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*S e m i a n n u a l R e p o r t*

# Office of the Inspector General



**October 1, 2001 ~ March 31, 2002**





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

G. Donald Hickman  
Inspector General (Acting)

April 30, 2002

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

I am pleased to submit this semiannual report on the accomplishments of the OIG for the six-month period ending March 31, 2002.

It is a privilege to serve as the Acting Inspector General at TVA during this time. Following the tragic events of September 11, 2001, we expanded our efforts to ensure the security and safety programs TVA has in place are adequate. We also have continued our efforts to achieve our strategic objectives. Those objectives include focusing on high risk areas, leveraging resources to optimize productivity and results, enhancing communications with stakeholders, and delivering services that meet stakeholder needs.

I appreciate the support I have received as Acting Inspector General from OIG employees, the TVA Board, and our other stakeholders. The OIG's efforts during this reporting period have been well received and have contributed in many ways toward helping TVA achieve its goals.

I look forward to further serving Congress, TVA, and our other stakeholders.

Sincerely,

A handwritten signature in black ink that reads "G. Donald Hickman". The signature is written in a cursive style with a large initial "G".

G. Donald Hickman

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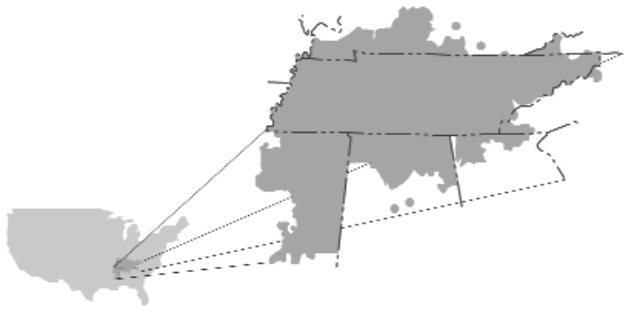
During this reporting period, we continued our efforts to support TVA through quality audits and investigations. Our reviews aligned with (1) the need to ensure security and safety at TVA, (2) agency-wide principles set forth in the President's management agenda, and (3) our strategic plan.

We believe our efforts helped TVA management avoid unnecessary costs, recover funds, and correct identified weaknesses. Also, in many instances, our efforts helped confirm that many programs were working effectively. In total, we identified over \$35 million in recoveries, fines/penalties, potential savings, questioned costs, or funds which could be put to better use. A large portion of these funds resulted from our preaward audits, where we identified potential savings for management to use in negotiating contracts.

We completed 40 audits and 12 nonaudit service engagements during this reporting period. These reviews included

(1) preaward and postaward contract audits, (2) other financial-related audits, (3) performance reviews of TVA operations, and (4) information technology reviews. Corrective actions in response to our audits included monetary recoveries, process improvements, and security enhancements. Nonaudit engagements were conducted primarily in support of procurement activities.

We also closed 114 investigations, including multi-agency task force projects, which led to over \$1.4 million in recoveries, projected savings, and fines/penalties; administrative or disciplinary action against 6 individuals; and other corrective action in 15 cases. Our investigations led to several referrals to TVA's Designated Agency Ethics Official. Matters we investigated included alleged workers' compensation fraud, contractor claims for temporary living expenses, environmental crimes, health care fraud, and employee misconduct. Our investigations also led to five individuals or entities being indicted and three convicted.



TVA is a federal corporation established in 1933 to provide flood control, navigation, and electric power in the Tennessee Valley region. Today, TVA is the nation's largest public power company and a regional development agency that supplies low-cost reliable power, supports a thriving river system, and stimulates sustainable economic development in a service area that covers 80,000 square miles in the Southeastern United States, including almost all of Tennessee and parts of Mississippi, Kentucky, Alabama, Georgia, North Carolina, and Virginia.

TVA generates power at 11 coal-burning plants, 3 nuclear plants, 29 hydroelectric dams, and 1 pumped storage plant. TVA also produces energy from three renewable sources—sun, wind, and methane gas from waste. It provides electric power to 158 local power distributors, 54 large industries, and 8 federal agencies through a network of 17,000 miles of transmission lines.

TVA manages the nation's fifth largest river system. TVA's dams are part of a totally integrated resource management system where each dam operates in relationship to the others, and they are used for multiple purposes and public

benefits. These include navigation, flood control, power supply, land use, water quality, and recreation.

TVA also contributes to the Valley economy, chiefly by keeping power rates competitive, which helps attract and retain industries that provide quality jobs in the region. TVA also helps communities promote sustainable economic development by providing assistance in job creation and retention and productivity improvements via capital investment, support of business incubators, specialized technical services and advice, and recruitment for new and existing industries.

TVA's power system pays its own way by selling electricity and issuing bonds. The system does not use tax dollars. In addition, TVA no longer receives congressional appropriations to help fund its activities in navigation, flood control, environmental research, and land management. These programs are now funded by power revenues.

TVA is governed by a three-member Board of Directors. Directors are appointed by the President and confirmed by the Senate. Glenn L. McCullough, Jr., is Chairman, and Skila Harris and Bill Baxter are Directors.

## Office Authority

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TVA's OIG was created by the TVA Board of Directors in October 1985. It became statutory under the Inspector General Act Amendments of 1988. Those amendments established OIGs at TVA and 32 other agencies with Inspectors General appointed by the agency heads. The authority to appoint the TVA Inspector General was transferred to the President in November 2000 by Public Law 106-422.

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 TVA's 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 audits or investigations the Inspector General deems necessary or desirable, issuing subpoenas, administering oaths, and granting confidentiality to individuals who provide information to the OIG.

## Organization

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The OIG consists of two major operational units—Audits and Investigations.

OIG Audits consists of four departments—(1) Advisory Services, focusing on preaward audits and management and congressional request work; (2) Corporate Operations and Control, focusing on contract compliance reviews and corporate programs; (3) Energy Operations, focusing on TVA core business operations; and (4) Information Technology, focusing on computer security and system reviews and managing the OIG's independent computer network.

OIG Investigations consists of three departments—(1) Business Integrity, focusing on nuclear issues, workers' compensation fraud and abuse, employee misconduct, and OIG employment suitability background investigations; (2) Business Protection, focusing on contract fraud, contract-related misconduct, and environmental crimes; and (3) Computer Crimes and Electronic Commerce, focusing on computer intrusion and fraud issues, health care fraud, and workplace violence prevention.

## Strategic Plan

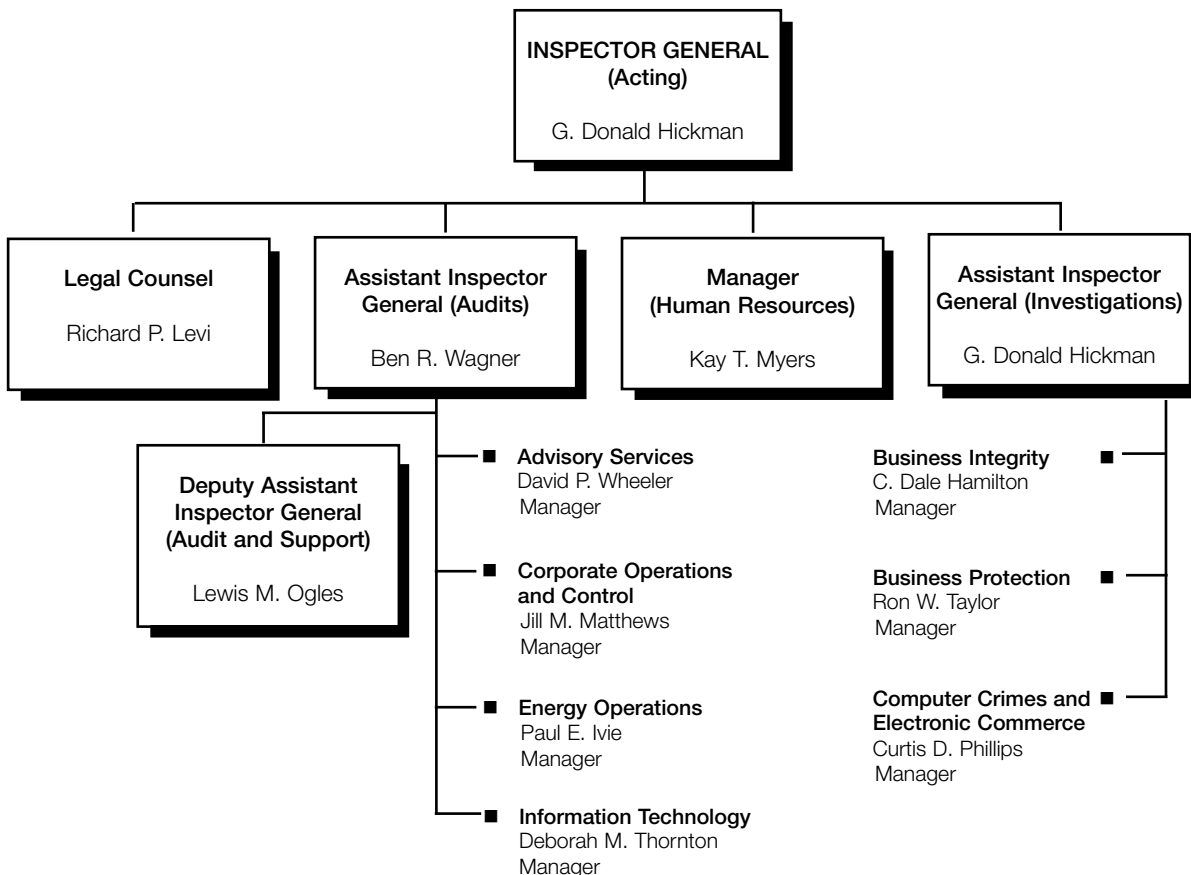
We continued our efforts to meet our five strategic objectives: (1) cultivate and retain a highly skilled, innovative, and motivated workforce; (2) enhance communications with stakeholders and deliver services that meet their needs; (3) leverage OIG resources to optimize productivity and results; (4) focus on areas of high risk to TVA; and (5) envision change affecting TVA and identify effective solutions. We have concentrated during this period on the areas of

improving stakeholder relations, developing our staff, and focusing our resources on areas that contribute to TVA's success.

## 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 2002 budget was \$8 million with a budgeted headcount of 90 employees.\*



\* The OIG budget reflects a reduction from our previous semiannual report due to a change in accounting for employee benefits.

## SECURITY AND SAFETY AT TVA

On October 10, 2001, the Chairman, TVA Board of Directors, testified before the Subcommittee on Water Resources and Environment, Committee on Transportation and Infrastructure, United States House of Representatives, on the heightened physical security measures TVA was taking in light of the attacks on America on September 11, 2001. The Chairman testified that heightened security measures were in force throughout TVA, including in TVA's office buildings, dams, and power plants. The Chairman also noted that TVA was continuing to further strengthen its overall security program through improved integration of TVA's major business units' emergency plans and emergency operations centers.

As a function of our oversight responsibility, we performed a preliminary survey to assess the adequacy of TVA's security plans and actions taken in response to the terrorist attacks and related threats. We found TVA was taking or had taken appropriate measures to mitigate the risks associated with the security of TVA's nuclear and nonnuclear facilities. However, due to the sensitive and evolving nature of this issue, we concluded that another survey of TVA's infrastructure security would be warranted in about six months. Accordingly, during the next reporting period, we plan to reassess the adequacy of TVA's efforts.

We also completed three reviews during this reporting period and initiated a major effort to assist TVA in developing a plan to validate the effectiveness of security procedures and controls. Highlights of these completed or ongoing projects follow.

- We assessed the adequacy of the controls of a TVA automated system and found the controls to prevent unauthorized physical access were sufficient. However, we noted the controls to prevent unauthorized users from accessing the software needed to be strengthened. TVA management agreed with our findings and is taking appropriate corrective action.
- We assessed the adequacy of another TVA system and identified some opportunities for improvement in the areas of granting access and development of contingency plans in the event of system failure. TVA management agreed with our findings and is taking appropriate corrective action.
- We assessed the adequacy of TVA's efforts to address workplace violence by identifying and comparing the key elements of a workplace violence program to the programs and processes in place at TVA. Based on our findings, TVA management plans to, among other things, (1) establish a TVA-wide policy emphasizing TVA's commitment to workplace violence



prevention; (2) formalize and establish the role of a threat assessment team; (3) place additional emphasis on training to increase employee awareness, including the recognition of aberrant behavior; and (4) develop crisis management criteria and processes.

- Recently, we made a major commitment to assist TVA management in developing a cost-effective plan to evaluate TVA computer security procedures and controls. The assessment will provide management with the current status of security controls to enable informed decisions for mitigating risks to an acceptable level. When implemented, the assessment process will establish a framework, baseline, and continuing cycle for assessing risk, developing and implementing security procedures and controls, and monitoring effectiveness.

#### **THE PRESIDENT'S MANAGEMENT AGENDA**

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The President introduced a management agenda for fiscal year (FY) 2002 that is designed to improve the management and performance of the federal government. Government-wide areas targeted include: (1) strategic management of human capital, (2) competitive sourcing, (3) expanded e-government, (4) budget and performance integration, and (5) improved financial performance.

#### **Strategic Management of Human Capital**

In the area of human capital, the President's initiative includes taking steps to enhance management flexibility, permit more performance-oriented compensation, correct skills imbalances, and provide other tools to recruit, retain, and reward a high-quality workforce.

TVA's personnel system is separate from the civil service; however, TVA is experiencing some of the same human capital issues as other federal organizations. For example, because its workforce is aging, TVA faces a prospective loss of knowledge and skills through retirements. Efforts TVA has taken in this area include (1) a "3R" (recruit, retain, and reward) Program developed to ensure TVA has a workforce with the right skills to meet future challenges, (2) an integrated staffing achievement plan that supports overall business performance objectives, and (3) establishing a "line of sight" between individual performance and business unit/corporate performance.

OIG efforts in this area during the reporting period included an audit that addressed staffing in TVA fossil plant materials storerooms. Also during this period, our investigative staff reviewed the resources and processes in place at TVA to address workplace violence and made recommendations for improvement. (Projects mentioned herein are

discussed in more detail later in this report.)

### **Competitive Sourcing**

This initiative is designed to improve competition between segments of the federal workforce who perform tasks readily available in the commercial marketplace and private sector service providers. This initiative is based on requirements of the Federal Activities Inventory Reform Act and Office of Management and Budget (OMB) Circular A-76 that are not legally applicable to TVA, which has separate procurement authority. However, in the last decade or so, TVA has contracted out much work previously done by TVA employees, an action that contributed to the almost 50 percent reduction in staffing since 1990.

The OIG contributes to the efficiency, effectiveness, and competition in TVA's contracting process by (1) providing contract advisory services, (2) performing contract preaward and contract compliance audits, (3) providing negotiation support for TVA management on contracts where we have performed audits, and (4) investigating contract fraud.

### **Expanded E-Government**

The administration has established a goal to champion citizen-centered electronic government that will result in a major improvement in the federal government's value to the citizen. This effort will center on improving information technology management, simplifying busi-

ness processes, and unifying information flows across lines of business in order to, among other things, (1) provide high-quality customer service, (2) reduce the expense and difficulty of doing business with the government, and (3) cut government operating costs.

TVA has implemented web-based applications for services it provides to the general public such as dock permitting, and to TVA distributors and directly served customers such as equipment purchases through an eMarketplace. TVA has a review and approval process for all major projects, including those involving information technology.

The OIG has audit and investigative departments which focus on computer system controls, security, and intrusion. Work during the reporting period included a review of TVA's electronic business strategy.

### **Budget and Performance Integration**

This initiative is designed to (1) formally integrate performance review with budget decisions, (2) identify high-quality outcome measures and accurately monitor program performance, and (3) more completely integrate cost and performance information in a single oversight process. Expected results of this initiative include better performance, better control over resources, and improved management accountability.

TVA has adopted a scorecard strategy that integrates budgeting, performance management, and incentives in a program called Winning Performance. The program defines agency success, identifies those things TVA must do well to succeed, organizes and commits its resources (capital, budgets, and people) around those requirements, and bases team incentive on the results. Progress in meeting goals is published monthly. TVA is also in the process of implementing activity-based management to even better integrate strategy, performance, and cost.

An OIG representative attends the agency quarterly performance reviews. In addition, the OIG has adopted this system, defining performance targets, monitoring performance, and linking incentive pay to levels of accomplishment. For reasons of independence, however, our performance measures are not linked to TVA's.

#### **Improved Financial Performance**

This final government-wide initiative encompasses strategies to reduce erroneous payments and to ensure that federal financial systems produce accurate and timely information to support operating, budget, and policy decisions. One of the expected results of these efforts is improved accountability through audited financial reports, achievable by financial systems that routinely produce information that is timely, useful, and reliable.

TVA has prepared annual, independently audited, financial statements for many years. TVA also issues quarterly financial reports that are published and distributed to investors. TVA's Chief Financial Officer routinely reviews financial and operating performance information with TVA's Board of Directors and top executive team.

The OIG is active in this area. Each year we perform a review of TVA's annual financial statement audit to ensure it is performed in accordance with generally accepted government auditing standards. Also, in support of the preparation and audit of the government-wide financial statements, we review the trial balance data TVA submits to the OMB, General Accounting Office, and Department of the Treasury. In addition, we conduct financial-related reviews to assess the effectiveness of internal controls over various TVA financial programs and systems. For example, during this period, we reviewed internal controls over real estate transactions and over the system that provides data for TVA transmission services billing. These types of reviews help TVA ensure the reliability of its financial information for decisionmaking and reporting purposes.

## Summary of Representative Audits

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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 completed 40 audits which identified almost \$1.8 million in questioned costs and about \$31.9 million in funds which could be put to better use. We also identified numerous opportunities for TVA to improve program operations. Our audits included (1) preaward and post-award contract audits, (2) other financial-related audits, (3) performance reviews of TVA operations, and (4) information technology reviews.

### **PREAWARD CONTRACT AUDITS**

To support TVA management in negotiating procurement actions, we identified about \$31.9 million in potential savings involving 17 preaward audits. During this reporting period, TVA management successfully negotiated \$6.1 million in savings as a result of audits issued during this and previous reporting periods and is continuing to negotiate other potential contracts audited during this period. Highlights of the more significant preaward audits follow.

- We reviewed the proposed costs and pricing methodologies submitted by two contractors for providing services and equipment for TVA's hydro modernization program under a potential \$350 million contract. One contractor's proposal included about \$20 million in overstated costs and excessive profits. The other contractor's proposal did not provide sufficient data to assess the reasonableness of the proposed pricing methodology. In addition, the latter proposal included (1) an inflated contribution margin that could increase TVA's costs by about \$4.4 million and (2) unreasonable restrictions on TVA's audit rights. Negotiations for this contract award are ongoing.
- We reviewed a contractor's proposal to provide air preheater equipment and related services under a planned seven-year, \$50 million contract. We determined the contractor's proposal included excessive profit levels and unreasonable sales and marketing expenses. TVA management subsequently negotiated savings of \$2.2 million on future projects.
- We reviewed a contractor's proposed labor and indirect cost rates for a seven-year, \$120 million contract to provide specialty fire protection equipment and services. We determined TVA could save about \$1.8 million by (1) reducing the billing rate for payroll taxes to correspond

with the contractor's actual costs and (2) eliminating certain direct costs and including the cost recovery in the contractor's overhead rate. The contractor agreed with our findings and revised its proposal accordingly.

- We reviewed a contractor's proposed adjustments to its labor and indirect cost rates under a contract to provide selective catalytic reduction process equipment and services. Some of the proposed rates were overstated and could have increased TVA's costs by about \$912,000 based on estimated contract expenditures of \$40 million. TVA management subsequently negotiated savings of about \$709,000.

### **CONTRACT COMPLIANCE**

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During this reporting period, we completed 12 contract compliance audits that identified nearly \$1.8 million in ineligible and unsupported costs. Management generally agreed with our findings and has taken or plans to take appropriate corrective action. Highlights of some of the more significant audits follow.

- A contractor providing industrial hygiene services either overbilled or could not adequately support about \$220,000 of the \$1.3 million invoiced for labor and equipment. In addition, the contractor could not provide documentation that nine of its employees met the professional qualification requirements stipulated in the contract. TVA management negotiated a

partial recovery of the questioned costs and decided not to renew the contract.

- A contractor providing chemical services to TVA overbilled about \$43,000 of the \$5.67 million invoiced under the contract. TVA management agreed with our findings and is seeking recovery of these costs. In a related matter, we found the contractor's request for a price increase involving a proposed extension to the contract was fairly stated.
- At the request of TVA management, we reviewed two labor adjustment claims submitted by a contractor that installed combustion turbines at TVA facilities. We identified \$116,000 in unsupported labor costs and calculation errors.
- A contractor providing transmission line services could not support about \$1.4 million of the \$4.4 million billed for labor, equipment, and mobilization. TVA management agreed the costs were not appropriately supported but decided not to seek recovery after determining the work had been performed. However, TVA management did take action to improve controls over documentation and approval of future work performed under the contract.

### **AFFIRMATIVE PROCUREMENT**

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We assessed (1) compliance of TVA's Affirmative Procurement Plan with Section 6002 of the Resource

Conservation and Recovery Act (RCRA) and applicable regulatory guidance and (2) TVA's execution of the plan. We found the plan addressed applicable RCRA requirements, but opportunities for improvement exist. The plan's requirements regarding minimum content standards appeared inconsistent both internally and with Environmental Protection Agency (EPA) guidance. Also, contrary to plan requirements, TVA decisions to purchase items not meeting minimum content standards were generally not documented. TVA management agreed with our findings and is taking appropriate corrective action.

**STOREROOM ACCESS AND STAFFING AT TVA FOSSIL PLANTS**

We reviewed storeroom access and staffing at TVA's 11 fossil plants and found the number of individuals with access to materials storerooms appeared excessive at all but one plant. We also found that (1) overtime worked by fossil plant storeroom employees, on average, increased during the 29-month period reviewed; and (2) about 50 percent of fossil plant storeroom employees were near retirement. TVA management agreed with our findings and has initiated action to reduce the number of individuals with storeroom access, establish optimum storeroom staffing levels at each site, and implement staffing plans for refilling positions due to retirements.

**REAL ESTATE TRANSACTIONS**

We reviewed the adequacy of TVA's controls over the acquisition and disposal of land and found the controls to be sufficient and working effectively except in the area of communications between TVA organizations. In addition, we concluded TVA's policy over the use, acquisition, and disposal of TVA land should be updated. TVA management agreed with our findings and is taking steps to (1) revise processes and update and/or integrate systems to facilitate better communication between TVA organizations and (2) institute an updated business practice for land management.

**FY 2001 FINANCIAL STATEMENT AUDIT**

We reviewed TVA's FY 2001 financial statement audit by (1) assessing the methodology used by the external auditor in performing the financial statement review, (2) performing supplemental tests of the accounting records and comparing our results to those of TVA's external auditor, and (3) examining the independence of the external auditor. We determined the financial statement audit was performed in accordance with generally accepted government auditing standards in all material respects.

**TRANSMISSION AND ENERGY SCHEDULER (TES) SYSTEM**

TES is used to validate the reservation and scheduling of TVA's transmission system. We determined the automated internal controls of TES were adequate

to ensure accurate information for billing purposes. However, no process existed to provide adequate oversight of manual overrides to the system. In addition, the system did not provide the reporting capabilities necessary to adequately monitor controls and system activity. TVA management agreed with our findings and is taking corrective action by (1) developing additional processes for manual overrides of the system and (2) enhancing the system's reporting capabilities.

#### **DAM SAFETY INSPECTION PROCESS**

We reviewed TVA's dam safety inspection process and found that the process (1) complied with federal guidelines for dam safety, (2) was effectively followed by inspection personnel, and (3) was adequately supported by an information database. We also found, however, that TVA could improve its process by (1) ensuring dam inspection work orders include an updated checklist of items needing to be inspected, (2) establishing a process for evaluating the risks associated with further delaying maintenance on overdue projects, and (3) routing inspection reports on equipment used to support both powerhouse and spillway operations through TVA's Manager, Dam Safety Inspections and Instrumentation. TVA management agreed with our findings and has taken appropriate action to improve its dam safety inspection process.

#### **ELECTRONIC BUSINESS STRATEGY**

We assessed the reasonableness of TVA's agency-wide electronic business (e-business) guidance by comparing TVA's guidance to that of 21 federal agencies. In summary, we found that, unlike the other federal agencies, TVA had not developed comprehensive agency-wide guidance. We recommended that TVA develop an agency-wide business practice on e-business to provide guidance on critical success factors, coordinating internal efforts, optimizing technology investments, managing risk, and addressing key e-business issues. TVA management agreed and is implementing our recommendation.

## Summary of Nonaudit Services

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We provide nonaudit services upon request to assist TVA management in improving the efficiency and effectiveness of its operations. In addition, when requested, we provide information, data, and analyses to members of Congress to help keep them informed about aspects of TVA's operations. In some instances, we initiate nonaudit services, such as a "management alert," when we believe a particular issue needs to be brought to management's attention for immediate consideration. Depending upon the objective, these reviews are performed in accordance with either the (1) American Institute of Certified Public Accountant's Standards for Consulting Services or (2) President's Council of Integrity and Efficiency's (PCIE) Quality Standards for Inspections.

During this reporting period, we completed 12 projects involving nonaudit services. Highlights follow.

- We participated as an advisor to TVA Procurement on a potential partnering agreement with a large firm for the design, engineering, and fabrication of boiler components, spare and repair parts, and engineering services at various TVA fossil plants.
- We provided informal advice on six Requests for Proposal involving truckload transportation services, audiovisual services, a reservoir oper-

ation study, retiree dental benefits, employee benefits, and information technology vulnerability assessments.

- We performed additional analyses of data included in a prior report dated December 20, 2000, addressing the willingness of nuclear security contractor employees to report nuclear safety and quality issues.
- We provided our view on the security risks associated with removing password protection linked to some sensitive fossil plant processes and procedures.



## Summary of Representative Investigations

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During the last six months, we investigated allegations and concerns received from ratepayers, TVA managers and employees, governmental and congressional staffs, and OIG auditors. Our investigations, including task force projects, resulted in (1) over \$1.4 million in recoveries, projected savings, and fines/penalties, (2) five individuals or entities being indicted, and (3) three individuals or entities being convicted. Representative investigations are highlighted below.

### **WORKERS' COMPENSATION BENEFITS INVESTIGATIONS**

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

During this reporting period, our FECA fraud investigations led to recoveries and long-term savings of over \$1.3 million and one conviction. Highlights of our investigative results follow.

### **Former Employee Convicted**

A joint investigation performed by the TVA OIG and the United States Department of Labor (DOL) OIG revealed a former TVA Nuclear pipefitter receiving FECA benefits was performing construction work but did not report that employment to OWCP as required.

As a result of our investigation, the former employee pled guilty to one count of making false statements to receive benefits. The individual was ordered to serve four months in a federal prison, four months' confinement in a halfway house, and three years' probation. In addition, he was ordered to pay TVA \$22,988 in restitution.

As a result of this conviction, OWCP terminated the individual's benefits, providing a projected long-term savings to TVA of over \$800,000.

### **Administrative Results**

During this period, we also reported the following administrative results.

- A joint investigation with the DOL OIG revealed that a former TVA employee was receiving benefits to which he was not entitled.

Over 20 years ago, a TVA craftsman apprentice was injured on the job. He subsequently received continuous payments for a loss in wage earning capacity (LWEC). OWCP/TVA also provided rehabilitation benefits

through which, over time, he received both bachelor's and master's degrees. The individual eventually became head of a county agency, earning more than three times the salary upon which his LWEC was based.

Although the individual reported his earnings to OWCP as required, he continued to receive LWEC benefits every four weeks.

As a result of this investigation, OWCP terminated the individual's benefits, providing a projected long-term savings to TVA exceeding \$350,000.

- Eyewitness testimony and documentation gathered during our investigation showed a former TVA employee owned and was actively involved in a concrete finishing company but did not report this employment activity to OWCP on three claim forms he submitted between 1992 and 1997.

As a result of our findings, OWCP ruled the individual would forfeit benefits he received based on the three forms and declared he was overpaid \$122,489. Prosecution was declined in this case in favor of administrative remedies.

**FALSE CLAIMS—TEMPORARY LIVING EXPENSES (TLE)**

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We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible TLE paid to TVA contractor employees. During this reporting period, one TLE investigation resulted in a recovery exceeding \$17,000.

Our investigation revealed a TVA contractor employee received per diem benefits to which he was not entitled. The employee should have received TLE only if he incurred duplicate expenses for a permanent home more than 100 miles from his TVA assignment. Evidence showed, however, that the contractor employee did not incur duplicate expenses as he had stated on several of his TLE certifications.

Prosecution was declined in this case in favor of administrative remedies available to TVA. As a result of an agreement between the contractor's employer and TVA, the individual made a lump sum payment to his employer of \$17,827.50, which was credited to TVA.

**EMPLOYEE MISCONDUCT**

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**Ethics Issue**

We received an allegation that a former TVA Board member, while at TVA, purchased season tickets to University of Tennessee football games at face value without making a separate required annual monetary donation. Because TVA has contracts with The University of Tennessee, it generally would be an

ethics violation for a TVA employee to accept a gift exceeding \$20 from the University.

After conducting a preliminary review, this office recused itself. At our request, the Office of Personnel Management (OPM) OIG completed an investigation into this allegation. The OPM OIG determined the Board member—who left TVA during the OPM investigation—paid face value for tickets beginning in 1993, but did not make the required annual donation to the University. The OPM OIG further found the former Board member did not solicit the tickets, the University did not ask him for a donation, and he made a donation for one year upon learning of the allegation against him. The Board member stated he did not know a monetary donation was required. We referred the OPM findings to TVA’s Designated Agency Ethics Official (DAEO), who stated he would include the “lessons learned” from this matter in future ethics training.

**Senior Manager Transfer**

We concluded a perception of favoritism and waste resulted from (1) allowing a manager to attend on TVA time a university located in a city where the manager’s spouse resided, which was outside the Tennessee Valley; (2) authorizing TVA’s reimbursement or payment of various expenses related to the manager’s attendance at the university; and (3) subsequently transferring the manager to the same city, even though the manager

remained in Knoxville receiving per diem payments over half of the time after the transfer. The responsible manager was counseled.

**Sexual Misconduct**

Evidence revealed a TVA employee engaged in sexually related misconduct at a TVA worksite. As a result of our investigation, the individual was demoted, suspended without pay for two weeks, and transferred to another work station.

**Ethics Referral**

We developed information indicating some car rental companies doing business with TVA may be offering TVA executives and their spouses discounted rates not available to other TVA employees or the general public. Based on the information we developed and discussions with the TVA DAEO, we referred this matter to the DAEO so he could take action to ensure TVA executives are sensitive to the ethics regulations regarding acceptance of personal discounts from TVA contractors. The DAEO advised us he would include a discussion of ethics guidelines related to this issue at an upcoming TVA Business Council meeting, and he would address the topic in future ethics briefings, training sessions, and updates. (The Business Council consists of TVA Vice Presidents and above.)

**HEALTH CARE FRAUD TASK FORCE**

We continued to support health care fraud task forces and working groups sponsored by United States Attorneys' offices in Tennessee's Eastern, Middle, and Western federal districts.

The cases below reflect our involvement in the Eastern District of Tennessee Health Care Fraud Task Force. Other participants on the task force include the following local, state, and federal agencies: Sevier County (Tennessee) Sheriff's Department, Tennessee Bureau of Investigation, Internal Revenue Service Criminal Investigations, United States Department of Health and Human Services (HHS) OIG, Federal Bureau of Investigation (FBI), and United States Department of Defense Criminal Investigative Service.

**Physician Indicted**

Investigation of a physician's claims to various benefits plans (including TVA's) is being conducted by special agents of the TVA OIG and agencies serving on the task force.

During the investigation, a forensic examination of the physician's computers by a TVA OIG Special Agent revealed evidence which led to the physician's indictment on one count of possessing computer images containing child pornography. The investigation of his claims continues.

**Federal Charges Against Doctor and Nurse in Health Care Fraud Scheme**

As a result of a task force investigation, a Knoxville, Tennessee, physician and nurse were named in a 57-count indictment.

The charges included conspiracy, money laundering, mail fraud, and health care fraud. The indictment alleged, among other things:

- From 1994 to the present, the physician devised a scheme to receive payments from various health care benefits programs, including TVA's medical plan and the TennCare/Medicaid program, based on fraudulent representations. The nurse joined and participated in this scheme as early as April 1996.
- The physician and/or nurse submitted claims to the benefits programs, although the physician was not entitled to receive payment because of his exclusion from participation in those programs. (HHS had barred the physician from participation in the TennCare/Medicaid and Medicare programs since at least 1994 as a result of convictions for federal health care fraud offenses he committed. In addition, during 2001 a medical center the physician operated was excluded by HHS from participating in all federal health care programs.)

## **ENVIRONMENTAL CRIMES JOINT TASK FORCE (ECJTF)**

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We continued our participation in the ECJTF, which is comprised of members from state and federal agencies, including the FBI, EPA, Department of Justice, TVA's OIG, and the TVA Police.

ECJTF focuses enhanced law enforcement resources against individuals and companies by applying the most effective federal and state criminal and civil statutes.

Our participation in the task force supports one of TVA's Six Strategic Objectives—River and the Environment. Highlights of the task force's work reported during this period include the following.

### **Criminal Sentencing: Fish Kill— Improper Use of Pesticide**

Investigation revealed the owner of a produce company was responsible for a major fish kill in the Sequatchie River, a tributary of the Tennessee River.

The responsible individual pled guilty in the United States District Court to one count of use of a registered pesticide in a manner inconsistent with its labeling. The individual was placed on probation for 4 years, ordered to perform 150 hours of community service, and sentenced to pay restitution of \$42,369.98 to Tennessee Wildlife Resources Agency and \$1,602.44 to the affected municipal water system.

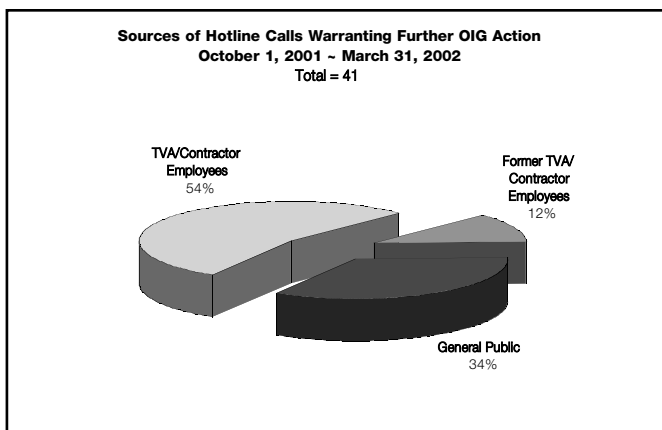
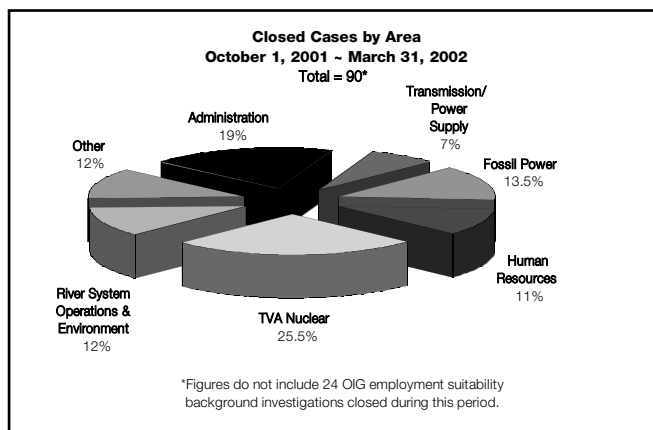
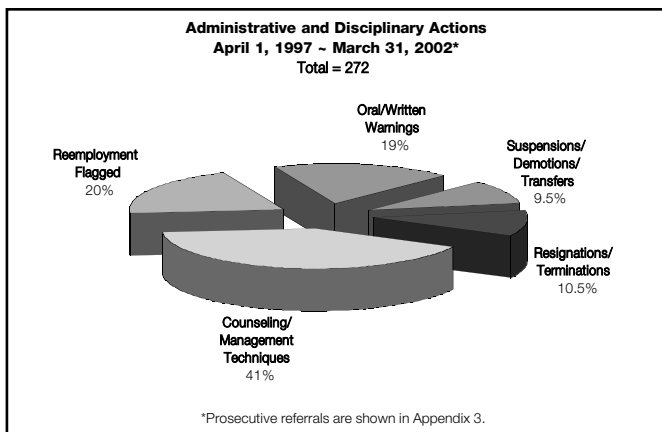
### **Guilty Plea: Clean Water Act Violated by Waste-Disposal Company and Its President**

A Chattanooga company and its president each pled guilty to one count of violating the Clean Water Act.

Investigation revealed the president of a waste recycling/disposal company and his company knowingly falsified documentation to the city of Chattanooga relating to the company's permit to dispose of nonhazardous waste into sewer lines at its facility.

On over 40 occasions, the company's discharge monitoring reports to the city failed to disclose its wastewater discharges exceeded limitations. According to the EPA, levels of copper in the discharged wastewater were as much as 17 times the federal limit, and the levels of zinc as much as 14 times the limit.

The company and its president are awaiting sentencing.



Effective October 1, 2001, the TVA OIG became a member of the PCIE. We continued to follow issues of interest to the OIG and TVA, including proposals regarding law enforcement authority and utility deregulation.







# APPENDICES

## Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
<b>2001-085C</b> 10/16/2001	General Electric - Johnsonville Labor Adjustment	\$7,753	\$7,753	
<b>2001-084C</b> 10/17/2001	Federal Data Corporation - Contract No. 00002054 (Formerly 97BYQ-216424-001)			
<b>2001-060P</b> 10/22/2001	Storeroom Access and Staffing at TVA Fossil Plants			
<b>2001-023C</b> 10/25/2001	Crisp & Crisp Contracting - Contract 95PA4-143741-02	1,401,145	1,401,145	
<b>2001-049C</b> 10/29/2001	Sugar Camp Coal LLC - Contracts 97P01-197103, 97P05-218982, 97P05-219030, and 98P05-236835			
<b>2001-077C</b> 11/06/2001	Alstom Power, Inc. - Bull Run Boiler Modifications			\$603,400
<b>2001-032F</b> 11/07/2001	Review of Internal Controls Over Real Estate Transactions			
<b>2001-043C</b> 11/09/2001	Alstom Power Environmental Systems			912,000
<b>2001-052T</b> 11/26/2001	Electronic Business Strategy			
<b>2001-040C</b> 11/30/2001	McDaniel Fire Systems			1,784,344
<b>2001-080F</b> 12/04/2001	Review of Tennessee Valley Authority's FY 2001 Financial Statement Audit			
<b>2001-083F</b> 12/10/2001	Review of the Internal Controls of the Transmission and Energy Scheduler System			
<b>2001-086T</b> 12/10/2001	Unix Server Security Assessment			
<b>2001-066C</b> 12/17/2001	Key Services - Contract 00PYC-158282			

## Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
<b>2002-003V</b> 12/18/2001	Alstom Power Inc. - Hydro Division, Turbines and Generators			\$20,000,000
<b>2002-006C</b> 12/19/2001	General Electric Company - Field Labor Cost Adjustment - Lagoon Creek I Project - Contract No. P98P6D-195379-000	\$107,998	\$107,998	
<b>2002-007C</b> 12/19/2001	Trism Inc. - Contract No. 00002483 (Formerly 99BC5-252631-000)			
<b>2001-012C</b> 12/21/2001	Analytical Industries, Inc. - Contract 97PPW-219248	220,400	23,801	
<b>2001-064T</b> 12/21/2001	Hydro Automation Security - HDCC			
<b>2001-059C</b> 01/02/2002	Enron North America Corp.			
<b>2001-074T</b> 01/07/2002	Application Review of Pegasys			
<b>2000-012P</b> 01/09/2002	TVA's Affirmative Procurement Plan for Items Containing Recovered Materials			
<b>2002-018V</b> 01/09/2002	Review of BCBS-TN's Proposed Administrative Services Only Fee			
<b>2002-023C</b> 01/10/2002	United States Enrichment Corporation - Contract Nos. 95N8A-118891-000 and 99N8A-185677-015			
<b>2002-005V</b> 01/18/2002	Bechtel Proposal for TVA Browns Ferry Unit One Recovery Support Services			512,077
<b>2001-053C</b> 01/25/2002	Alstom Power, Inc. - Air Preheater Division			2,154,657
<b>2002-027C</b> 01/25/2002	Photo Science, Inc.			
<b>2001-089C</b> 01/29/2002	Ondeo Nalco - Contract 99N7B - 236079	42,676		

## Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
<b>2002-026C</b> 01/29/2002	Tuck Engineering, Inc.			
<b>2002-028C</b> 01/29/2002	Michael Baker, Inc.			
<b>2002-029C</b> 01/29/2002	Earth Data International			
<b>2001-056C</b> 02/06/2002	Review of Contract 94N8A-106630 Framatome Cogema Fuels			
<b>2002-024V</b> 02/13/2002	GE Hydro Power, Inc. - Hydro Modernization Project			\$4,400,000
<b>2001-076F</b> 02/14/2002	Review of TVA's Dam Safety Inspection Process			
<b>2002-030C</b> 02/28/2002	Haverfield Aviation - Audit of Contract No. 00001049 and Contract No. 969A1-176544-000			
<b>2002-039C</b> 03/07/2002	Verification of Summarized Facts Data FY 2001			
<b>2002-036V</b> 03/15/2002	Stone & Webster, Inc. - TVA Nuclear Modification and Supplemental Maintenance Services			
<b>2002-001V</b> 03/27/2002	Duratek Price Increase			895,000
<b>2002-035V</b> 03/27/2002	Day & Zimmermann NPS, Inc. - Nuclear Maintenance and Modifications			613,000
<b>2002-040C</b> 03/28/2002	Calvert City LLC - Solicitation of Offers for Terminal Services			
<b>TOTAL</b>	<b>40</b>	<b>\$1,779,972</b>	<b>\$1,540,697</b>	<b>\$31,874,478*</b>

\* This figure includes funds identified in preaward audits of proposals for contracts that may not be awarded.

## Audit Reports Issued With Questioned Costs

	NUMBER	QUESTIONED COSTS	
		TOTAL	UNSUPPORTED
A. For which no management decision has been made by the commencement of the reporting period	1	\$103,553	\$103,553
B. Which were issued during the reporting period	5	\$1,779,972	\$1,540,697
<b>Subtotals of A and B</b>	<b>6</b>	<b>\$1,883,525</b>	<b>\$1,644,250</b>
C. For which a management decision was made during the reporting period	6*	\$1,883,525	\$1,644,250
(i) Dollar value of disallowed costs	5	\$267,471	\$219,304
(ii) Dollar value of costs not disallowed	2	\$1,616,054	\$1,424,946
D. For which no management decision has been made by the end of the reporting period	0	\$0	\$0
E. For which no management decision was made within six months of issuance	0	\$0	\$0

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

## Audit Reports Issued With Recommendations for Better Use of Funds

	NUMBER	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period	2	\$335,250
B. Which were issued during the reporting period	9	\$31,874,478
<b>Subtotals of A and B</b>	<b>11*</b>	<b>\$32,209,728</b>
C. For which a management decision was made during the reporting period	8**	\$7,182,728
(i) Dollar value of disallowed costs	7	\$6,068,937
(ii) Dollar value of costs not disallowed	2	\$1,113,791
D. For which no management decision has been made by the end of the reporting period	4	\$25,027,000
E. For which no management decision was made within six months of issuance	0	\$0

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

\*\* 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

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### Referrals

Subjects Referred to United States Attorneys	5
Subjects Referred to Other Agencies for Investigative or Administrative Action	4

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### Results

Subjects Indicted	5
Subjects Convicted	3
Referrals Declined	6

OWCP declared an overpayment for one individual and terminated benefits for two others, creating a recovery and projected savings totaling \$1,286,658.

## Audit Reports With Corrective Actions Pending

**AUDIT REPORT  
NUMBER  
AND DATE**

**DESCRIPTION**

<b>AUDIT REPORT NUMBER AND DATE</b>	<b>DESCRIPTION</b>
<b>2000-016P</b> February 23, 2001	The report contained two recommendations regarding the internal controls associated with TVA coal quality adjustment report (CQAR) payments. TVA has corrected the CQAR calculation errors identified in this audit and has developed, but not implemented, computer software to provide additional automated controls for these payments.
<b>2000-026C-01</b> April 02, 2001	The report contained a recommendation regarding automation of staff augmentation billing processes. TVA is considering options for tracking contractor tasks.
<b>2001-001C</b> July 23, 2001	The report contained a recommendation regarding recovery of overbillings. TVA is seeking recovery.
<b>2001-028F</b> June 20, 2001	The report contained three recommendations about internal controls over contributions and one about \$8 million of unused funds. TVA is still working towards a comprehensive resolution of all the recommendations.
<b>2001-034T</b> September 07, 2001	The report contained ten recommendations regarding aspects of TVA's computer security program. TVA is planning security assessments to commence this fiscal year.
<b>2001-036P</b> September 12, 2001	TVA management has initiated, but not completed, action to correct the CQAR calculation errors identified in this audit. In addition, consistent with our recommendation in Audit 2000-016P, TVA management has developed, but not implemented, computer software to provide additional automated controls for these payments.



## Index of Reporting Requirements Under the Inspector General Act

REPORTING REQUIREMENT	PAGE
Section 4(a)(2) Review of Legislation and Regulations	20
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	5-19
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	5-19
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
Section 5(a)(5) Summary of Instances Where Information Was Refused and 6(b)(2)	None
Section 5(a)(6) Listing of Audit Reports	Appendix 1
Section 5(a)(7) Summary of Particularly Significant Reports	9-19
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

	MAR 31, 2002	SEPT 30, 2001	MAR 31, 2001	SEPT 30, 2000	MAR 31, 2000
ANNUAL BUDGET (In Millions of Dollars)	8.0*	8.6	8.6	7.2	7.2
CURRENT STAFFING	90	86	74	77	79

**AUDITS & SPECIAL PROJECTS**

<b>AUDITS IN PROGRESS</b>					
Carried Forward	38	45	43	48	36
Started	43	44	52	38	59
Canceled	(8)	(4)	(7)	(8)	(2)
Completed	(40)	(47)	(43)	(35)	(45)
In Progress at End of Reporting Period	33	38	45	43	48
<b>AUDIT RESULTS (Thousands)</b>					
Questioned Costs	\$1,780	\$3,519	\$2,613	\$1,800	\$952
Disallowed by TVA	267	1,236	3,010	379	820
Recovered by TVA	225	1,634	821	390	1,333
<b>Funds to Be Put to Better Use</b>					
Agreed to by TVA	\$31,874	\$10,401	\$70,422	\$12,862	\$5,296
Realized by TVA	6,069	10,155	37,450	12,499	5,509
	6,090	8,277	30,918	17,340	5,775
<b>NONAUDIT SERVICES (Thousands)</b>					
Completed	12	0	13	8	12
Cost Savings Identified/Realized	0	0	0	\$233	\$345

**INVESTIGATIONS**

<b>INVESTIGATION CASELOAD</b>					
Opened	93	94	86	132	107
Closed	114	120	83	99	111
In Progress at End of Reporting Period	126	147	173	170	137**
<b>INVESTIGATIVE RESULTS (Thousands)</b>					
Recoveries	\$233	\$6,527	\$214	\$179	\$3,758
Savings	1,175	542	532	521	988
Fines/Penalties	0.1	105	250	11	25
<b>ADMINISTRATIVE AND DISCIPLINARY ACTIONS</b>					
Recommended (# of Cases)	22	13	14	13	21
Actions Taken (# of Subjects)	6	8	30	11	13
Counseling/Management Techniques Employed (# of Cases)	15	3	9	6	5
<b>PROSECUTIVE ACTIVITIES (# of Subjects)</b>					
Referred	5	13	7	32	7
Indicted	5	5	19	5	6
Convicted	3	7	14	5	9

\* An additional \$1.6 million in benefits is being covered in FY 2002 as a corporate rather than an organizational expense as was done in the past.

\*\* Adjusted from previous semiannual reports.

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and tomorrow's solutions . . .

OFFICE OF THE INSPECTOR GENERAL OF THE TENNESSEE VALLEY AUTHORITY  
400 WEST SUMMIT HILL DRIVE  
KNOXVILLE, TENNESSEE 37902-1401