sensitive Information on TVA's Intranet and Internet Sites			
7/15/99	1999-035C	Chem Nuclear Systems LLC	21,887		
7/19/99	1999-060F	Flood Storage Availability Indicator			
7/21/99	1998-033P	Review of Supplemental Executive Retirement Plan			
7/22/99	1999-054P	Review for Duplicate Payments On J Contracts			
8/20/99	1999-036C	Vanguard Research, Inc.	23,737	\$23,737	208,489
8/25/99	1999-044C	McDaniel Fire Systems			662,000
8/30/99	1999-050C	Gilbert/Commonwealth - Contract	22,884		
9/1/99	1999-066F	Year 2000 Critical Items Closure Documentation for Items Closed After April 1, 1999			
9/3/99	1999-067F	Days Navigable Waterway Is Available From Knoxville to Paducah			
9/7/99	1999-064C	ABB Fixed Price Review - Shawnee Unit 10			103,010
9/16/99	1999-070C	Norfolk Southern - Contract 97P02-115608			
9/17/99	1997-001S	Total Quality Applications, Inc. - Contract	1,103,308	96,372	
9/17/99	1999-047C	Sargent & Lundy - Cost Review Contract			
9/20/99	1998-056C	Williams Power Corporation - Contract	42,068	10,474	
9/21/99	1999-059F	Capital Project Economic Results			
9/30/99	1999-073C	Preward Audit of Contract Extension for NPS Energy Services Contract			24,000
TOTAL	36		\$1,678,099*	\$130,583	\$9,860,999**

* Of this figure, \$632,990 is not recoverable.

** This figure includes \$788,000 identified in preaward audits of proposals for contracts that were not subsequently awarded.

**OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE
SIX-MONTH PERIOD ENDING SEPTEMBER 30, 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	\$130,764	0
B. Which were issued during the reporting period	11	1,678,099	\$130,583
Subtotal (A + B)	12	\$1,808,863	\$130,583
C. For which a management decision was made during the reporting period	1†	673,961	34,211
1. Dollar value of disallowed costs	11	672,677	34,211
2. Dollar value of costs not disallowed	1	1,284	0
D. For which no management decision has been made by the end of the reporting period	2**	1,134,902	96,372
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.

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

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	9	\$9,860,999
Subtotal (A + B)	9	\$9,860,999
C. For which a management decision was made during the reporting period	6	9,071,989
1. Dollar value of disallowed costs	3	7, 612,389
2. Dollar value of costs not disallowed	3	1,459,600
D. For which no management decision has been made by the end of the reporting period	3	789,010
E. For which no management decision was made within six months of issuance	0	0

INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	8	7 Indicted 5 Convicted 7 Referrals Declined
Subjects referred to other agencies for investigative or administrative action	4	OWCP reduced benefits of one individual and terminated benefits for two individuals. Additionally, OWCP declared \$85,532 forfeit on another individual. These actions resulted in combined long-term savings and restitution of over \$1.5 million.
TOTAL	12	

AUDIT REPORTS WITH CORRECTIVE ACTIONS PENDING

Final corrective actions on recommendations in four contract compliance audits from prior reports have not yet been fully implemented; however, all are being implemented in accordance with currently established milestones.

Report 1996-037C-01 issued August 11, 1998

The report contained one recommendation regarding the contractor's ability to produce adequate documentation for billed costs. TVA is assessing what action is needed.

Report 1996-037C-02 issued September 3, 1998

The report contained two recommendations—one regarding overpayments and one regarding the contractor providing supporting documentation for billed costs. TVA is pursuing recovery of overpayments and resolution of unsupported costs.

Report 1997-023F issued May 19, 1998

This report contained 13 recommendations regarding a contract between TVA and a state development agency. Those recommendations included:

- (1) Repayment to certain funds by the agency of ineligible and unsupported charges.
- (2) Adjustment of charges between funds.
- (3) Improvement in the approval process for fund withdrawals.
- (4) Keeping trust agreements current with the TVA contract.
- (5) Improvement of project control and accountability.

TVA has written a new contract which implements the audit recommendations. Execution of the contract is expected by December 31, 1999.

Report 1998-051C issued March 18, 1999

The report contained three recommendations, all regarding overbillings under the contract. TVA has resolved two of the recommendations and is negotiating recovery of overbillings noted in the third recommendation.

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	Page 18
Section 5(a)(1)	— Significant Problems, Abuses, and Deficiencies	Pages 5-17
Section 5(a)(2)	— Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 5-17
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 3
Sections 5(a)(5) and 6(b)(2)	— Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	— Listing of Audit Reports	Appendix 1
Section 5(a)(7)	— Summary of Particularly Significant Reports	Pages 8-17
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	None
Section 5(a)(11)	— Significant Revised Management Decisions	None
Section 5(a)(12)	— Significant Management Decisions With Which the Inspector General Disagreed	None

H I G H L I G H T S

	FOR SEMIANNUAL REPORTING PERIODS				
	SEPT 30, 1999	MAR 31, 1999	SEPT 30, 1998	MAR 31, 1998	SEPT 30, 1997
ANNUAL BUDGET (In Millions of Dollars)	7.3	7.3	7.3	7.3	7.3
CURRENT STAFFING	78	81	83	81	83
AUDITS & SPECIAL PROJECTS					
AUDITS IN PROGRESS					
Carried Forward	34*	40	46	40	34
Started	41	42	34	50	46
Canceled	(3)	(11)	(13)	(14)	(10)
Completed	(36)	(38)	(27)	(30)	(30)
In Progress at End of Reporting Period	36	33	40	46	40
AUDIT RESULTS (Thousands)					
Questioned Costs	\$1,678	\$1,137	\$1,769	\$1,191	\$552
Disallowed by TVA	673	946	1,656	636	530
Recovered by TVA	580	607	110	2,029	434
Funds to Be Put to Better Use	\$9,861	\$1,402	\$220	\$2,359	\$10,585
Agreed to by TVA	7,612	980	5,169	696	5,707
Realized by TVA	1,834	389	136	696	1,078
SPECIAL PROJECT RESULTS					
Completed	11	18	11	13	24
Cost Savings Identified/ Realized (Thousands)	0	0	\$14,704	\$843	\$5,700
INVESTIGATIONS					
INVESTIGATION CASELOAD					
Opened	88	59	78	78	56
Closed	81	66	81	74	77
In Progress at End of Reporting Period	140	133	140	144	139
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$1,772	\$1,145	\$284	\$946	\$481
Savings	1,422	1,912	3,388	645	9
Fines/Penalties	5	27**			
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	21	19	20	24	12
Actions Taken (# of Subjects)	17	11	22	12	14
Counseling/Management Techniques (# of Cases)	3	4	8**		
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred	8	4	12	11	15
Indicted	7	6	5	2	7
Convicted	5	9	9	6	3

* Adjusted from previous semiannual reports.

** Category added to Highlights during reporting period indicated.

