

2 0 0 3

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

Office of the Inspector General



October 1, 2002 ~ March 31, 2003



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

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

If you want to report any matter involving TVA programs, operations, or employees, you should call the OIG Hotline or write the Inspector General's office at the address or number listed on the back cover.



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

G. Donald Hickman
Inspector General (Acting)

April 30, 2003

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, 2003.

I have been honored to serve as the Acting Inspector General since January 2002. The OIG staff and I now look forward to serving with a recent presidentially nominated Inspector General. As we have always done, the management team and I will assist the Inspector General in providing leadership, coordination, and oversight to promote economy, efficiency, and effectiveness in all TVA programs and operations.

Our products for the six-month period are summarized throughout this report. They have been well received and have contributed in many ways toward helping TVA achieve its goals. I also want to point out some of the noteworthy OIG accomplishments during the past 15 months of which I am especially proud.

I remain sensitive of the need for TVA to conduct its business in an open and forthright manner that instills confidence in Congress, the Administration, investors, and TVA customers and ratepayers. Working toward this end, I assisted the TVA Board in strengthening corporate accountability, enhancing financial disclosure, and increasing external auditor independence. The OIG agreed to assume technical management of the external financial audit contract in 2003. Previously, this role was performed by the TVA Chief Financial Officer (CFO). Additionally, TVA's Board and CFO will certify the financial statements and related information in TVA's Annual Report, as well as all future financial statements and related information. The Information Statement, which is TVA's disclosure report to the public financial markets, will be similarly certified. The certification process will include signed certifications by all TVA Officers and Business Managers for the information they provide for these reports.

At the same time, the OIG consolidated its financial audit resources into one department to assure an adequate number of Certified Public Accountant-certified auditors were available to conduct the annual audit of the work of TVA's external auditor (PricewaterhouseCoopers [PWC]). While assuring that PWC's financial audit work complies with government auditing standards, this department will also conduct reviews of TVA's financial systems, business decisions, operations, and contracts.

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

Page 2

April 30, 2003

We will continue to assist TVA in upgrading its computer security infrastructure. Working with TVA's Information Services organization and an outside consultant, we agreed to establish the Information Technology Security Assessment Team. To date, the team has identified critical risk and the current status of information technology security for critical TVA computer systems and the steps necessary to protect the systems from cyber-attack.

The Homeland Security Act of 2002 provided law enforcement authority for TVA OIG special agents under guidelines to be issued by the Department of Justice. Our special agents received comprehensive federal law enforcement skills training at the beginning of their careers. However, in preparation for this new status, we have undertaken an aggressive law enforcement skills refresher training program. The training included topics such as the rules of search and seizure, federal rules of criminal procedure, arrest authority and techniques, defensive tactics, firearms training, and the use of non-lethal weapons. I believe this training will ensure that our special agents exercise this authority responsibly and professionally.

Finally, I have worked to develop a solid framework for excellence and future improvement in OIG operations. The management team and I created momentum to implement our strategic plan. We focused on three key areas: (1) maintaining our integrity as an independent watchdog; (2) strengthening working relationships with our stakeholders; and (3) leveraging OIG resources to optimize productivity and results.

I am pleased with the support I have received from OIG employees, the TVA Board, Congress, and other stakeholders. I look forward to further serving these constituencies.

Sincerely,

A handwritten signature in black ink, appearing to read "G. Donald Hickman". The signature is written in a cursive, flowing style.

G. Donald Hickman

Executive Summary	1
TVA Profile	2
Office of the Inspector General	3
Special Features	6
Audits	8
Investigations	13
Legislation and Regulations	18
Appendices	20
Appendix 1 Index of Reporting Requirements Under the Inspector General Act	21
Appendix 2 Audit Reports Issued	22
Appendix 3 Audit Reports Issued With Questioned Costs and Recommendations for Better Use of Funds	25
Appendix 4 Audit Reports With Corrective Actions Pending	27
Appendix 5 Investigative Referrals and Prosecutive Results	29
Highlights	30

T A B L E O F C O N T E N T S

EXECUTIVE SUMMARY

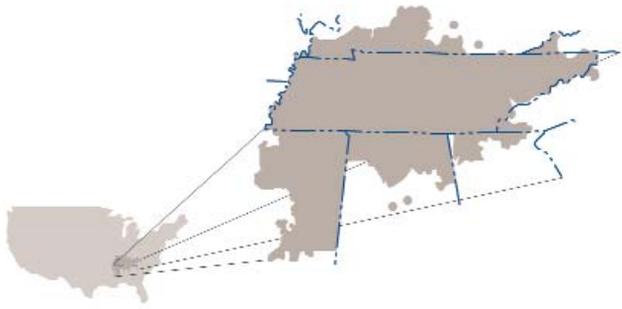
During this reporting period, we continued our efforts to support TVA through quality audits, investigations, and other projects.

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 \$37 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 34 audits and 11 nonaudit service engagements during this reporting period. These reviews included (1) preaward and postaward contract audits, (2) other financial-related

audits, (3) information technology reviews, and (4) performance reviews of TVA operations. Corrective actions in response to our audits included monetary recoveries, process improvements, and security enhancements.

We closed 75 investigations, including multi-agency task force projects, which led to (1) over \$1.3 million in recoveries, projected savings, and fines/penalties; (2) administrative or disciplinary action against 16 individuals; and (3) other corrective action (counseling and management techniques) in 16 cases. Matters we investigated included employee misconduct, contract issues, health care fraud, and environmental crimes. Our investigative activities led to six subjects indicted and four 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, 1 pumped storage plant, and 6 combustion turbine sites. TVA also produces energy from three renewable sources—sun, wind, and methane gas from waste—and is building the first United States flow battery energy storage system that can store electricity available during periods of lower power demand for use during times of peak demand. TVA 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 also sells power to 12 surrounding utilities on the interchange market.

TVA manages the nation's fifth largest river system. TVA dams are part of a totally integrated resource management system where each dam operates in relationship to the others for multiple purposes and public benefits. These include navigation, flood control, power supply, land use, water quality, and recreation.

TVA 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.

The TVA 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 navigation, flood control, environmental research, and land management activities. These programs are funded by power revenues.

TVA is governed by a three-member Board of Directors 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

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 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

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

OIG Audits consists of four departments. One is devoted to both preaward and postaward contract-related audits. The other three focus on (1) performance, (2) financial, and (3) information technology-related issues.

OIG Investigations consists of three departments. One focuses on identifying and investigating potential misconduct and integrity issues. The others focus on (1) contract fraud and misfeasance and (2) computer crimes, computer forensic support during investigations, and health care fraud.

Strategic Plan

We continued our efforts to meet our five strategic objectives: (1) cultivating and retaining a highly skilled, innovative, and motivated workforce; (2) enhancing communications with stakeholders and delivering services that meet their needs; (3) leveraging OIG resources to optimize productivity and results; (4) focusing on areas of high risk to TVA; and (5) envisioning change affecting TVA and identifying 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.

Activities that contributed to accomplishments within these strategic areas included (1) regularly apprising the TVA Board of Directors of significant audit and investigative results; (2) frequent meetings with TVA managers to discuss OIG plans and results and to solicit feedback; (3) developing and implementing a training program for our special agents that meets the requirements for federal law enforcement authority; (4) continuing developmental training of our Level I auditors as well as offering our more senior auditors opportunities to maintain existing skills and develop new ones; (5) implementing a skills improvement program for our management assistant staff; (6) holding the third annual OIG training symposium to update staff on

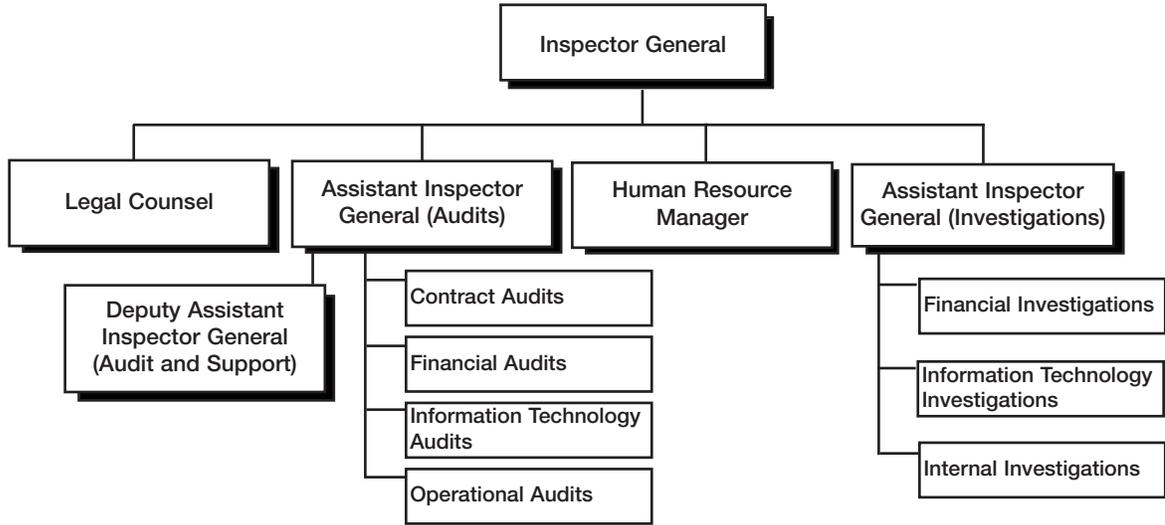
various topics; and (7) emphasizing scoping, planning, and initial analysis during both audit and investigative projects.

In fiscal year 2003, we are again measuring our performance against goals set for three weighted measures. These measures—productivity, timeliness, and results—were selected to encourage better planning, to minimize time spent on unproductive projects, and to improve timeliness and resource utilization.

Staffing and Budget

The OIG's primary offices are in the TVA headquarters in Knoxville, Tennessee. The OIG also has a satellite office in Chattanooga, Tennessee, and completed plans for opening a satellite office at the Browns Ferry Nuclear Plant in Alabama in May 2003.

The OIG's fiscal year 2003 budget is \$8.5 million with a budgeted headcount of 90 employees.



C o n t a c t s

Inspector General (Acting) G. Donald Hickman(865) 632-4120	Contract Audits Manager David P. Wheeler(865) 632-3437
Legal Counsel Richard P. Levi(865) 632-6197	Financial Audits Manager Jill M. Matthews(865) 632-2272
Assistant Inspector General (Audits) Ben R. Wagner(865) 632-6309	Information Technology Audits Manager Deborah M. Thornton(865) 632-6184
Human Resource Manager Kay T. Myers(865) 632-7718	Operational Audits Manager Paul E. Ivie(865) 632-2272
Assistant Inspector General (Investigations) G. Donald Hickman(865) 632-7720	Financial Investigations Manager Ron W. Taylor(865) 632-3979
Deputy Assistant Inspector General (Audit and Support) Lewis M. Ogles(865) 632-6180	Information Technology Investigations Manager Curtis D. Phillips(865) 632-2584
OIG Media Relations Anne B. Ferrell(865) 632-3505	Internal Investigations Manager C. Dale Hamilton(865) 632-3956

Hotline to report fraud, waste, and abuse: 1-800-323-3835
OIG website: <http://oig.tva.gov>

New Investigative Training Program Implemented

Section 812 of the Homeland Security Act of 2002 provides for law enforcement authority for TVA OIG special agents under guidelines to be issued by the Department of Justice (DOJ). That Act states the guidelines shall include, at a minimum, the operational and training requirements contained in the existing memoranda of understanding between DOJ and various Inspectors General offices which currently govern their exercise of law enforcement authority.

Although OIG special agents previously have received federal law enforcement training, to ensure a smooth transition, we developed and initiated an intensive law enforcement skills refresher training (LESRT) program during this reporting



Firearms and defensive tactics instructors under the LESRT program (from left to right): Mike Duncan and Joe Boehr.

period. In addition, we are reviewing current OIG investigation policies and procedures and, where necessary, developing new policies and procedures relating to the exercise of full law



Team responsible for development of curriculum and teaching the policies and procedures (from left to right): Sam Allen, Kay Myers, and James Farr.

enforcement authority. We plan to complete the refresher training and the update of our policies prior to the effective date of Section 812 of the Homeland Security Act.

The LESRT program is part of a more comprehensive OIG special agent training program being designed to meet all applicable training requirements, including those set forth in the *Quality Standards for Investigations*, issued by the President's and Executive Councils on Integrity and Efficiency in the pending DOJ law enforcement guidelines. The comprehensive program will ensure agents meet all defined training requirements throughout their career, starting with the basic/entry level skills requirements and continuing to the advanced professional level skills requirements.

Information Technology Security Assessment Project

Information security issues continue to be of critical importance to TVA, as well as to other companies and federal agencies. Over the past three years, Congress has passed legislation, such as the Federal Information Security Management Act, which requires federal agencies like TVA to review and improve security of its information and report annually on its action plans for improvements. This same legislation also requires OIGs to independently evaluate and report on agency compliance with the legislation.

In response to the legislation, TVA launched a series of initiatives to upgrade its security infrastructure. TVA has elevated the importance of information security issues within its business executive committee and established the Information Technology Security Assessment (ITSA) project team. The team, utilizing resources from TVA's Information Services, the OIG, and outside consultants, was charged with identifying (1) critical risks and the current status of information technology (IT) security for critical TVA systems and (2) steps necessary to protect TVA systems from cyber-attack.

Utilizing guidance provided by the National Institute of Science and Technology and industry best practices,

the ITSA project team is employing the following approach to accomplish its mission.

- Identify systems critical to TVA core operations.
- Identify risks and the current status of IT security for major TVA applications and general support systems through self-assessments.
- Identify vulnerabilities on TVA networks and critical systems by, among other things, simulating attacks on TVA's network.
- Establish action plans and targets for improvements as vulnerabilities are identified.

To date, the ITSA project team has reported the results of 23 self-assessments and 2 vulnerability assessments to management. The team is currently working on internal assessments of the TVA IT security infrastructure through risk and vulnerability analyses. As critical vulnerabilities are identified, TVA management is taking corrective action.

The ITSA project team is working toward completing its mission by June 30, 2003, providing TVA management with information critical to strengthening TVA's IT security infrastructure today and in the future.

Summary of Representative Audits

Audits are initiated from (1) the OIG annual workplan, (2) additional issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, and (4) concerns raised by TVA management or other stakeholders. During this reporting period, we completed 34 audits which identified over \$1.1 million in questioned costs and almost \$34.8 million in funds which could be put to better use (including \$850,000 for proposals that were not awarded). We also identified numerous opportunities for TVA to improve program operations. Our audits included (1) preaward and postaward contract audits, (2) other financial-related audits, (3) IT reviews, and (4) operational audits.

PREAWARD CONTRACT AUDITS

To support TVA management in negotiating procurement actions, we completed seven preaward audits that identified \$34.8 million in potential savings opportunities. During this reporting period, TVA management successfully negotiated \$38.4 million in savings as a result of audits issued during this and previous reporting periods. Highlights of the more significant preaward audits follow.

- We reviewed a contractor's proposal for a \$1.5 billion, multi-year contract to provide flue gas desulfurization

equipment and engineering services and determined (1) the contractor's pricing methodology for a fixed price, baseline project was more favorable than its proposed pricing for cost reimbursable work and (2) labor burdens included cost allowances generally not paid by TVA. TVA management subsequently negotiated reduced labor burdens and fees that could save TVA about \$33.4 million.

- We reviewed two contractors' proposals to provide coal handling facilities and engineering services for TVA's fossil plants under a planned \$50 million, five-year contract. We determined one contractor's proposal was fairly stated, but the second company's proposal was overstated by about \$850,000 as a result of administrative costs associated with handling subcontracts. TVA management subsequently negotiated a contract with the first contractor.
- We reviewed the salary burden proposals submitted by two competing contractors to provide staff augmentation services for the Browns Ferry Unit 1 recovery. We found the burden rates proposed by one contractor included overstated taxes, insurance, and overhead costs. Based on our suggestions, TVA management negotiated reduced rates that should save TVA up to \$408,000 over the five-year contract

period. We also found the overall burden rate proposed by the other contractor was not materially misstated.

- We determined a price increase requested by a contractor to cover increased freight costs for providing ammonia for TVA's selective catalytic reduction systems was not supported. We estimated TVA would save \$97,000 annually by disallowing the price increase. We also suggested TVA management determine if TVA should actively manage its price risk on this product similar to the method used for natural gas. Management has developed a supply chain strategy and is planning to re-compete the ammonia supply.

CONTRACT COMPLIANCE

During this reporting period, we completed eight contract compliance audits that identified about \$1.1 million in ineligible and unsupported costs. Management generally agreed with our findings and has taken or plans to take corrective action. Highlights of these audits follow.

- We determined a contractor had overbilled TVA an estimated \$215,000 by billing at prices (1) different from the contract price list and (2) higher than the "most favored customer prices" for non-price list items. The contractor agreed with the price list overbilling

and remitted a check to TVA for \$81,175. TVA management and the contractor are negotiating a settlement of the remaining overbilled amount.

- We determined a contractor had not paid TVA \$528,494 in royalties that resulted from the use of Advanced Static VAR Compensator technology. During our audit, the contractor paid \$146,874 of the amount due. TVA management agreed with our finding and plans to recover the remaining \$381,620.
- We questioned \$297,166 of \$597,056 in claims and price adjustments submitted by a contractor for work being performed at the Sequoyah Nuclear Plant (SQN) because the contractor's accounting records did not support them. TVA management agreed with our findings and authorized the contractor to invoice only the amounts that could be supported.
- We reviewed costs billed to TVA by two contractors for providing prescription drug benefit management services for TVA. We found that costs billed were in accordance with the contract terms except for (1) about \$40,000 related to sales tax overbillings under one contract and (2) about \$2,000 related to the application of administrative fees to some claim adjustments under the other

contract. TVA management agreed with our findings and plans to recover the overbilled amounts.

- We determined that about 47 percent of the amount billed by a contractor for providing solid waste disposal was for facilities or services not included in the contract price schedule. In addition, the contractor overbilled about \$42,000 in those instances where billings could be compared to the contract price schedule. The contractor reimbursed TVA for the overbilled amount, and the contract was revised to incorporate prices for all TVA locations/facilities and services.

FINANCIAL-RELATED REVIEWS

During this reporting period, we completed five financial-related audits and performed Inspector General agreed-upon procedures on TVA financial data submitted for inclusion in the United States government-wide financial statements. Highlights of these audits follow.

- We determined (1) TVA's short-term debt administration practices provided reasonable assurance that TVA received competitive arrangements, (2) TVA appropriately accounted for short-term debt and the associated interest expense, and (3) TVA received interest rates comparable to those received by others with similar credit quality but at a

higher fee. TVA is taking action to lower the fee.

- We determined that manual transfers of costs from operations and maintenance expense to capital projects for one TVA organization during a 22-month period were properly authorized and classified in accordance with TVA policy.
- We concluded additions to completed plant during a 19-month period were properly authorized and that costs were properly accumulated and classified in accordance with TVA policies in all material respects.
- We determined TVA's tax-equivalent payments for fiscal year 2002 were calculated and distributed in accordance with relevant TVA Act requirements in all material respects. In addition, we found controls were in place and functioning to ensure data reliability for the calculations.
- We identified control weaknesses in TVA's purchasing card program related to (1) transactions exceeding transaction limits, (2) sharing of cards, (3) record retention, and (4) travel and travel-related expenses. TVA management is taking appropriate corrective action.

FISCAL YEAR 2002 FINANCIAL STATEMENT AUDIT

We reviewed TVA's fiscal year 2002 financial statement audit by (1) assessing the external auditor's methodology, evidence, and documentation; (2) performing supplemental tests of accounting records and comparing the results to those of the external auditor; and (3) examining the independence and qualifications of the external auditor. We determined the financial statement audit was performed in accordance with *Government Auditing Standards* in all material respects.

INFORMATION TECHNOLOGY

Power Billing System

TVA's Power Billing System electronically generates power sales invoices and related general ledger transactions for over \$6 billion in annual revenue from sales of electricity. We found (1) existing processing controls provide reasonable assurance that invoices and related general ledger transactions are accurate and (2) vendor software purchase contracts provide for appropriate support and protection of system assets. However, we identified control weaknesses pertaining to physical and logical security, program changes, and contingency planning. TVA is taking appropriate corrective action.

Nuclear Access Control Systems

As part of our audit plan, we reviewed nuclear facility access control systems at the Sequoyah and Watts Bar Nuclear Plants. Both plants have taken numerous proactive steps to enhance security for these systems, and we found no noncompliance issues with laws or Nuclear Regulatory Commission requirements. However, we made recommendations for improving logical and physical security and contingency plans. TVA is taking appropriate corrective action.

SURPLUS PROPERTY REDEPLOYMENT

We reviewed TVA's participation in the General Services Administration's (GSA) surplus property program under which TVA acquires, at no cost, property surplus by other government agencies. We found TVA (1) did not add the value of certain property to its appropriation balance as required by the TVA Act, (2) sometimes used surplus property inconsistently with program redeployment rules which prohibit acquisition of property with the intent to sell or trade, (3) did not adequately track the status of property GSA agreed to provide or the final disposition of property received, and (4) did not have an adequate agreement with a contractor being used to obtain GSA surplus property. TVA management plans to take appropriate corrective action.

ENERGY TRADING DECISION SUPPORT MODEL

We assessed the reliability and integrity of four critical fossil power data elements used in TVA's energy trading decision support model—heat rate, equivalent forced outage rate (EFOR), net dependable capacity, and the outage schedule. We determined TVA could improve the model by (1) updating outage schedule information more frequently and (2) using more precise or specific data that is readily available for each unit's heat rate, EFOR, and capacity. TVA management agreed with our findings and recommendations and plans to take appropriate corrective actions.

NUCLEAR SECURITY PERSONNEL QUALIFICATIONS

We determined that qualification requirements for security personnel provided under a contract for security services at TVA nuclear plants were met in all material respects, except that TVA security officials did not certify the training and qualification records at one plant in a timely manner. We also identified an opportunity for TVA to strengthen its background investigation process. TVA took appropriate corrective action.

CONCERNS RESOLUTION PROGRAM

We performed three reviews of the TVA Nuclear (TVAN) Concerns Resolution Program—an overall assessment of TVA's program, an assessment of SQN's program, and an assessment of the

overall program with respect to nuclear security personnel. We determined that:

- The fundamental mission of TVA's Concerns Resolution Program was being met. We assessed the program's effectiveness by (1) randomly surveying 275 TVAN and contractor employees' 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 since 1993.
- The SQN workforce (both TVA and contractor employees) was willing to report nuclear safety and quality issues through some avenue and had confidence in TVA's Concerns Resolution Program. Our opinion was based on a survey of 174 SQN and 75 contractor employees.
- Virtually all employees of TVA's contracted nuclear security workforce would report a nuclear safety or quality problem through some avenue. Our assessment was based on a survey of 76 of the 311 contractor security employees who had unescorted access to TVA's nuclear plants as of August 13, 2002. In some areas, the survey results indicated substantive improvement over the results of a prior survey of the security workforce. However, results continued to be less favorable than the survey results from the overall TVAN assessment.

Summary of Representative Investigations

During the last 6 months, we closed 75 investigations, including 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) \$1,301,147 in recoveries, projected savings, and fines/penalties; (2) six subjects indicted; and (3) four subjects convicted. Representative investigations are highlighted below.

WORKERS' COMPENSATION FRAUD

We determined that a former TVA employee receiving workers' compensation benefits failed to disclose pertinent earnings information about his employment as a construction company inspector.

After reviewing information received by the TVA OIG, the Office of Workers' Compensation Programs (OWCP) re-rated the individual's earnings ability, reducing his monthly OWCP benefits and saving TVA a projected total of \$365,976 over the course of the individual's lifetime. In addition, based on our findings, OWCP declared it had previously overpaid the individual \$46,699.

INTERNATIONAL CONTRACTORS— INFORMATION SECURITY ISSUES

We investigated allegations related to TVA contracting with a Pakistan-based company, post-September 11, 2001, to assist in transmission-related system impact studies. These studies included information only available to TVA employees on a need-to-know basis. TVA initially declined to contract with the company; however, the company opened an office in Canada, and the contract was issued.

Our investigation revealed another contractor company, based in New York City, received sensitive documents from TVA for CAD (computer-aided design) conversion, then electronically forwarded the documents to India, where the work was actually performed.

Although we found no evidence of security breaches or misconduct in the administration of these contracts, security concerns remained. Among these concerns were difficulties in performing background checks on the contractors' employees and the lack of control over sensitive information sent abroad.

We apprised TVA management of our findings in these two cases. As a result, the Senior Vice President, Procurement, advised that TVA implemented new contract language to address additional security requirements for TVA contractor personnel, and guidelines are being

developed for contracting with foreign companies and protecting information. In addition, TVA Police, which carries the responsibility for performing most TVA employment background investigations, has also been asked to review its personnel security policy regarding contractor personnel.

JOINT TERRORISM TASK FORCE

Because of TVA's critical energy-related infrastructure, the OIG began participating during this reporting period on the Joint Terrorism Task Force (JTTF) led by the Federal Bureau of Investigation (FBI) Knoxville Field Division.

The FBI defines JTTF as "teams of state and local law enforcement officers, FBI [a]gents, and other federal agents and personnel who work shoulder-to-shoulder to investigate and prevent acts of terrorism. These task forces are important 'force multipliers' in the war on terror, pooling multi-agency expertise and ensuring the timely collection and sharing of intelligence absolutely critical to prevention efforts. Although the first JTTF came into being in 1980, the total number of task forces has nearly doubled since September 11, 2001. Today, there are 66 JTTF, including 1 in each of the FBI's 56 main field offices and 10 in smaller offices. More than 2,300 personnel work on these task forces nationwide."

**TOOL MANAGEMENT PROGRAM—
CRIMINAL INVESTIGATION RESULTS**

Our investigation of the theft of tools from TVA's Tool Management Program has resulted in five convictions and is now complete.

The last conviction involved a TVA contractor employee who pled guilty in federal court to a charge of making a false statement to the OIG regarding his knowledge and participation in the theft of TVA tools and equipment. The individual subsequently was sentenced to two years' probation, 100 hours' community service, and \$5,100 in fines and assessments.

Additional convictions included two other contractor managers, a private business owner, and a brother of one of the contractor managers. They were convicted in prior reporting periods of various offenses, including conspiracy, making false statements, and theft involving approximately \$1 million in stolen TVA property. TVA has recovered the loss from the contractor and restitution from the defendants.

EMPLOYEE ISSUES

Differing Views

We investigated an allegation that a Fossil Power Group (FPG) manager harassed an employee because he believed the employee had raised an issue to the OIG. We found the manager (1) made statements to the employee which, in our opinion, were inappropriate

and intended to discourage the employee from raising issues to the OIG and (2) sent an e-mail which was not consistent with TVA's policy on the expression of differing views.

The manager received a verbal warning, and FPG management (1) discussed TVA's differing views policy with the involved fossil plant's management to ensure no misunderstanding of requirements or words/actions could create a chilling effect to employees voicing concerns and (2) reinforced TVA's and the plant's commitment to this policy through a site-wide communiqué.

Harassing and Inappropriate E-Mail

Our investigation found that a contractor employee sent harassing e-mails to a coworker and the coworker's husband. The employee initially provided false information regarding her involvement, but subsequently admitted sending the e-mails. In addition, we determined the recipient of the harassing e-mails forwarded inappropriate e-mails to others at the work site in violation of TVA policy, and we identified a computer security weakness. Management took corrective action, including issuing warnings to the two contractor employees and taking steps to correct the security weakness.

Falsified Documentation

We provided information that a TVA training instructor falsified students' survey evaluations. The employee's pay-for-performance was linked to the results of

the evaluations. TVA management subsequently terminated the individual's employment. In addition, another TVA employee received a written warning for collecting personal information regarding the terminated employee's performance and leave records.

Ethics Violation

We determined that a TVA employee, who was personally and substantially involved in matters related to a purchasing contract, violated ethics regulations by accepting over 40 meals purchased by the contractor for himself, or for himself and his wife. In some instances, the meals were improperly invoiced to TVA as well. The employee received a warning letter, was required to undergo ethics training, and was required to reimburse the contractor and TVA for the contractor-provided meals.

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. The case below reflects our involvement in the Eastern District of Tennessee Health Care Fraud Task Force. Participants on the task force include investigative arms of federal, state, and local agencies, and Blue Cross/Blue Shield of Tennessee's (BCBST) Special Investigations Unit.

Physician's Guilty Plea and Sentencing

Previously, we reported a Knoxville, Tennessee, physician and nurse were named in a 57-count indictment, which included charges of conspiracy, money laundering, mail fraud, and health care fraud.

During this reporting period, the physician pled guilty to five counts of the indictment, charging him with money laundering and defrauding TennCare/Medicaid, Medicare, TVA, and BCBST benefits programs. (Charges against the nurse were dismissed.)

The physician was sentenced to 15 months' imprisonment followed by 3 years' supervised release, and he was ordered to pay restitution of \$247,546 to the defrauded benefits plans.

ENVIRONMENTAL CRIMES JOINT TASK FORCE

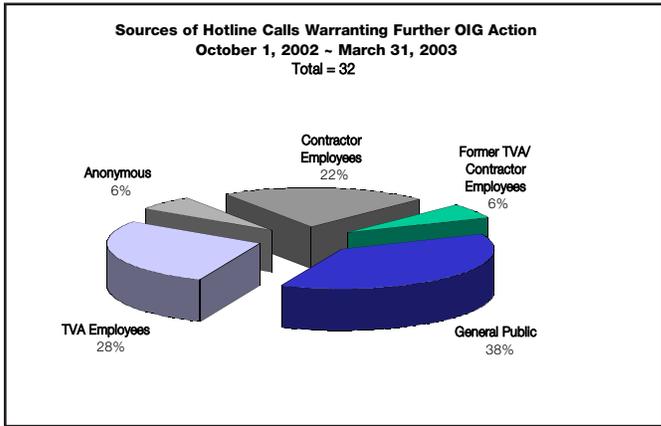
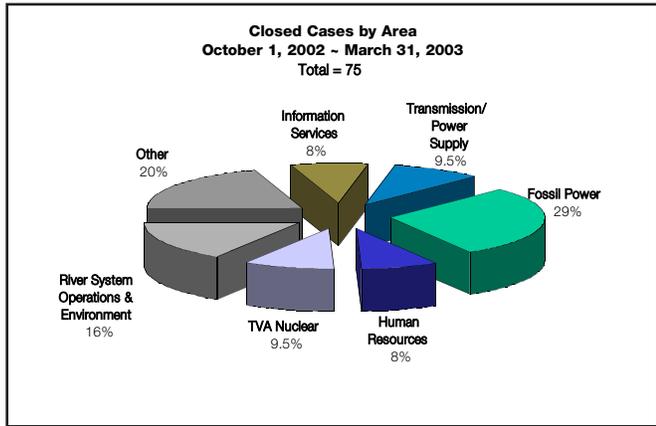
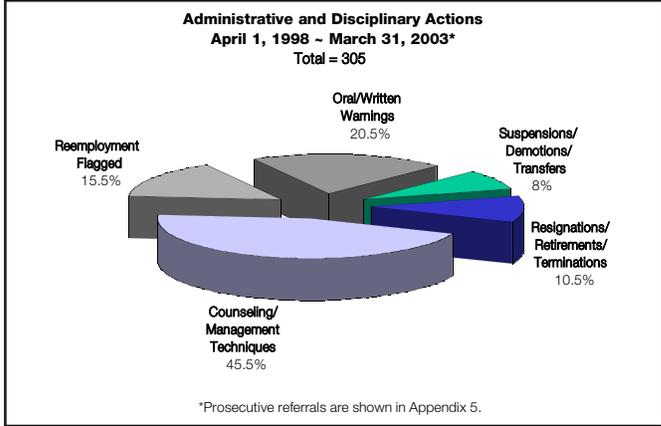
We continued our participation in the Environmental Crimes Joint Task Force (ECJTF), which is comprised of members from numerous federal and state agencies. ECJTF focuses enhanced law enforcement resources against individuals and companies by applying the most effective federal and state criminal and civil statutes. Highlights of the task force's work reported during this period include the following.

Illegal Disposal of Hazardous Waste

The ECJTF investigated a Sevierville, Tennessee, metals treatment company for mishandling and dumping hazardous waste into the Little Pigeon River. In January 2003, the company and its president pled guilty to violating the Clean Water Act. The company's president was fined \$50,000; the company was ordered to pay \$100,000 restitution each to the city of Sevierville and TVA Police. This investigation also resulted in the company spending an additional \$384,500 to correct deficiencies and achieve environmental compliance.

INFORMATION TECHNOLOGY ISSUE

During a prior reporting period, we found that one nuclear plant's "intranet" (shared drives) contained easily accessible documents that displayed personal employee information, including performance reviews, development plans, and social security numbers. We expanded our review during this reporting period to TVA's other nuclear plants and found a few instances where records containing employee social security numbers were not being adequately protected. Management took appropriate corrective action at all three plants.



We continued to follow issues of interest to the OIG and TVA. During this reporting period, we reviewed and took steps to implement provisions of the Homeland Security Act of 2002, E-Government Act of 2002, and regulations issued under the Health Insurance Portability and Accountability Act (HIPAA) of 1996. We also worked with the President's Council on Integrity and Efficiency (PCIE) in submitting comments on legislative matters of interest to the Inspector General community.

More specifically, our efforts in response to the Homeland Security Act included adopting an aggressive law enforcement skills refresher training program, as discussed in this report, and working with the PCIE to submit community suggestions on the DOJ guidance to be issued on law enforcement authority. We also have been instrumental in developing a peer review guide for the OIG community in response to the requirement in the Homeland Security Act that OIGs establish such an external review process. We further have amended our routine use notices under the Privacy Act to allow the disclosure of investigative records in connection with peer reviews.

In response to the HIPAA regulations, we took steps to ensure OIG compliance. Those steps included analyzing how HIPAA might affect our operations, segregating and securing files containing medical information, and having employees who work with medical information take appropriate HIPAA training. We also monitored the steps TVA is taking to comply with HIPAA.

The Government Information Security Reform Act was revised under the E-Government Act of 2002 and renamed the Federal Information Security Management Act (FISMA). FISMA requires federal agencies to (1) review and improve the security of their information and system assets and (2) report annually on their security plans and milestones. FISMA also requires OIGs to independently evaluate agency compliance with FISMA and issue an annual report. In accordance with that Act, we have conducted an independent annual evaluation of TVA's information security program and practices.



APPENDICES

Index of Reporting Requirements Under the Inspector General Act

REPORTING REQUIREMENT	PAGE
Section 4(a)(2) Review of Legislation and Regulations	18
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	6-17
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	6-17
Section 5(a)(3) Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4) Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 5
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 2
Section 5(a)(7) Summary of Particularly Significant Reports	8-17
Section 5(a)(8) Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 3
Section 5(a)(9) Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 3
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

Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
------------------------------------	-------	---------------------	----------------------	----------------------------

CONTRACT

2002-077V 10/11/02	Advatech - Preaward			\$33,400,000
2002-091V 10/23/02	Roberts & Schaefer Company - Preaward			
2003-001C 11/19/02	Quality Technical Services - Preaward			
2003-005C 11/19/02	Numanco LLC - Labor Markup Rates - Preaward			408,000
2002-062E 11/19/02	Bowie Resources, Ltd. - Contract No. 98P01-238224-000			
2002-073V 11/26/02	Waste Management, Inc. - Pricing Accuracy - Contract No. 00000531	\$42,048		
2003-007C 12/11/02	Dearborn Mid-West Conveyer Company - Preaward			850,000
2003-006C 12/20/02	Jacobs Engineering Group - Preaward			
2002-004C-02 01/30/03	EPRI Statcom Royalty Payments	528,494	\$528,494	
2002-045V 02/07/03	Laroche Industries, Inc. - Preaward			97,000
2002-070C 02/14/03	Fastenal - Contract No. 97X7E-201905	215,804		
2002-078V 03/12/03	TVA's Prescription Drug Program Administered by Medco Health Solutions	2,157		
2002-071C 03/19/03	Diversified Pharmaceutical Services, Inc.	39,757	39,757	
2000-041C 03/20/03	RAG Cumberland Resources - Contract No. 95P05-129504			
2002-087V 03/28/03	Holtec International Claim	297,166	297,166	

Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
------------------------------------	-------	---------------------	----------------------	----------------------------

FINANCIAL

2002-081C 10/02/02	Transfer of Costs Between Maintenance Expense and Capital Costs			
------------------------------	---	--	--	--

2002-074C 12/19/02	Costs for Property, Plant, and Equipment Additions			
------------------------------	---	--	--	--

2002-037V 12/20/02	TVA's Purchasing Card Program			
------------------------------	-------------------------------	--	--	--

2002-068C 12/30/02	Review of TVA's FY 2002 Financial Statement Audit			
------------------------------	--	--	--	--

2003-016F 02/06/03	Verification of FY 2002 Summarized FACTS Data			
------------------------------	--	--	--	--

2003-008F 02/14/03	TVA's Tax Equivalent Payments			
------------------------------	-------------------------------	--	--	--

2003-018F 03/26/03	TVA's Short-Term Debt			
------------------------------	-----------------------	--	--	--

INFORMATION TECHNOLOGY

2002-012T-01 10/25/02	Nuclear Facility Access Control Systems Security - Sequoyah Nuclear Plant			
---------------------------------	--	--	--	--

2002-043T-01 01/06/03	Power Billing System Security and Application Controls			
---------------------------------	---	--	--	--

2002-090T 02/07/03	Transmission and Energy Scheduler System Change and Continuity Controls			
------------------------------	--	--	--	--

2003-020T 03/17/03	Electronic Funds Transfer System General Controls			
------------------------------	--	--	--	--

2002-012T-02 03/18/03	Nuclear Facility Access Control Systems Security - Watts Bar Nuclear Plant			
---------------------------------	---	--	--	--

Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
OPERATIONAL				
2002-079E 12/04/02	Power Supply Planning Process Survey			
2002-083V 12/20/02	Concerns Resolution Program - TVA Nuclear 2002			
2002-084V 12/20/02	Concerns Resolution Program - Sequoyah Nuclear Plant 2002			
2002-085V 12/20/02	Concerns Resolution Program - Nuclear Security 2002			
2002-048C-02 01/07/03	Pinkerton Government Services, Inc. - Qualifications			
2002-075E 03/03/03	Integrity of Selected Fossil Power Data Input Into Model KW3000			
2002-051V 03/26/03	Investment Recovery's Program for GSA Materials Redeployment			
TOTAL	34	\$1,125,426	\$865,417	\$34,755,000*

* 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	0	\$0	\$0
B. Which were issued during the reporting period	6	\$1,125,426	\$865,417
Subtotals of A and B	6*	\$1,125,426	\$865,417
C. For which a management decision was made during the reporting period	5	\$988,640	\$865,417
(i) Dollar value of disallowed costs	5	\$988,640	\$865,417
(ii) Dollar value of costs not disallowed	0	\$0	\$0
D. For which no management decision has been made by the end of the reporting period	2	\$136,786	\$0
E. For which no management decision was made within six months of issuance	0	\$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.

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	\$8,567,000
B. Which were issued during the reporting period	4	\$34,755,000
Subtotals of A and B	6	\$43,322,000
C. For which a management decision was made during the reporting period	6*	\$43,322,000
(i) Dollar value of disallowed costs	4	\$37,969,000
(ii) Dollar value of costs not disallowed	4	\$5,353,000
D. For which no management decision has been made by the end of the reporting period	0	\$0
E. For which no management decision was made within six months of issuance	0	\$0

* The total number of reports differs from the sum of C.(i) and C.(ii) when the same reports contain both costs disallowed and not disallowed by management.

Audit Reports With Corrective Actions Pending

Final corrective actions on recommendations in four contract compliance audits, two operational audits, three financial-related audits, and six information technology audits had not been fully implemented as of March 31, 2003; however, all are being implemented in accordance with currently established milestones.

AUDIT REPORT NUMBER AND DATE	DESCRIPTION
2000-012P 01/09/2002	This report included recommendations to clarify several provisions in TVA's Affirmative Procurement Plan and to ensure documentation is maintained to support waivers from the revised plan. TVA plans to issue a revised plan to address these issues shortly.
2000-026C-01 04/02/2001	This report contained a recommendation to implement electronic data processing to collect hours and rates billed for staff augmentation services and evaluate systems to determine how to best meet these data processing needs. Representatives from several TVA organizations are formulating a broad initiative to address issues with managing TVA's contract workforce. Plans for this effort are expected to be complete in June 2003 and will be presented to stakeholders with recommendations for action.
2000-030P 08/13/2002	This report contained recommendations to pursue recovery of ineligible payments and strengthen eligibility-related processing controls. TVA management has initiated, but not completed, action addressing these recommendations.
2001-032F 11/07/2001	This report included recommendations to institute an updated land management business practice and revise, update, and/or integrate processes and systems to facilitate better communication among TVA organizations. TVA management has initiated, but not completed, action addressing these recommendations.
2001-064T 12/21/2001	This report included recommendations to upgrade firewall hardware and software, upgrade server and operating system security, and develop and implement policies and procedures to address access authorization, intrusion detection, program change control, and contingency planning and disaster recovery. All recommendations have been implemented with the exception of the change control procedure and that should be completed by June 2003.
2001-074T 01/07/2002	This report contained recommendations regarding facility access control. TVA decided to replace its system for controlling access to non-nuclear facilities and is now evaluating vendor proposals.
2001-087C 04/30/2002	This report included recommendations to recover ineligible costs and improve contract administration. TVA has taken action to address the contract administration issues and is in the process of negotiating a settlement of the ineligible costs.
2002-004C-01 07/24/2002	This report included recommendations to strengthen contract terms in several areas and improve record keeping of costs incurred by the contractor. TVA is addressing the recommendations in ongoing negotiations with the contractor.

Audit Reports With Corrective Actions Pending

AUDIT REPORT
NUMBER
AND DATE

DESCRIPTION

2002-013T

07/24/2002

This report included recommendations to improve user authentication, upgrade server authentication controls and operating system security, upgrade firewall software, and develop methods for regular reviews of firewall security logs. TVA has improved security for this application and negotiated a replacement product. Final action is expected by the end of fiscal year 2003.

2002-017T

06/25/2002

This report included recommendations to protect computer equipment from water damage, ensure that computers comply with guidelines, document a contingency plan, develop and implement a formal software change control procedure, and strengthen firewall access authorization and administration. All recommendations have been implemented with the exception of the change control procedure and that is expected to be completed by June 2003.

2002-020C

07/23/2002

This report contained recommendations to ensure employee safety training needs are assessed and tracked, compliance inspections are completed, and injury/illness investigation reports are completed for injuries and illnesses in accordance with TVA policy. TVA management notified us that final action was completed in April 2003.

2002-025T

08/07/2002

This report contained recommendations to strengthen environmental and logical controls of TVA's implementation of Windows 2000 and Windows XP. TVA management agreed with and is implementing recommendations.

2002-034C

07/31/2002

This report included recommendations to amend policies and procedures, improve communication and monitoring controls, and assess the need for additional collection agents. TVA management has initiated, but not completed, action addressing these recommendations.

2002-051T

09/27/2002

This report contained recommendations to strengthen IT Store purchase approval controls. TVA management advises it will draft and publish new standard programs/processes documents to address the IT Store procurement process by July 31, 2003.

2002-072C

09/27/2002

This report contained a recommendation to clarify the contract language regarding the basis to be used for price increases. TVA is addressing this recommendation in current negotiations.

Investigative Referrals and Prosecutive Results

Referrals

Subjects Referred to United States Attorneys*	12
Subjects Referred to Other Agencies for Investigative or Administrative Action	0

Results

Subjects Indicted	6
Subjects Convicted	4
Referrals Declined	7

OWCP declared an overpayment of \$46,699 for an individual, which he is to reimburse. In addition, his earning capacity was re-rated, which is projected to save TVA a total of \$365,976 over the course of the individual's lifetime.

* Includes referrals made by task forces on which we participate.

	MAR 31, 2003	SEPT 30, 2002	MAR 31, 2002	SEPT 30, 2001	MAR 31, 2001
ANNUAL BUDGET (In Millions of Dollars)	8.5	8.0	8.0*	8.6	8.6
CURRENT STAFFING	84	87	86	86	74

AUDITS & SPECIAL PROJECTS

AUDITS IN PROGRESS

Carried Forward	35**	33	38	45	43
Started	41	44	43	44	52
Canceled	(4)	(4)	(8)	(4)	(7)
Completed	(34)	(40)	(40)	(47)	(43)
In Progress at End of Reporting Period	38	33	33	38	45

AUDIT RESULTS (Thousands)

Questioned Costs	\$1,125	\$3,816	\$1,780	\$3,519	\$2,613
Disallowed by TVA	989	911	267	1,236	3,010
Recovered by TVA	221	387	225	1,634	821

Funds to Be Put to Better Use

Agreed to by TVA	\$34,755	\$52,037	\$31,874	\$10,401	\$70,422
Realized by TVA	37,969	44,944	6,069	10,155	37,450
	38,172	16,014	6,090	8,277	30,918

NONAUDIT SERVICES

Completed	36	16	12	0	13
Cost Savings Identified/Realized (Thousands)	0	0	0	0	0

INVESTIGATIONS***

INVESTIGATION CASELOAD

Opened	87	78	93	94	86
Closed	75	89	114	120	83
In Progress at End of Reporting Period	127	115	126	147	173

INVESTIGATIVE RESULTS (Thousands)

Recoveries	\$879	\$961	\$233	\$5,862**	\$214
Savings	366	8	1,175	542	532
Fines/Penalties	56	86	0.1	114**	250

ADMINISTRATIVE AND DISCIPLINARY ACTIONS

Recommended (# of Cases)	15	18	22	13	14
Actions Taken (# of Subjects)	16	7	6	8	30
Counseling/Management Techniques Employed (# of Cases)	16	24	15	3	9

PROSECUTIVE ACTIVITIES (# of Subjects)

Referred	12	19	5	13	20**
Indicted	6	9	5	5	19
Convicted	4	4	3	7	14

* Reduction represents the transfer of certain benefit costs to corporate rather than organizational expense accounts.

** Adjusted from previous reporting period.

*** The numbers below include task force activities.

Tennessee Valley Authority
Office of the Inspector General

Help Track Down Fraud, Waste, and Abuse at TVA



Contact the OIG Hotline
1-800-323-3835

To report:

- Contract or computer fraud
- Computer misuse or crimes
- False statements or false claims
- Irregularities in financial reporting
- Conflicts of interest and other ethics violations
- Travel fraud
- Theft or misuse of TVA property
- Management reprisal
- Workers' compensation fraud
- Bribery, kickbacks, or gratuities
- Health care fraud
- Environmental, health, and safety violations

For additional information, see our Web site at oig.tva.gov

The OIG Vision:

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

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