



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401

Richard F. Chambers
Inspector General

April 30, 2001

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

I am pleased to submit this semiannual report on the accomplishments of TVA's OIG for the six-month period ending March 31, 2001.

This reporting period has continued to reflect significant change for the OIG. Since my appointment as the Inspector General in August 2000, we have implemented a number of initiatives designed to enhance OIG performance and to ensure alignment of our goals and objectives with the needs of our stakeholders. We are currently undertaking development of a comprehensive strategic plan and have articulated an OIG vision of . . . *illuminating today's challenges and tomorrow's solutions*. We believe this vision will lead us not only to perform our traditional roles, but to identify emerging trends and challenges with potential impact on TVA and to offer solutions to our stakeholders.

On November 1, 2000, the President signed Public Law 106-422 designating the position of TVA Inspector General as presidentially appointed. I view this legislation as a strong step designed to ensure the TVA Inspector General is independent in appearance as well as in fact.

I appreciate the support TVA's Board of Directors has demonstrated on behalf of the OIG since my arrival. The Board has repeatedly affirmed its view that the office is independent and plays a vital role in promoting economy and efficiency within the agency. During the semiannual period, the Board approved an increase in the TVA OIG budget. This increase will permit me to enhance OIG technology, improve infrastructure, and increase the OIG staff for the first time in 13 years. This reverses a trend of declining OIG budgets and marks a near return to staffing levels existing in 1997.

During the next six months, we will continue our strategic planning process and implement changes in the OIG's structure and processes as warranted. In addition, I look forward to continuing and enhancing the relationships I have established with OIG stakeholders during my tenure as the TVA Inspector General.

Sincerely,

A handwritten signature in black ink that reads "Richard F. Chambers".

Richard F. Chambers

Integrated Management of the Tennessee River System

Featured on the cover is TVA's Hiwassee River in Cherokee County, North Carolina. The Hiwassee River is part of the Tennessee River system, which includes the Tennessee River and its 12 tributary watersheds. This system encompasses 41,000 square miles in seven states and is the fifth largest river system in the United States. It not only provides power to the Tennessee Valley, it is the backbone of a sustainable river-based economy. TVA manages the system to carefully balance six related public benefits—river navigation, flood control, power supply, water quality, land use, and recreation.

River Navigation — TVA's system of dams and locks provides uninterrupted navigation on 652 miles of the Tennessee River from above Knoxville, Tennessee, to Paducah, Kentucky, where it joins the Ohio River. River freight is handled at 183 public and private terminals across the region. Shipping by barge saves more than \$400 million each year over rail or truck shipping for products such as coal, grain, iron ore, chemicals, sand, and

stone. In addition, the locks provide passage to more than 20,000 recreational craft each year.

Flood Control — TVA's system of main channel and tributary dams is managed to control floods. Such use prevents an estimated \$173 million in damage each year in the Tennessee Valley, as well as another \$21 million in potential losses along the Ohio and Mississippi Rivers.

Power Supply — Hydropower, the most reliable, efficient, and economical of renewable power resources, is generated at 29 of TVA's 49 dams. The river system also provides water needed to cool six of TVA's fossil plants and three nuclear plants while maintaining water temperatures in compliance with state requirements.

Water Quality — Stored water is released from TVA dams to maintain water levels needed for water quality, as well as for navigation and recreation. More than four million people get their drinking water from the Tennessee River system. Water flow and dissolved oxygen are monitored, and public land is managed to protect water quality for the people, wildlife, and aquatic life that depend on this resource.

Land Use Management — TVA manages almost 11,000 miles of public shoreline to ensure compatible development of lakeside property for residential and commercial use.

Recreation — Over 293,000 acres of public lands and 480,000 acres of recreational lakes are managed to support wildlife and provide outdoor recreation, as well as to protect water quality. TVA also releases water from system reservoirs for white water rafting and other special recreational events. Water-based recreation on the Tennessee River system generates regional annual revenues of approximately \$2 billion from anglers, boaters, rafters, and other reservoir and river users.

TVA's integrated river management approach optimizes the river system's potential, carefully balancing these multiple benefits to citizens and the environment because to maximize one would be detrimental to the others. The OIG supports TVA's river management efforts through various reviews, including audits of dam safety and security, contract audits of commercial ventures on the lakes, and other reviews related to TVA shoreline management issues.

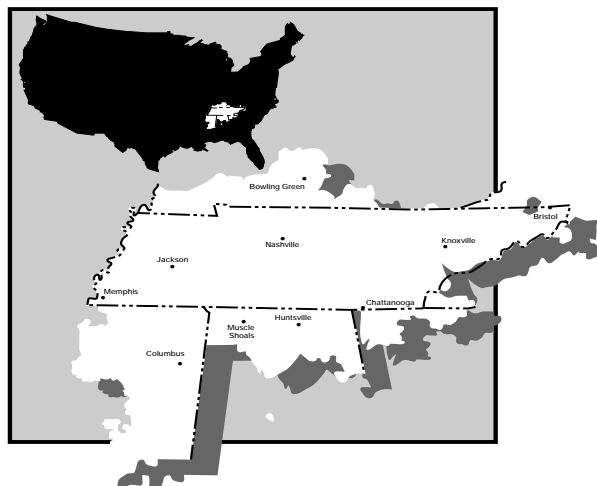
1	Executive Summary	7	Audits	OFFICE OF THE INSPECTOR GENERAL
2	TVA Profile	12	Investigations	SEMIANNUAL REPORT
3	Office of the Inspector General	20	Special Projects	OCTOBER 1, 2000 THROUGH MARCH 31, 2001
5	Special Features	22	Legislation and Regulations	

Appendices

1. OIG Audit Reports Issued During the Six-Month Period Ending March 31, 2001
2. OIG's Report on Management Decisions for the Six-Month Period Ending March 31, 2001
3. Investigative Referrals and Prosecutive Results
4. Audit Reports With Corrective Actions Pending
5. OIG Reporting Requirements

■ EXECUTIVE SUMMARY

<p><i>This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending March 31, 2001.</i></p>	<p>We continued our efforts to support TVA by providing quality audits, investigations, special projects, and task force assignments. During this reporting period, we identified almost \$74 million in recoveries, fines/penalties, potential savings, questioned costs, or funds which could be put to better use. Management took numerous actions in response to our recommendations.</p>	<p>ground transportation needs, and (7) review of internal controls over the revenue collection processes used by TVA's watershed teams. Representative special projects included: (1) a congressional advisory review of TVA's office space utilization and vacancy rates and (2) a program review of the TVA Concerns Resolution Program resulting in five assessment reports.</p>
	<p>We completed 43 audits and 13 special project reviews. We identified \$2.6 million in questioned costs and about \$70.4 million in funds that could be used more effectively. Representative audits included the following: (1) preaward and postaward contract audits, (2) a congressional advisory review of TVA's Executive compensation and benefits, (3) TVA's management of the decommissioning fund, (4) pre-implementation reviews of several system development projects in TVA's supply chain system, (5) an internal control review of agent officer payments, (6) review of TVA's program to meet</p>	<p>We closed 83 investigations, including task force projects, which led to \$997,106 in recoveries, projected savings, and fines/penalties; administrative or disciplinary action taken against 30 individuals; and other corrective action in 9 cases. Matters we investigated included potential workers' compensation fraud, environmental crimes, contractors' fraudulent claims for temporary living expenses, health care fraud, and employee misconduct. Our investigations also led to 19 indictments and 14 convictions.</p>



TVA is a federal corporation, the nation's largest wholesale producer of electric power, 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, 4 combustion turbine plants, and a pumped storage plant. These plants provide over 29,469 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. During this reporting period, Craven Crowell was the Chairman, and Skila Harris and Glenn L. McCullough, Jr., were Directors.

TVA's 13,121

*employees serve
an 80,000-square-
mile region
spanning seven
states.*

Organization

The OIG consists of two major operational units—Audit and Investigative.

The OIG's Audit Operations unit consists of four departments. One is devoted to contract-related audits, both preaward and postaward reviews; the other three departments focus, respectively, on (1) performance and special projects, (2) financial, and (3) 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. Financial Investigations focuses on contract and health care cases, while Internal Investigations focuses on nuclear issues, employee conduct issues, environmental cases, and benefits and entitlement programs. In addition, a hotline analyst reports to the Assistant Inspector General for Investigations.

Office Authority

TVA's OIG was originally created by the TVA Board of Directors in October 1985. The TVA OIG became statutory under the Inspector General Act Amendments of 1988. Those amendments established OIGs in 33 agencies, including TVA, where the agency head was to appoint the Inspector General. The OIG's duties and authorities at those agencies are, by force of law, virtually the same as those for offices having an Inspector General appointed by the President. With the enactment of Public Law 106-422 on November 1, 2000, the President was given the authority to appoint the TVA Inspector General.

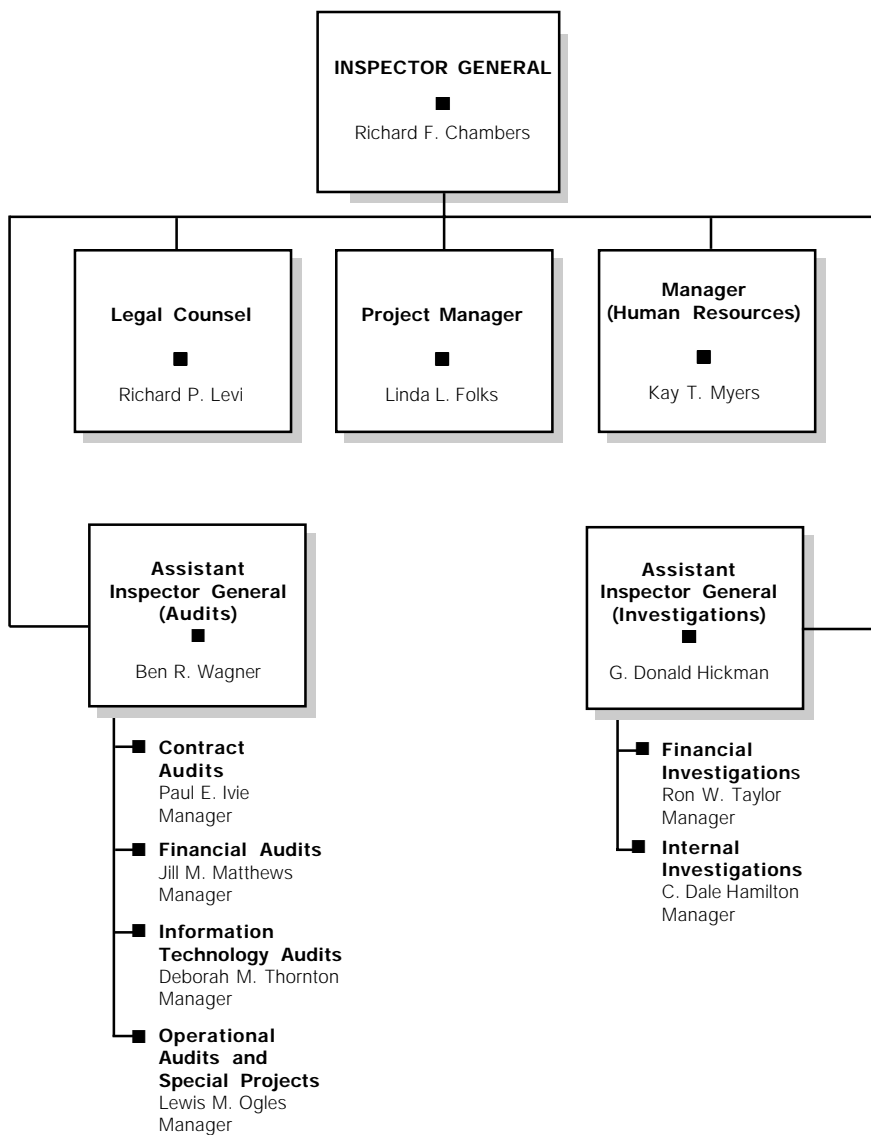
The Inspector General is responsible for conducting audits and investigations relating to TVA programs and operations, while keeping the TVA Board and Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations. TVA's Inspector General is independent and subject only to the general supervision of the TVA Board of Directors. The Inspector General's authority includes conducting any audit or investigation he deems necessary or desirable, issuing subpoenas, administering oaths, and granting confidentiality.

Staffing and Budget

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee. The OIG also has a satellite office in Chattanooga, Tennessee.

The OIG's fiscal year 2001 budget was \$8.6 million with a budgeted headcount of 90 employees.

OFFICE OF THE INSPECTOR GENERAL 3/31/01



OIG'S NEW VISION

During the first annual OIG training symposium (see next article), the Inspector General discussed the strategic planning process currently underway in the OIG. As part of that process, the

OIG has developed a new vision, which the Inspector General introduced during the symposium.

The strategic planning process continues, and we will report the results of that process in the next semiannual report.



*... illuminating today's challenges
and tomorrow's solutions ...*

FIRST ANNUAL OIG TRAINING SYMPOSIUM

During this reporting period, we held our first training symposium for OIG employees. Our theme focused on creating an effective team to address future challenges and opportunities facing both TVA and the OIG:

Opportunity (“a good chance for progress”)

Ingenuity (“cleverness or ability of design”)

Growth (“progressive development”)

Sessions during the three-day symposium included:

- Informative briefings,
- Training,
- Motivational talks, and
- Hands-on teambuilding exercises.

We were fortunate during this symposium to have as speakers Director Glenn L. McCullough, Jr., William M. Outhier (Senate Governmental Affairs Committee Investigative Counsel), TVA executives, motivational speakers, an Assistant United States Attorney, and representatives from other agencies. Topics included the following.

- During general sessions for all OIG employees, presentations included (1) competitive challenges facing TVA, (2) issues facing the Inspector General

community, (3) values in public service, (4) coping with change, and (5) personal accountability.

- Numerous breakout sessions also were offered on issues of interest to different groups, such as (1) audits and investigations in the cyber age, (2) financial fraud, (3) auditors and investigators working together, (4) creativity and maximum performance, (5) the audit profession’s future direction, and (6) public speaking.



Director Glenn L. McCullough, Jr.

Feedback from OIG employees indicated the symposium was a rousing success.

Comments about the speakers included terms such as “informative,” “thought-provoking,” “dynamic,” and “refreshing.”

Comments about the overall symposium included “excellent,” “ran like clockwork,” “great variety,” “morale booster,” “time well spent,” and “a great success.”

We plan to make this symposium an annual event, and we anticipate next year’s symposium will be even better.



William M. Outhier

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 43 audit reports which identified over \$2.6 million in questioned costs and over \$70.4 million in funds which could be put to better use (see Appendix 1).

Summary of Representative Audits

Our audits included preaward and postaward audits of TVA contractors as well as computer security reviews and performance reviews of TVA programs.

PREAWARD CONTRACT AUDITS

We completed eight preaward audits to support TVA management in negotiating procurement actions. These audits identified opportunities for TVA management to negotiate savings totaling \$15.1 million. As of the end of this reporting period, TVA had successfully negotiated \$10.7 million in savings and was negotiating additional potential savings totaling over \$4 million. The following were the more significant preaward audits we issued during this reporting period.

- We reviewed proposed non-manual labor and indirect cost rates of a prime contractor's affiliated companies under a \$151 million contract involving TVA's clean air initiatives. We estimated TVA could save \$10.7 million in affiliated company costs by using cost reimbursable contract terms and eliminating certain indirect cost markups.
- We reviewed a contractor's proposal to provide engineering studies and boiler pressure parts for TVA fossil plants. We estimated TVA could save up to \$3 million by (1) using lower priced material vendors, (2) negotiating a lower general and administrative rate, (3) limiting fabrication cost reimbursement, and (4) eliminating duplicate material cost and contingency allowances.
- We reviewed the various multipliers (i.e., the percentage of list price billed to TVA) and engineering labor rates proposed for an estimated \$11 million contract extension related to control systems and the Selective Catalytic Reduction projects at TVA's fossil plants. We estimated the contractor's proposal to directly bill TVA for engineering labor rather than include the costs in its hardware prices could increase TVA's total cost by about \$1 million.

CONTRACT COMPLIANCE AUDITS

During this reporting period, we completed 21 contract compliance audits and identified (1) \$2.5 million in ineligible and unsupported costs and (2) \$3.8 million in potential future savings. Management generally agreed with our findings and has taken or plans to take appropriate corrective action. Highlights of our more significant contract compliance audits follow.

- A communications contractor overcharged TVA about \$0.6 million on a \$3.7 million contract. The overbillings pertained to unallowable administrative fees and labor rate charges that exceeded the terms for the contract.
- A not-for-profit corporation that provided staff augmentation services to TVA recovered up to \$2.9 million in administrative costs on several prior contracts.
- A hydro modernization services contractor charged TVA a royalty fee that exceeded the company's actual rate. This resulted in about \$0.7 million in excessive charges to TVA from 1993 through 1999. We estimated TVA could save about \$0.5 million on future projects by negotiating a more appropriate royalty fee. We also found

TVA paid an additional \$0.7 million because the contract's pricing methodology was not followed.

REVIEW OF TVA'S EXECUTIVE COMPENSATION AND BENEFITS

At the request of Congressman Zach Wamp, we (1) identified the compensation and benefits provided to TVA's higher paid employees for calendar years 1997 through 2000 and (2) compared the cash-related compensation for some TVA executive positions to the compensation for similar positions at other utilities and federal/state agencies. In summary, we found the average cash-related compensation for TVA's five highest paid employees was lower than the average for the highest paid employees of the 24 utilities we surveyed. In comparison to six federal/state agencies we surveyed, TVA's cash-related compensation for five selected executive positions was higher than the average compensation paid to incumbents with similar position titles.

REVIEW OF TVA'S DECOMMISSIONING FUND

TVA established a nuclear decommissioning fund in the early 1980s to meet future nuclear plant decommissioning obligations. We assessed the reasonableness of TVA's internal controls and

the investment strategy being used to manage the fund. In summary, we found TVA's internal controls were adequate, and the investment strategy was sufficient to meet future decommissioning needs. We also found, however, that TVA's active investment strategy of using investment managers had actually resulted in a lower return for the fund over the four-year period covered by the audit than TVA would have received using a passive investment strategy. Assuming the same return for both investment strategies, we estimated the present value of converting to a passive strategy would save TVA up to \$49.9 million over the expected life of the fund through reduced management fees. TVA management has taken action to allocate more assets to passive investments.

PRE-IMPLEMENTATION REVIEWS

TVA has invested over \$20 million in two systems to process its purchases of materials, services, and fuels. To support this effort, the OIG developed a pre-implementation review plan to ensure key areas such as internal controls, security, testing, and system and data conversion were properly handled prior to implementation.

TVA management decided to postpone implementation of its Supply Chain System because of unresolved software and interface problems. We issued three reports conveying our findings to management. Specifically, we found the security and testing plans and procedures were adequate. In addition, we reported the majority of key controls were successfully tested. As implementation proceeds, we will continue our reviews and report to management on the adequacy of the designed internal controls and testing results.

On March 5, 2001, TVA implemented a new fuels management system (FMS). Our reviews of FMS security and testing found the security and testing plans, procedures, and results were adequate.

CONTROLS OVER AGENT OFFICER PAYMENTS

TVA uses agent officer checks as a mechanism for making quick, one-time or unique payments as an alternative to using purchasing cards or TVA's accounts payable system. We reviewed agent officer payments totaling \$21.5 million over a 2½ year period and identified several internal control weaknesses related to computerized data, documentation, and management

oversight. TVA management agreed with our findings and is taking action to improve its internal controls.

REVIEW OF TVA COAL QUALITY ADJUSTMENT REPORT (CQAR) PAYMENTS

TVA generates CQARs to calculate price adjustments for differences between contract specifications and actual delivered coal. During fiscal year 1999, TVA processed 511 CQAR transactions which resulted in price adjustments totaling about \$20 million.

We assessed the accuracy of a sample of 48 CQAR adjustments totaling \$8.5 million and identified about \$0.13 million in net overpayments to coal vendors. Based on these sample results, we estimated the total vendor overpayments for fiscal year 1999 to be about \$0.7 million. TVA management agreed with our findings and initiated action to recover the overpayments and institute automated controls to minimize the likelihood for future overpayments. TVA management subsequently collected \$85,652 from coal vendors.

REVIEW OF TVA'S CURRENT ARRANGEMENT FOR MEETING PERSONNEL GROUND TRANSPORTATION

Prior to fiscal year 1997, TVA's ground passenger transportation needs were predominantly met through a TVA-owned motor pool and assigned vehicle operation. In fiscal year 1997, TVA eliminated the motor pool and many assigned vehicles and moved to use of rental and leased vehicles.

We assessed the cost effectiveness of the current arrangement for meeting personnel ground transportation needs. We estimated the current arrangement cost about \$1.6 million more to own and operate annually than would a reestablished motor pool and assigned vehicle operation, provided an infrastructure similar to the operation in fiscal year 1996 could be achieved. We recommended TVA management take action to reduce costs by (1) negotiating lower rates with current or alternative vehicle suppliers or (2) reestablishing a motor pool operation with an infrastructure analogous to the fiscal year 1996 arrangement. TVA management disagreed with our findings. However, TVA management provided information about action items and initiatives currently underway which were consistent with the intent of our recommendation.

**REVIEW OF REVENUE
COLLECTION PROCESSES AT
TVA'S WATERSHED TEAMS**

TVA Resource Stewardship consists of watershed teams that manage a wide range of products and services, including the use of recreation areas, permits to construct various projects and facilities along TVA's river system, and utilization of TVA land for commercial or personal use. The watershed teams collected over \$3.3 million for these products and services in fiscal year 2000.

We assessed the adequacy of the internal controls for collecting revenue and identified several weaknesses. TVA management agreed with our findings and is taking appropriate corrective action.

**UNRESOLVED AUDIT REPORTS WHICH WERE
ISSUED PRIOR TO OCTOBER 1, 2000**

Listed below is one audit report which we issued before this reporting period began and for which no management decisions were made by March 31, 2001. We expect to report the management decision in our next semiannual report.

DATE ISSUED	REPORT TITLE	WHY MANAGEMENT DECISION HAS NOT BEEN MADE
06/16/00	Valmont Industries	TVA management is negotiating the audit findings and plans to report the result of the negotiations in April 2001.

During the last six months, we substantiated allegations in 23 of the 83 investigations we closed—over 27 percent. Our investigations, including task force projects, resulted in \$997,106 in recoveries, projected savings, and fines/penalties; 19 indictments; and 14 convictions. Representative investigations are highlighted below.

Summary of Representative Investigations

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

During this reporting period, our investigations of Federal Employees' Compensation Act (FECA) cases led to recoveries and projected long-term savings totaling over \$500,000. We investigated a variety of cases, and our results included evidence showing two recipients were not entitled to receive wage-replacement benefits since they were incarcerated felons, and others receiving wage-replacement benefits did not report their employment activities to OWCP as required.

Benefits Suspended—Incarceration

Under FECA, benefits cannot be provided to any individual confined to a correctional facility following a felony conviction. Our investigations revealed two former

TVA employees were incarcerated, and as a result, their benefits were suspended as follows.

- A former TVA construction laborer was incarcerated upon being convicted of (1) trafficking in a controlled substance (second degree) while in possession of a firearm and (2) possession of marijuana while in possession of a firearm. The former laborer was sentenced to 12 years' incarceration on the two charges. As a result of our investigation, OWCP benefits have been suspended during the individual's confinement, saving TVA a projected \$205,920.
- A former TVA boilermaker pled guilty to felony drug trafficking charges during June 2000 and was sentenced to seven years in prison. (He had been incarcerated since his December 1999 arrest.) Additionally, investigation revealed he was imprisoned approximately 9½ months during 1995 and 1996 on other felony drug convictions. OWCP declared an overpayment of \$12,269 to be deducted from the individual's future benefits. The overpayment, combined with projected long-term savings (based on his minimum date of prison release), totals at least \$66,071.

Loss of Benefits—False Statements

To receive benefits through the FECA, a recipient must periodically submit forms to OWCP reporting all employment activities (including self-employment). OWCP bases the recipient’s continuing eligibility for FECA benefits on these forms. Failure to disclose employment information to OWCP can bring about administrative, civil, or criminal penalties. Highlights of these investigations follow.

- A former TVA property maintenance worker was actively self-employed as a handyman and did not report those activities or earnings to OWCP. As a result of our investigation, OWCP reevaluated the individual’s capacity to work and reduced his compensation accordingly, resulting in a projected long-term savings to TVA of \$261,183.
- A former TVA boilermaker was the operator and primary employee of a boat repair business and did not report his activities or earnings to OWCP. As a result of our investigation, OWCP declared the individual was overpaid \$29,102, to be deducted from his future benefits.

(The United States Attorney, Eastern District of Tennessee, declined prosecution in these two cases in favor of administrative remedies.)

FALSE CLAIMS—TEMPORARY LIVING EXPENSES (TLE)

During this reporting period, we continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible TLE paid to TVA contractor employees.

One of our TLE investigations resulted in a financial settlement and improved processes for avoiding overpayments. We investigated TLE paid to employees of a contractor company working at TVA fossil plants. We found several employees received TLE to which they were not entitled. The company responded to our findings by contending, in part, that its employees’ interpretation of the agreement with TVA resulted in some of the TLE overpayments, and the contract did not require the company to check the veracity of all its employees’ TLE claims.

As a result of our investigation, TVA Procurement:

- Identified deficiencies within TLE policies and procedures in partnering agreements and will incorporate clarifications to help eliminate varying interpretations of the policies;
- Will closely monitor the eligibility-certification process of TVA’s contractors and request further investigation by contractors for TLE certifications that appear questionable; and

- Negotiated a \$71,033 settlement with the contractor company for overpayments related to our findings.

TVA COMPUTER-NETWORK SECURITY

Our investigation revealed that 16 employees and 1 contractor in 4 TVA organizations violated TVA policy by participating in a University of California at Berkeley project which involved installing a screensaver program called "SETI [Search for Extraterrestrial Intelligence] @home" on their TVA computers. Fifteen of these individuals were members of TVA's Information Services (IS) organization.

The University of California at Berkeley is engaged in analyzing radio-telescope data from space in a search for signals transmitted by extraterrestrial intelligence. As the task of analyzing this data consumes an extraordinary amount of computer memory, the SETI@home project solicits internet users to download its screensaver program, which analyzes SETI data while the users' computers are idle. (It is estimated that thousands of internet users are participating in SETI@home.)

Although we found no evidence the program caused damage to TVA's computer network, the network's link with the SETI@home web site opened a

channel of communication through TVA's computer security firewall, which could have resulted in TVA's network being exploited by hackers. Furthermore, any virus or corruption incurred by the University of California at Berkeley system could possibly have been introduced into TVA's network.

Seventeen employees were given oral warnings as a result of our investigation of the SETI downloads. Additionally, TVA's IS organization instituted an action plan to heighten computer security awareness. The plan included declaring November 2000 "Computer Security Awareness Month" TVA-wide. During November, IS sponsored a computer security awareness poster contest, a computer security quiz, and an "IT Security Tip of the Day" published to TVA employees in our daily e-mail "TVA Today."

FOSSIL PLANT MANAGEMENT ISSUES

Approximately 100 Kingston Fossil Plant (KIF) Production Units employees signed letters to the TVA Chairman, the Government Accounting Office, and the United States Secretary of Labor raising various issues at KIF. In addition, the OIG received a similar list of concerns. The concerns primarily involved alleged

management misconduct surrounding leave issues, such as alleged harassment of employees who took sick leave.

We interviewed 24 KIF employees and supervisors and reviewed relevant documentation, policies, and laws. Although evidence did not show management misconduct, it indicated the allegations regarding leave issues were symptomatic of different underlying concerns such as resource constraints, communication problems, and poor morale.

As a result of our investigation, management notified us they were taking action related to our recommendations as follows:

- Providing guidance and clarification on leave policies to supervisors and employees, including distributing sick leave guidelines and holding meetings to communicate expectations.
- Taking directed action to improve communications and morale, including holding quarterly “all hands” meetings and having regular plant visits by the Fossil Power Group’s executive and senior vice presidents.
- Determining if further management action is warranted to address concerns raised by employees we interviewed during our investigation.

ENVIRONMENTAL CRIMES JOINT TASK FORCE (ECJTF)

We continued our participation in the ECJTF, which is comprised of members from numerous state and federal agencies, including the Federal Bureau of Investigation (FBI), Environmental Protection Agency, Department of Justice, and TVA’s OIG.

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 the task force’s work include the following.

Company Hired Unauthorized and Inadequately Trained Immigrants to Remove Asbestos—Guilty Pleas

Investigation revealed that from 1997 to February 2000, a Chattanooga-based company, with offices in Denver and Baton Rouge, hired unauthorized immigrants from Mexico and Central and South America to remove asbestos in locations across the United States. Many of the unauthorized workers were not properly trained in asbestos removal, and many received false training and health certifications.

At the company's Denver office, asbestos abatement classes were taught in Spanish. These classes, required by federal and state law to prepare workers to handle asbestos, were actually used to recruit workers known to be in the country illegally. During the classes, the instructor told workers to cooperate with the circumvention of safety procedures and to throw asbestos in immigration agents' faces before running away from them.

As a result of the ECJTF investigation,

- In federal courts located in Tennessee, Colorado, and Louisiana, the company pled guilty to a total of 18 criminal counts charging various offenses, including conspiracy, wire fraud, money laundering, making a false statement and a false claim, and encouraging and inducing unauthorized aliens.
- The company president and vice president pled guilty to conspiracy, wire fraud, and encouraging and inducing unauthorized aliens.
- A managerial employee in the Denver office pled guilty to encouraging and inducing unauthorized aliens, wire fraud, false statements, and false claims.
- The Denver and Baton Rouge office managers and the Chattanooga payroll clerk each pled guilty to a

misdemeanor count of engaging in a pattern and practice of knowing employment of unauthorized aliens.

Fish Kill—Guilty Plea

During the previous reporting period, a Kentucky coal company and one of its officers pled guilty (one count each) to violating the Clean Water Act.

The company violated the terms of a permit covering a mining and reclamation operation in Campbell County, Tennessee. Investigation revealed the company improperly pumped mine wastewater into a nearby creek, adversely altering its pH levels and reducing the oxygen in the creek. A significant number of dead and dying fish were found 200-300 feet downstream from the discharge point. (The mining company officer admitted responsibility for the discharge, and the pumping was immediately stopped.)

During this reporting period, the company and its officer were sentenced in federal court. They were ordered to pay a total of \$20,000 in fines. In addition, the company voluntarily agreed to contribute \$230,000 to state and federal agencies for cost recoveries, contributions to various environmental projects, and funding for continued enforcement of environmental laws.

**SIX TVA OIG EMPLOYEES
RECOGNIZED BY FBI DIRECTOR
LOUIS J. FREEH**

Special Assignment

An OIG special agent was recognized for a special assignment in conjunction with an FBI investigation.

For the OIG special agent’s significant contribution to the investigation, he received a certificate from Director Freeh in recognition of his commendable performance.

Environmental Crimes—Guilty Pleas

Five TVA OIG employees participated in an extensive ECJTF investigation resulting in a Bradley County, Tennessee, construction company, its owner, and a company foreman each pleading guilty to various environmental crimes. Upon sentencing, the company could be ordered to pay over \$800,000 in fines and reparations.

TVA OIG employees were presented certificates of recognition from Director Freeh for their contributions to the investigation as follows.

- TVA OIG Senior Special Agent Joseph P. Boehr was recognized for his contribution as co-case agent in this matter, bringing together the

many facets of the investigation, including lengthy surveillance and undercover activities.

- Senior Special Agents Andrew R. Derryberry and Michael G. Duncan, and former department Manager James M. Reed were recognized for the many hours worked on the physical surveillance of the company both before and during the undercover operation and for their assistance in the complex search warrant.
- Assistant Inspector General for Investigations G. Donald Hickman was recognized for providing management oversight and direction on the case.

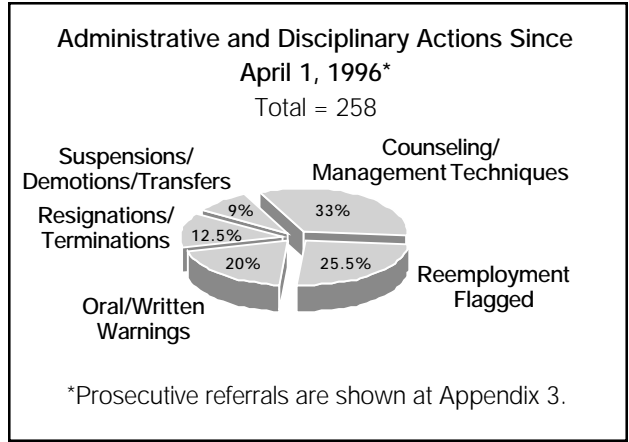
The investigated company specialized in bridge construction and bid on local, state, and federal government construction projects. The company performed maintenance on its own heavy equipment, e.g., cranes, barges, and cement mixers. Maintaining the equipment included repairing and repainting, which was done at the construction company’s site.

Evidence showed that, at the direction of company management, paint shop employees cleaned paint guns and hoses with solvent which was ultimately poured into a 55-gallon drum. When the drum became partially full, it was taken to a

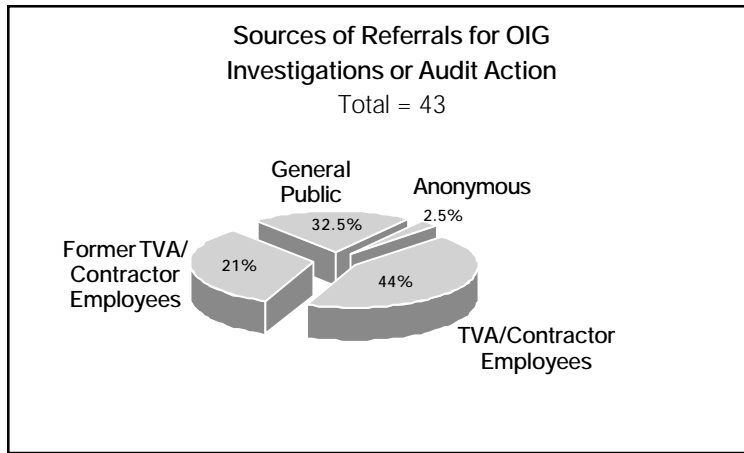
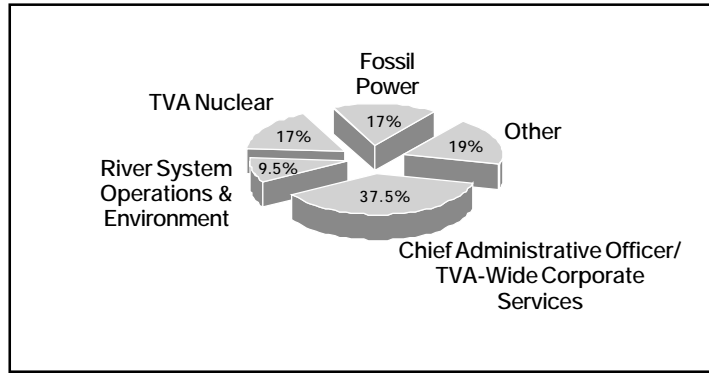
burn pit at the construction company's site and poured onto wood and other refuse for burning. After the solvent was poured onto the pit's contents, it was allowed to sit for several days before being ignited because it was highly flammable. Varying quantities of paint-gun solvent and paint waste were disposed into the pit periodically and burned approximately every other week for many years.

The company pled guilty to one count of knowingly treating, storing, or disposing of a hazardous waste without a permit in violation of the Resource Conservation and Recovery Act. The owner pled guilty to one count relative to the improper disposal of a hazardous waste committed by his company. The foreman pled guilty to being an accessory after the fact relative to failing to complete the appropriate documentation for disposal of the material.

The subjects are awaiting sentencing.



The breakdown of the 83 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 stakeholders, primarily the Board of Directors, TVA management, and Congress. During this reporting period, we conducted 13 special projects. Representative projects are highlighted below.

TVA OFFICE SPACE UTILIZATION AND VACANCY RATES

At the request of Senator Jeff Sessions, we reviewed the status of TVA's office space and vacancy rates, including the recently occupied space in the Highland Ridge Tower (HRT) in Nashville, Tennessee. Our report addressed (1) the status of TVA office space in Knoxville, Chattanooga, and Nashville, Tennessee, and Huntsville and Muscle Shoals, Alabama; (2) TVA's role in constructing the HRT office space; (3) the cost of the HRT office space as compared to the space previously occupied by TVA in Nashville; and (4) the status of the previously occupied Nashville office space.

CONCERNS RESOLUTION PROGRAM

TVA's Concerns Resolution Program is designed to help ensure all TVA and contractor employees supporting TVA's nuclear facilities "are free to express

safety issues, concerns, or opinions to management and that such expressed issues, concerns, or opinions are timely and adequately considered and resolved." In support of this effort, we periodically survey TVA and contractor employees and review closed case files to assess the effectiveness of the program. As discussed below, we completed five reviews of the Concerns Resolution Program during this reporting period.

- We assessed the overall effectiveness of TVA's Concerns Resolution Program by (1) interviewing 249 TVA and contractor employees concerning their willingness to report nuclear safety and quality issues, (2) reviewing closed case files, and (3) tracking the number of allegations recorded by the Nuclear Regulatory Commission involving TVA's nuclear program. Based on our findings, we concluded the fundamental mission of the Concerns Resolution Program was being met.
- We assessed the willingness of TVA and contractor employees at TVA's Browns Ferry Nuclear Plant to report nuclear safety and quality issues by randomly surveying 228 of the 1,312 TVA and contractor employees who had plant access. The responses we received were generally positive and

compared favorably to the responses we received from the overall assessment.

- We assessed the willingness of the security employees provided by a TVA contractor to report nuclear safety and quality issues by randomly surveying 82 of the 215 employees in this group. Although these employees said they would report nuclear safety or quality issues through some avenue, the responses to other survey questions varied significantly from the responses we received in our overall assessment. In summary, we concluded the nuclear security workforce was less comfortable raising nuclear safety or quality issues than employees and contractors included in the overall assessment.
- We assessed the willingness of TVA's Sequoyah Nuclear Plant Radiological Control employees to report nuclear safety and quality issues by randomly surveying 25 of the 56 employees in this group. The responses we received were generally positive and compared favorably to the responses we received from the overall assessment.
- We assessed the willingness of TVA's Watts Bar Nuclear Plant instrument maintenance employees to report nuclear safety and quality issues by randomly surveying 23 of the 53 employees in this group. The responses we received from this group were generally not as positive on key questions as those we received from the overall assessment.

During this reporting period, Congress enacted S. 1707 which, among other things, made the TVA Inspector General a Presidential appointment. That bill became Public Law 106-422, which was effective November 1, 2000. This legislation makes the appointment of TVA's Inspector General consistent with the appointment of Inspectors General at other large agencies. Until a Presidential appointment is made, the TVA Inspector General continues to operate as an agency-appointed Inspector General.

We also continued to follow other issues of interest to the OIG and TVA, including the Government Information Security Act, legislation to amend the Inspector General Act, various proposals to deregulate the electric industry, and medical privacy regulations.

■ APPENDICES

**OIG AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING MARCH 31, 2001**

The following table summarizes final audit reports issued by the OIG from October 1, 2000 through March 31, 2001.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
10/17/2000	2000-083C	Bodine, Inc.			
10/19/2000	2000-027C	Voith Hydro, Inc. - Contract 93PBL-79099E	\$1,418,000		\$505,000
10/31/2000	2000-063F-02	Agent Officer Payments for Gift Certificates			
11/02/2000	2000-029C-06	Hydrochem Industrial Services, Inc.			
11/02/2000	2000-070C	Alstom Power, Inc. - Affiliated Companies - SCR Alliance Project			10,653,385
11/06/2000	2000-080C	Roberts & Schaefer Contract 95P6G-79124H, 7th Supplement			
11/06/2000	2000-081C	Valmont Steel Poles			305,000
11/15/2000	2000-078C	CDI Information Services	20,072		
11/27/2000	2001-002C	C2 Creative - Contracts 98BKX-234018-00 and 99BPQ-246817-00			
11/28/2000	2000-091C	Foster Wheeler Energy Corporation - Proposal			3,029,400
11/28/2000	2001-003C	Marconi Communications (formerly Fore Systems, Inc.)			
12/14/2000	2000-089C	Shook & Fletcher Insulation Co.	1,999		
12/14/2000	2001-017C	Waste Management			
12/18/2000	2001-016C	Trans-Cycle Industries			
01/02/2001	2000-088F	Independent Contractor Versus Employee Review			
01/05/2001	2000-084C	Zycron Computer Services			
01/19/2001	2000-059C	Media South, LLC	583,973		
01/25/2001	2000-076C	National Systems and Research	15,591		
01/25/2001	2000-082C	Kinder Morgan - Contracts 97P02-204503, 97P03-221681, and 00P03-260045			

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
01/26/2001	2001-024C	Performance Bond Payment for Contract 00NNQ-258310-000 With Holtec International	\$97,831	\$97,831	
01/30/2001	1999-025P	Review of TVA's Current Arrangement for Meeting Personnel Ground Transportation Needs			\$1,600,000
02/01/2001	2000-039F	Pre-Implementation Review of Supply Chain System Internal Controls			
02/05/2001	2000-049C	ABB Automation, Inc. (formerly Bailey Controls Company)			1,056,000
02/07/2001	2000-031C	Scientific Sales, Inc.	319,447	263,241	
02/13/2001	2001-005F	Pre-Implementation Review of Security for TVA's New Supply Chain System			
02/15/2001	2000-058F	Review of TVA's Decommissioning Fund			49,900,000
02/15/2001	2000-066C	Bicentennial Volunteers, Inc.			2,996,797
02/23/2001	2000-016P	Review of TVA Coal Quality Adjustment Report Payments	134,415		
02/26/2001	2001-011P	Review of TVA's Executive Compensation and Benefits			
02/27/2001	2001-027C	Computer Horizon's Corp. - Preaward Audit			247,000
03/06/2001	2000-054F	Pre-Implementation Review of System Testing for Supply Chain System			
03/06/2001	2000-074F	Review of Revenue Collection Processes at TVA's Watershed Teams			
03/07/2001	2000-063F	Controls Over Agent Officer Payments			
03/07/2001	2001-013C	University of Colorado - Contract TV-96003V			
03/07/2001	2001-030C	Preaward Audit of CDI Information Technology Services Response to TVA RFP4P-267604			109,000

Appendix 1

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
03/12/2001	2000-079C	Review of Motion Industries, Inc. Contract 98XA1-208664	\$21,223	\$21,223	
03/12/2001	2001-031C	Zycron Computer Services			
03/13/2001	2001-041F	Verification of Summarized Federal Agencies' Centralized Trial-Balance System (Facts) Data			
03/14/2001	2001-009F	Pre-Implementation Review of Fuels Management System Security			
03/21/2001	2001-038C	Chemical Waste Management, Inc.			
03/28/2001	2000-068C	Review of Revised Craft Labor Rates As Per the PMMA Schedule Effective May 22, 2000			
03/28/2001	2001-029C	Science Applications International Corporation			\$20,182
03/30/2001	2001-008F	Pre-Implementation Review of Fuels Management System Testing			
TOTAL	43		\$2,612,551	\$382,295	\$70,421,764

**OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE
SIX-MONTH PERIOD ENDING MARCH 31, 2001**

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	2	\$1,409,712	\$480,712
B. Which were issued during the reporting period	9	2,612,551	382,295
Subtotal (A + B)	11	\$4,022,263	\$863,007
C. For which a management decision was made during the reporting period	10*	3,093,263	863,007
1. Dollar value of disallowed costs	9	3,009,826	843,167
2. Dollar value of costs not disallowed	3	83,437	19,840
D. For which no management decision has been made by the end of the reporting period	1	929,000	0
E. For which no management decision was made within six months of issuance	1	929,000	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	11	70,421,764
Subtotal (A + B)	11	\$70,421,764
C. For which a management decision was made during the reporting period	7*	67,409,764
1. Dollar value of disallowed costs	6	37,449,582
2. Dollar value of costs not disallowed	2	29,960,182
D. For which no management decision has been made by the end of the reporting period	4	3,012,000
E. For which no management decision was made within six months of issuance	0	0

* The total number of reports differs from the sum of C.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	20	19 Indictments 14 Convictions 7 Referrals Declined
Subjects referred to other agencies for investigative or administrative action	2	OWCP reduced or suspended benefits of, and/or claimed overpayment for, four individuals, creating recoveries and projected savings totaling \$562,276.
TOTAL	22	

AUDIT REPORTS WITH CORRECTIVE ACTIONS PENDING

Final corrective actions in two contract compliance reports and three operational audits have not yet been fully implemented.

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 has not reached final settlement with contractor.

Report 1996-037C-02 issued September 03, 1998

The report contained two recommendations—one regarding overpayments and one regarding the contractor providing supporting documentation for billed costs. TVA has not reached final settlement with contractor.

Report 1999-028P issued January 28, 2000

The report contained two recommendations regarding TVA's Environmental Executive authorizing Environmental Auditing to (1) perform environmental management system reviews and (2) follow up on corrective actions and assess closure decisions. TVA is currently implementing their planned actions.

Report 2000-021F issued March 17, 2000

The report contained two recommendations regarding the internal controls associated with Material Safety Data Sheets. TVA has resolved one of the recommendations and is implementing their planned actions for the other recommendation.

Report 2000-073P issued September 11, 2000

The report contained five recommendations regarding the internal control over physical inventories. TVA is currently implementing their planned actions.

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 22
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 5-21
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 5-21
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) — Summary of Instances Where Information and 6(b)(2) Was Refused	None
Section 5(a)(6) — Listing of Audit Reports	Appendix 1
Section 5(a)(7) — Summary of Particularly Significant Reports	Pages 7-21
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	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

	MAR 31, 2001	SEPT 30, 2000	MAR 31, 2000	SEPT 30, 1999	MAR 31, 1999
ANNUAL BUDGET (In Millions of Dollars)	8.6	7.2	7.2	7.3	7.3
CURRENT STAFFING	74	77	79	78	81
AUDITS & SPECIAL PROJECTS					
AUDITS IN PROGRESS					
Carried Forward	43	48	36	34*	40
Started	52	38	59	41	42
Canceled	(7)	(8)	(2)	(3)	(11)
Completed	(43)	(35)	(45)	(36)	(38)
In Progress at End of Reporting Period	45	43	48	36	33
AUDIT RESULTS (Thousands)					
Questioned Costs	\$2,613	\$1,800	\$952	\$1,678	\$1,137
Disallowed by TVA	3,010	379	820	673	946
Recovered by TVA	821	390	1,333	580	607
Funds to Be Put to Better Use	\$70,422	\$12,862	\$5,296	\$9,861	\$1,402
Agreed to by TVA	37,450	12,499	5,509	7,612	980
Realized by TVA	30,918	17,340	5,775	1,834	389
SPECIAL PROJECT RESULTS (Thousands)					
Completed	13	8	12	11	18
Cost Savings Identified/Realized	0	\$233	\$345	0	0
INVESTIGATIONS					
INVESTIGATION CASELOAD					
Opened	86	132	107	88	59
Closed	83	99	111	81	66
In Progress at End of Reporting Period	173	170	137*	140	133
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$214	\$179	\$3,758	\$1,772	\$1,145
Savings	532	521	988	1,422	1,912
Fines/Penalties	250	11	25	5	27**
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	14	13	21	21	19
Actions Taken (# of Subjects)	30	11	13	17	11
Counseling/Management					
Techniques (# of Cases)	9	6	5	3	4
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referrals	7	32	7	8	4
Indictments	19	5	6	7	6
Convictions	14	5	9	5	9

* Adjusted from previous semiannual reports.

** Category added to Highlights during reporting period indicated.