

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

# Office of the Inspector General



**April 1 - September 30, 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.



**Office of the Inspector General**

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

Richard W. Moore  
Inspector General

October 31, 2003

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This is my first report to the Board of Directors and to the United States Congress after being nominated by President Bush in February and later confirmed by the United States Senate in May. I am appreciative of the trust and confidence placed in me by the President given what I view as significant challenges for both my office and TVA. President Bush met with the Inspectors General (IGs) in Washington on October 14, 2003, and expressed his support of our efforts to bring about good government in our respective federal agencies. The President met with us in the Indian Treaty Room of the Eisenhower Executive Office Building to underscore his commitment to achieving the necessary changes in government to make it work better for the American people. He noted that IGs are regarded as “agents of positive change.” Our meeting with the President was part of our celebration of the 25th anniversary of the enactment of the IG Act.

These past six months have confirmed my belief that the OIG at TVA has an admirable history of promoting positive change. That has been true despite the inherent limitations that come with IGs having been previously appointed by the Board rather than the President. Promoting positive change is not always universally heralded in federal agencies, and IGs must have absolute independence in their audits and investigations if their work is to be credible. In 2000, Congress recognized the need for greater independence for the IG at TVA by enacting Public Law No. 106-422 which converted the IG from Board-appointed to one appointed by the President with the advice and consent of the Senate. My commitment, given this new level of independence, is to ensure that we continue to promote excellence at TVA and to do so with increased vigor. I firmly believe that TVA will benefit from a truly independent IG, and Congress will be better served in its oversight responsibilities of TVA.

The OIG here at TVA is blessed with a cadre of highly trained professionals who until my appointment were ably led by Acting IG Don Hickman. Under Mr. Hickman’s leadership, significant accomplishments were achieved as noted in prior reports to the Board and to Congress. I appreciate Mr. Hickman’s commitment and leadership which continue to be an asset to our office.

As this report indicates, we have tackled significant issues, and we have made progress in protecting TVA’s assets and in identifying ways that programs can be better run. Perhaps more importantly, we serve the equally important role of deterring others who witness our aggressive audits and investigations.

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

Page 2

October 31, 2003

As a former federal prosecutor, I am particularly sensitive to fraud indicators in an organization. Systemic fraud is easily perpetrated when controls are weak and the financial incentive is high. We have marshaled the talents of some of our best auditors and investigators to focus on fraud against TVA. The Inspections unit in Chattanooga has been charged with the mission of identifying fraud against TVA and following the evidence wherever it leads. I have every reason to believe they will be successful.

Finally, I want to acknowledge the many courtesies extended to me by Chairman McCullough, Director Baxter, and Director Harris in assisting me during this transition time. Their continued recognition of the importance of the work of the OIG at TVA has been encouraging. We are all fortunate to live and work in East Tennessee and the Tennessee Valley Region, and I look forward making progress together over the coming years.

Very truly yours,

A handwritten signature in cursive script, reading "Richard W. Moore". The signature is written in black ink and is positioned to the right of the typed name "Richard W. Moore".

<b>Executive Summary</b>	<b>1</b>
<b>TVA Profile</b>	<b>2</b>
<b>Office of the Inspector General</b>	<b>3</b>
<b>Special Features</b>	<b>6</b>
<b>Audits</b>	<b>9</b>
<b>Investigations</b>	<b>14</b>
<b>Legislation and Regulations</b>	<b>22</b>
<b>Appendices</b>	<b>24</b>
Appendix 1 Index of Reporting Requirements Under the Inspector General Act	25
Appendix 2 Audit Reports Issued	26
Appendix 3 Audit Reports Issued With Questioned Costs and Recommendations for Better Use of Funds	29
Appendix 4 Audit Reports With Corrective Actions Pending	31
Appendix 5 Investigative Referrals and Prosecutive Results	34
<b>Highlights</b>	<b>35</b>

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

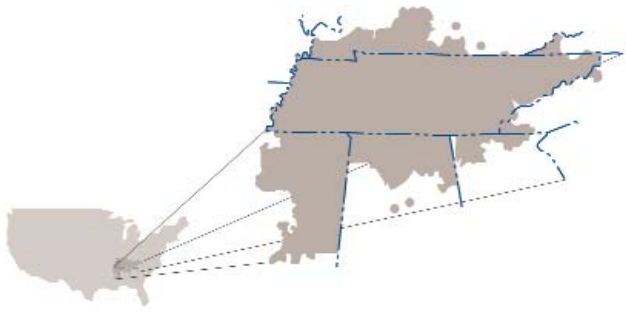
# EXECUTIVE SUMMARY

During this reporting period, we continued to support TVA by conducting objective audits, investigations, and other projects. In accordance with our mission, our reviews are designed to promote economy, effectiveness, and efficiency while detecting and preventing fraud, waste, and abuse. In total, we identified over \$10 million in recoveries, fines/penalties, potential savings, questioned costs, or funds which could be put to better use.

We completed 34 audits and 15 nonaudit service engagements during this reporting period, identifying nearly \$9 million in potential savings. These reviews included (1) pre- and postaward contract audits, (2) other financial-related audits, (3) information technology (IT) reviews, and (4) performance reviews of TVA operations. As part of our oversight role of TVA financial reporting, we performed reviews of Pricewaterhouse Coopers' work on TVA's quarterly financial information. In addition, in conjunction with Information Services, we used audit, investigative, and contract resources to continue conducting an assessment of IT security throughout TVA. Corrective actions in response to our audits included monetary recoveries, process improvements, and security enhancements.

We closed 92 investigations, including multi-agency task force projects, which led to (1) over \$1.39 million in recoveries, projected savings, and fines/penalties; (2) administrative or disciplinary action against 24 individuals; and (3) other corrective action, such as counseling and management techniques, in 21 cases. Matters we investigated included employee misconduct, contract issues, health care fraud, and environmental crimes. Our investigative activities led to the indictment of four subjects and conviction of ten.

In addition, during this reporting period we created an Inspections unit which will operate out of our Chattanooga office. The primary responsibility for this unit will be to identify fraud against TVA and develop cases for criminal prosecution as warranted. The Inspections unit will be based on a task force model that will pair auditors with investigators. They will also identify weak controls in TVA programs that make them vulnerable to fraud. We staffed the office with a former federal prosecutor who will lead the team, an Inspections department composed of auditors and an Investigations department consisting of criminal investigators.



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 more than 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 IG Act Amendments of 1988. Those amendments established OIGs at TVA and 32 other agencies with IGs appointed by the agency heads. The authority to appoint the TVA IG was transferred to the President in November 2000 by Public Law No. 106-422.

The IG 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 IG is independent and subject only to the general supervision of the TVA Board of Directors. The IG's authority includes conducting any audits or investigations the IG deems necessary or desirable, issuing subpoenas, administering oaths, and granting confidentiality to individuals who provide information to the OIG.

## Organization

---

During the majority of this reporting period, the OIG consisted of two major operational units—Audits and Investigations. However, at the end of the reporting period we created an Inspections unit, headed by an Assistant IG (AIG) for Inspections. The following description applies to the office subsequent to the creation of Inspections.

Audits consists of three departments. One is devoted to both pre- and postaward contract audits, one incorporates financial and operational audits, and the third focuses on IT-related issues.

Investigations consists of three departments. One focuses on identifying and investigating potential misconduct and integrity issues. The second focuses on computer crimes, computer forensic support during investigations, and health care fraud. The third department, which has a dotted line reporting relationship to the AIG for Inspections, will seek out fraud.

Inspections consists of two departments. In addition to the Financial Investigations department, a Financial Inspections department is staffed by auditors. The Inspections unit will function as a joint audit/investigative task force.



## TVA's First Presidentially Appointed Inspector General

---

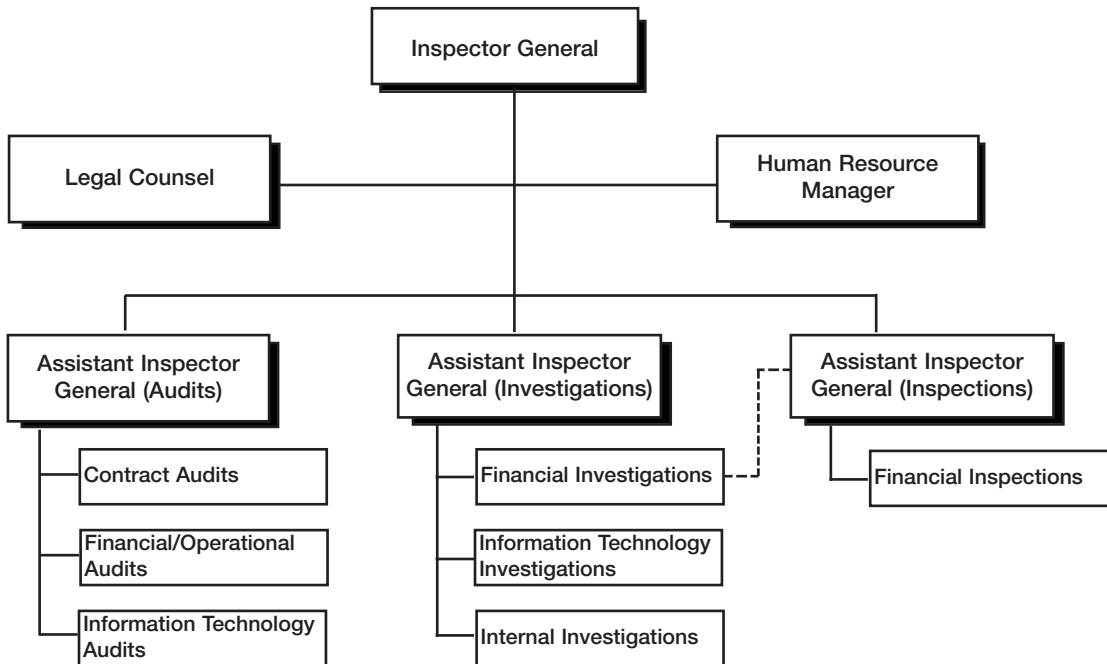
Effective May 9, 2003, Richard W. Moore became TVA's first Presidentially appointed IG. Prior to becoming the IG, Mr. Moore was an Assistant U.S. Attorney in the southern district of Alabama where he served as the Anti-Terrorism Task Force Coordinator. Mr. Moore supervised the investigations of suspected terrorist activities in the Mobile area. He previously served as Senior Litigation Counsel at the U.S. Attorney's Office, where he specialized in the prosecution of white-collar fraud. He also was an Atlantic Fellow in Public Policy at Oxford University, Oxford, England, during 1997, where he focused on the prosecution of complex international fraud cases.

## Staffing and Budget

---

The OIG's primary location is in the TVA headquarters in Knoxville, Tennessee. The OIG also has a satellite office with 12 people located in Chattanooga, Tennessee, and a 1-person office at the Browns Ferry Nuclear Plant (BFN) in Alabama.

We offered a workforce optimization program during this reporting period, which led to nine OIG employees retiring. We intend to utilize these vacancies primarily to staff the Inspections unit in Chattanooga. 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 Richard W. Moore .....(865) 632-4120	Financial/Operational Audits Manager Vacant .....(865) 632-2272
Legal Counsel Richard P. Levi .....(865) 632-6197	Information Technology Audits Manager Jill M. Matthews .....(865) 632-4730
Human Resource Manager Kay T. Myers .....(865) 632-7718	Audit Quality Manager Paul E. Ivie .....(865) 632-2272
OIG Media Relations Anne B. Ferrell .....(865) 632-3505	Information Technology Investigations Manager Curtis D. Phillips .....(865) 632-2584
Assistant Inspector General (Audits) Ben R. Wagner .....(865) 632-2272	Internal Investigations Manager C. Dale Hamilton .....(865) 632-3956
Assistant Inspector General (Investigations) G. Donald Hickman .....(865) 632-7720	Financial Investigations Manager Michael G. Duncan .....(423) 751-7821
Assistant Inspector General (Inspections) Charles A. Kandt .....(423) 751-6761	Financial Inspections Manager Deborah A. Kearnaghan .....(423) 751-3113
Contract Audits Manager David P. Wheeler .....(865) 632-4770	

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

## New Inspections Unit to Ferret Out Fraud

---

During this reporting period, the OIG created an Inspections unit located in Chattanooga, Tennessee. The mission of the Inspections unit is to identify fraud against TVA and seek prosecution of those who commit that fraud. The unit will combine the skills of auditors and investigators who will work together as a joint task force. This focused and aggressive approach to detecting fraud is expected to reap significant results for TVA.

Companies as expansive as TVA historically have been the subject of fraudulent schemes. Currently, TVA is spending millions of dollars in the purchase of fossil fuels, the startup of BFN, and a variety of other contracted services. These are fraud-prone areas for a variety of reasons, and close examination of the operations associated with them is required. Fraud schemes are often

difficult to detect, and the investigations are time intensive. We have committed the resources necessary to address the level of risk of fraud at TVA. In course of the Inspections unit's work, the controls on TVA programs will be evaluated to determine if they are part of the problem and foster fraud. Like any corporation today, TVA cannot afford to be the victim of significant fraud. The cost of such fraud is ultimately borne by the ratepayers of TVA.

Charles A. Kandt, a former Assistant U.S. Attorney, will lead the new Inspections unit in Chattanooga.

Mr. Kandt has supervised the work of task forces as a prosecutor, and his experience in building criminal cases to take to the U.S. Attorney's Office will be invaluable. The Inspections unit will also provide management at TVA with their reviews of deficiencies in programs that should be corrected to make fraud more difficult.



## The 25th Anniversary of the Inspector General Act

The IG community is celebrating the 25th anniversary of the IG Act, which created the modern day version of IGs in federal agencies and departments. The IG concept in the United States is certainly not a new one; it goes back more than 225 years to the Continental Army. When it was created during 1775, this army of citizen soldiers lacked training, supplies, discipline, and structure. At General Washington's urging, Congress appointed the first IG of the Army in December 1777 and charged him with reviewing the troops, providing instruction, instilling discipline, and reporting "all abuses, neglect and deficiencies to the Commander in Chief." Congress also wanted the IG to serve in a dual role as their agent who would provide accountability for the significant investment it had made in the Army.

The first three Army IGs served brief terms and effected little, if any, improvement. That changed when, in February 1778, a Prussian Army volunteer, Baron



Major General von Steuben

Frederick William Augustus von Steuben, arrived at Valley Forge with a letter of introduction from Benjamin Franklin. General Washington quickly assigned him to the position of Acting IG—Congress officially appointed him later that spring—and charged him with developing and implementing a training program for the American troops.

Major General von Steuben was the first effective IG and in many ways is still regarded as a role model for federal military and civilian IGs today. In addition to bringing training, discipline, and accountability to the Army, he was also known for his integrity and aversion to fraud and waste. (For example, Major General von Steuben "proclaimed the money department 'a mere farce' and said that paying quartermasters agents a commission based on what they spent was 'a prescription for waste.'") While he was resented by regimental colonels, Major General von Steuben has been credited with overcoming resistance through his character, tact, and intelligence.

Two hundred years later, the federal government was in the midst of serious financial and management scandals when Congress passed the IG Act and then President Jimmy Carter signed it into law on October 12, 1978. The initial establishment of IGs in 13 departments and agencies, each of which was

appointed by the President and confirmed by the Senate, occurred in the wake of major financial and management scandals in the federal government.

The modern IG concept was designed to provide a single focal point, combining audits and investigations, for the effort to deal with fraud, waste, and abuse in federal expenditures and programs. This type of coordination and leadership was also intended to strengthen cooperation between the agencies and the Department of Justice in investigating and prosecuting fraud cases.

The IG was to have no conflicting responsibilities which could divert his attention or divide his time. His sole responsibility was to coordinate auditing and investigating efforts and other policy initiatives designed to promote the economy, efficiency, and effectiveness of agency programs. Above all, the IGs were to have the requisite independence to do an effective job, as they would not be faced with the inherent conflict of interest which exists when audit and investigative operations are under the authority of an individual whose programs are being audited.

To respond to changes in government, the IG Act has been amended several times. The most extensive amendment occurred in 1988 when reporting requirements were clarified and IGs from designated federal agencies—where the agency head appoints the IG—were

added, more than doubling the number of IGs. The TVA IG, which had been created by the TVA Board during 1985, was made statutory by the 1988 amendment.

Today, 57 OIGs protect the integrity of the government; improve program efficiency and effectiveness; and prevent and detect fraud, waste, and abuse in federal agencies. Each year, OIG audits, inspections, and evaluations identify billions of dollars in potential savings or questioned costs, while OIG investigations lead to thousands of prosecutions and billions of dollars in potential recoveries for violations of federal criminal laws. Congress also has seen fit to expand the role of the IGs through assignments of new responsibilities, such as in the Chief Financial Officers Act, the Reports Consolidation Act, and the Federal Information Security Management Act. These new charges show that IG work “adds value” to improving the efficiency, effectiveness, and integrity of our government. We at TVA are proud to be part of the IG community and adhere to the legacy of Major General von Steuben: “Integrity, knowledge, and loyalty to conscience.”

## 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 \$1.9 million in questioned costs and almost \$7 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) pre- 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 eight preaward audits that identified \$6.9 million in potential savings opportunities. Highlights of the more significant preaward audits follow.

- We reviewed the cost proposals submitted by two contractors to provide construction and modification services for TVA's Transmission/Power Supply Program. We determined one contractor's proposal had not taken into consideration the effect a contract with TVA would have on the company's cost recovery rates.

We estimated TVA would save \$6.2 million over the five-year, \$50 million per year contract term by negotiating an appropriate reduction to the company's proposed indirect cost recovery rates. We found the costs proposed by the second contractor were fairly stated.

Negotiations for this contract award are ongoing.

- We determined a contractor's proposal to provide an alarm and access control system for various TVA facilities at a cost of about \$4.6 million was overstated. We estimated TVA could save up to \$740,000 by (1) correcting an error in subcontractor labor costs and reducing subcontractor indirect cost rates to correspond with current projections, (2) managing a proposed 10 percent contingency cost, and (3) reducing the contractor's proposed base labor and overhead rates to correspond with its forward pricing rates. Negotiations with the contractor are ongoing.
- We reviewed the indirect cost recovery rates proposed by a contractor and three of its subsidiaries to provide scientific research and technology development and determined two of the company's proposals were overstated based on their historical costs. We also found TVA occasionally provides services as a subcontractor to the contractor, who then bills the cost back to project partici-

pants, including TVA, with a 25 percent markup. We suggested TVA consider the reasonableness of paying the 25 percent markup on its own labor costs. TVA management agreed with our findings and is negotiating final contract terms with the contractor.

### **CONTRACT COMPLIANCE AUDITS**

During this reporting period, we completed eight contract compliance audits that identified about \$1.9 million in ineligible and unsupported costs.

Management generally agreed with our findings and has taken or plans to take corrective action. Highlights of some of the more significant audits follow.

- An OIG investigation of per diem payments to craft employees by a contractor on three specific jobs found the contractor had paid approximately \$85,000 in per diem to craft employees who had not met the contract's mileage requirement. We audited all per diem payments under the contract and found an additional \$208,000 in per diem payments to craft employees who did not meet the mileage requirement. Also, an estimated \$2.5 million in per diem had been paid to craft employees who appeared to meet the mileage requirement but could not prove they met an additional contract requirement of obtaining and occupying temporary lodging. Of those who met the contract's mileage require-
- ment, about half, or \$1.25 million, may have been paid to employees who could have commuted to their assigned work location. TVA management is negotiating a settlement with the contractor.
- We determined TVA was overbilled about \$367,000 by a contractor that provided right-of-way clearing and restoration services. The overbilling occurred because (1) the contractor used incorrect terrain classifications to bill TVA, (2) the contractor billed handling charges not provided for in the contract, and (3) miscellaneous billing and payment errors were made. TVA is negotiating resolution of the overbillings with the contractor.
- We determined a contractor had overbilled TVA about \$75,000 for cellular telephone equipment and services due to the (1) inclusion of unallowable sales taxes and (2) inconsistent application of a discount TVA was to receive. TVA management agreed with our findings and is working with the contractor to resolve the overbillings.
- We reviewed the temporary living allowance certifications approved for two contractors working on the BFN Unit 1 recovery and found that 31 of the 439 approved certifications did not have adequate documentation to determine if contract requirements had been met. TVA is obtaining additional documentation from the contractor. We also referred 49 other

certifications which met the contract's eligibility requirement to OIG Investigations for further review due to questionable information included on the certifications, such as several individuals claiming the same permanent residence.

**OPERATIONAL AUDITS**

**Heavy Equipment Division (HED) Operations**

HED is a self-supporting TVA organization that provides services including equipment rental, repair, maintenance, trucking services, heavy moving and lifting, and tool rental. We assessed HED's policies and practices relating to accounting, billing, and use of its equipment. We determined HED's (1) equipment inventory and record-keeping could be improved, (2) costs were accurately recorded with the possible exception of the recording of rental equipment, (3) billing rates adequately covered operating costs, and (4) equipment could be utilized more effectively in some instances. HED has taken steps to improve accountability and equipment use.

**Work Management Standardization**

We assessed the status of the Chief Operating Officer's (COO) work management standardization initiative in the Fossil Power Group (FPG) that was initiated to achieve (1) greater efficiency, (2) greater consistency, (3) use of best practices, (4) transfer of knowledge, and (5) increased workforce mobility. We

determined the standardization initiative is an ongoing effort, and the level of progress varies by FPG organization. We also found numerous barriers to the standardization effort. As a result of our review, the COO plans to (1) ensure the goals and objectives of standardization are clearly understood, (2) provide specific direction, and (3) perform gap analyses at the fossil plants.

**FINANCIAL-RELATED AUDITS**

During this reporting period, we completed 12 financial-related audits, including 3 audits of TVA's external auditor reviews of interim financial information for the first three quarters of fiscal year 2003. Highlights of the audits follow.

- We determined controls were in place and functioning, in all material respects, for identification of asset retirements associated with TVA's capital funding process and ensuring the retirements were recorded accurately. However, we identified several process improvement opportunities for management's consideration. TVA management is taking action to implement most of our recommendations.
- We determined, in all material respects, (1) TVA's revenue from sales of electricity to municipalities and cooperatives, directly served industries, and federal agencies was fairly reported in the general ledger for fiscal year 2002; and (2) power invoices were accurately calculated.



However, during the audit, TVA management identified immaterial billing errors and took action to correct those billing errors and improve related controls.

- We determined the accuracy of daily and estimated monthly generation data which TVA uses to estimate unbilled revenue could be improved. TVA has taken, or plans to take, appropriate corrective action.
- We determined TVA's proposed 2003 tariff rates for transmission, scheduling, and reactive power were fairly stated.
- We determined one TVA organization that provides services to external customers did not recover about 3 percent of its fiscal year 2002 indirect costs because overhead rates were applied based on perceived market conditions and prior-year calculations rather than current overhead calculations. In a related matter, we also found the organization's overhead calculation methodology resulted in a net overstatement of the rate, which would have led to overcharges if the calculated rate had been applied. TVA management is taking appropriate corrective action.
- We determined TVA's decommissioning liability was accurately calculated. During the audit, we noted TVA personnel discovered an error in recording the liability in TVA's accounting records due to an appar-

ent oversight. As a result, the liability was not correctly reported on TVA's unaudited financial report for the period ending December 31, 2002. TVA personnel made the appropriate correcting entry upon discovering the error.

- We concluded that, in all material respects, adequate controls existed and were being followed for payments made in TVA's system without a contract or purchase order during fiscal year 2002.
- We found no instances where TVA's external auditor's reviews of TVA interim financial information for the first three quarters of 2003 did not comply with *Government Auditing Standards* in all material respects, including required communications to appropriate parties.

#### INFORMATION TECHNOLOGY AUDITS

---

During this reporting period, we completed audits in the IT environment pertaining to (1) software used to secure TVA mainframe resources, (2) security and software change controls and continuity planning for the fixed assets system, and (3) TVA's newly developed Electronic Fuel Supply Request for Proposal System. We found improvements were needed to address weaknesses in the following areas:

- Logical security controls designed to prevent unauthorized access to system programs and data.

- Compliance with TVA and industry standards for certain implementation options, table entries, and access controls.

In addition, we reviewed the compliance of TVA's IT security program with the Federal Information Security Management Act and determined TVA management has made progress in correcting security weaknesses. However, improvements could be made regarding (1) integration of TVA's IT security program across all TVA computer resources and (2) increasing the emphasis among TVA organizations to assure adequate protection.

TVA management agreed with our findings and is taking appropriate corrective action.

#### **NON-AUDIT SERVICES**

##### **Non-Nuclear Physical Security**

We contracted with Deloitte and Touche's (D&T) Security Management Group to perform a follow-up review of the security of TVA's non-nuclear facilities. D&T concluded that TVA's efforts to enhance the security of facilities have been significant. However, D&T also identified various opportunities for TVA to improve its physical security, including taking steps to (1) ensure historical evidence and current intelligence are considered in TVA's threat determination, (2) ensure countermeasures are based on greatest long-term return and integrated with existing and planned security

initiatives, (3) implement a TVA-wide security awareness initiative, and (4) implement an automated security risk assessment and analysis tool. TVA management agreed with and has taken or plans to take action to address D&T's recommendations.

##### **Information Technology Security Assessment Project**

During this reporting period, the IT Security Assessment Project team, which consisted of resources from TVA's Information Services, the OIG, and outside consultants, completed internal assessments of TVA's IT security infrastructure. The assessments consisted of risk and vulnerability analyses, and identified vulnerabilities related to access control, system configuration, and operating system controls. The risk analyses further identified a need for an agency-wide policy to govern the protection of TVA's information assets. TVA management is reviewing the results and taking appropriate corrective action.

## Summary of Representative Investigations

---

During the past six months, we closed 92 investigations, including allegations and concerns received from ratepayers, TVA management and employees, governmental and congressional staffs, and OIG auditors. Our investigations, including task force projects, resulted in (1) over \$1.39 million in recoveries, projected savings, and fines/penalties; (2) four subjects indicted; and (3) ten subjects convicted. To provide coverage in a wide range of areas, we devoted resources to investigating possible fraud (particularly in the areas of coal procurement and workers' compensation), IT issues, alleged employee misconduct, and to supporting multi-agency task forces. Representative investigations are highlighted below.

### FRAUD INVESTIGATIONS

---

Two investigations led to convictions for fraud during this reporting period.

- A TVA employee with access to human resource records used personal information to obtain credit cards in the names of other TVA employees. The employee and her son used the cards for personal purchases. Both pled guilty in federal court to two counts of mail fraud. Each received a sentence of five years' probation, home detention of

four to six months, and payment of restitution to the credit card companies. The TVA employee resigned during our investigation.

- An individual pled guilty to making false statements in connection with a \$100,000 loan he obtained from the TVA Economic Development Loan Fund. His company filed a voluntary petition for bankruptcy after obtaining the loan, and our investigation showed he submitted false financial information to obtain the loan from TVA and a federally insured bank.

### COAL INVESTIGATIONS

---

TVA spends more than \$1.1 billion annually to purchase coal, including transportation costs. Based on this expense, we have several projects underway to identify fraud, waste, or abuse in coal acquisition. During this reporting period, we completed two coal-related investigations.

- We completed an investigation relating to use of the drafting method to weigh coal shipped on barges. Under that method, the weight of the coal is determined by measuring the water level on the barge before and after the coal is loaded and using standard charts to calculate the weight based on the difference. We are reviewing with TVA management the methodology of draft weights and questions about their accuracy. We estimated TVA overpaid a coal con-

tractor roughly \$1,000,000 and the barge company roughly \$295,000 based on barge weights. TVA management advised it would attempt to recover the overpayments, and it would take corrective action to ensure that in the future coal weights are accurate.

- We also investigated a variance between coal weights as determined by TVA scales at a fossil plant and invoiced by a contractor. The contract provided that TVA weights shall govern when the variance exceeded 1.5 percent, which it did for 96 percent of the barges used. However, plant personnel failed to report these variances to the TVA contract administrator. We also found that the barge company which delivered the coal failed to return the residual coal to TVA when it removed barges from TVA service, as required by the contract. Management is considering what action to take in response to our findings.

**WORKERS’ COMPENSATION INVESTIGATIONS**

---

Our efforts to identify workers’ compensation fraud continued. Anyone convicted of fraud in connection with a workers’ compensation claim is no longer eligible to receive workers’ compensation benefits. Accordingly, convictions generally lead to significant long-term avoided costs for TVA. Results during this reporting period included the following.

- We previously substantiated an allegation that a former TVA employee was working while receiving benefits for an injury sustained at TVA. The investigation revealed the former employee was working as a carpenter but reported to the Office of Workers’ Compensation Programs (OWCP) at the Department of Labor that he was not working. The former employee was convicted of filing false statements to obtain benefits and was sentenced to 8 months’ confinement, 36 months’ supervised release, and payment of \$22,987 in restitution. During this reporting period, OWCP forfeited the compensation paid during the period covered by the false statements and declared an overpayment of \$45,898.
- In another investigation, we found that a former TVA employee was receiving excessive workers’ compensation benefits. OWCP subsequently reduced the individual’s benefits by \$14,240 annually, resulting in a projected long-term avoided cost to TVA of \$526,887.

**INFORMATION TECHNOLOGY ISSUES**

---

The OIG established a forensic computer laboratory, and both Investigations and Audit participated with TVA’s Information Services (IS) in a project to evaluate TVA’s IT security infrastructure (as discussed earlier in this report). In addition, we conducted numerous investigations

of alleged computer abuse, including alleged unauthorized access and inappropriate usage. Representative investigations included the following.

- We completed an investigation concerning a contractor remotely accessing a TVA University (TVAU) server that contained TVA Nuclear records and making changes to a database. We found that a TVAU employee allowed the contractor to remotely access and control her computer without approval or coordination with IS. However, the employee's intent was to solve a problem, the contractor's access was limited to fixing the problem, and TVA Nuclear records were not accessed. IT Security generally agreed with our recommendations to prohibit employees from allowing others to have remote access without IS approval, to publicize this prohibition, and to take measures to preclude use of programs which allow such access.
- We investigated an alleged copyright infringement by someone using an internet provided address located on the TVA network at BFN to offer downloads of a movie. While there was insufficient evidence to determine who, if anyone, misused the TVA network, we found that employees of a TVA contractor providing security services were allowed to bring personal laptops (and other

electronic devices) to BFN to use during work. In our opinion, allowing contractors (or others) to bring personal computers to a TVA site posed an unnecessary security risk. IT Security advised they would prohibit personal computer systems and equipment from connecting to the TVA network.

- An investigation of the circumstances under which an intern working in IT Security installed unauthorized tools on a TVA networked computer did not show any malicious intent by the intern. It did show, however, some opportunities for improvement. IT Security's actions included (1) limiting intern assignments to nonsensitive information; (2) improving processes to ensure this type of incident did not recur, including ensuring all new employees, contractors, and interns are aware of applicable TVA policies; and (3) ensuring the new Incident Handling Procedure contains instructions on removing from the TVA network any systems where a hacker tool, "Trojan," or virus is detected.

**EMPLOYEE MISCONDUCT ISSUES**

Our investigations of employee misconduct included alleged ethics violations, harassment and discrimination, and general misconduct. Our investigations serve several purposes, including detecting misconduct and exonerating those who are improperly accused.

Representative investigations included the following.

- We investigated allegations that TVA employees accepted gratuities from coal contractors. Investigation of a judgmental sample of ten employees showed eight employees accepted a few gratuities, such as tickets to sporting events, golf outings, and meals, in violation of ethics regulations. Our investigation also raised concerns about the candor of several of these employees. Because the identified violations provided sufficient information for management to take corrective action, we did not further pursue whether other expenses listed in contractor records included additional ethics violations. Our investigation also raised concerns about the approval process for acceptance of payment for travel expenses from nonfederal sources. In response to our investigation, management (1) took steps to ensure employee awareness of and compliance with ethics guidelines; (2) notified vendors of TVA's ethics guidelines; and (3) developed an approval process for acceptance of transportation, subsistence, and related official travel expenses from nonfederal sources. Management also took disciplinary action against the eight employees, as appropriate.
- Our investigation found a TVA manager engaged in misconduct, including (1) inappropriate behavior outside the workplace, (2) misuse of his TVA travel card, (3) continuing a relationship with a subordinate after being counseled to stop any activity that could create an appearance of favoritism, and (4) failing to reimburse TVA for personal calls on his TVA cellular telephone even though he consistently exceeded the allotted minutes of his calling plan. The employee subsequently resigned.
- A TVA employee did not promptly report to Employee Benefits that her son was no longer an eligible dependent under the TVA benefit plans. As a result, payments were made under TVA's benefit plans for expenses incurred by her son after he became ineligible. TVA management reminded the employee of her obligation to report matters that could affect her employment or benefits, and required her to reimburse TVA for the ineligible claims.
- We completed our investigation of the circumstances under which a female contractor employee was "initiated" by being placed into an ice basket at a nuclear plant while ice

was being blown into the basket. Our investigation confirmed that a TVA employee sent the contractor on a bogus assignment to the ice condenser so she could be “initiated,” and two contractor employees placed her in the ice basket while the ice was blowing. We found the practice of initiating people was common and had been ongoing for many years, numerous contractor and TVA employees and managers knew about the practice, and several people knew the female contractor was going to be initiated. Most individuals we interviewed who knew about the practice generally believed it was harmless. TVA management took action to reinforce that horseplay such as this would not be tolerated.

- We did not substantiate an allegation that TVA violated the Veterans’ Preference Act by failing to consider an electrician candidate’s military service. We determined the non-selection of the candidate was for other legitimate reasons.
- We determined that a Nuclear Quality Assurance manager’s employment was terminated for inappropriate behavior in the workplace, rather than for raising safety issues, as alleged by the complainant. That individual also raised his complaint to the Department of Labor.

**TASK FORCES**

---

We currently are providing the equivalent of at least one full-time agent to each of three task forces—the Health Care Fraud Task Force and Environmental Crimes Joint Task Force, both sponsored by the U.S. Attorney for the Eastern District of Tennessee, and the Joint Terrorism Task Force, led by the Federal Bureau of Investigation Knoxville Field Division. Each is discussed below.

**Health Care Fraud Task Force**

TVA operates a self-insured health benefits plan and is generally a victim of health care fraud investigated by the Health Care Fraud Task Force. By combining our resources with other government agencies, we can expand our coverage of health care fraud. Participants on the task force include investigative arms of federal, state, and local agencies, and Blue Cross/Blue Shield of Tennessee’s Special Investigations Unit. Our efforts on the task force included assisting in executing search warrants, forensic computer analysis, document analysis, interviews, and testifying at trial. Convictions during this reporting period included the following.

- An orthopedic surgeon was found guilty of 95 counts of health care fraud-related charges after a three-week trial. The indictment charged the surgeon devised a scheme to receive monetary payments from vari-

ous health care benefit programs, based upon false and fraudulent representations. The surgeon submitted health care claims for nerve blocks when trigger point injections, which are lesser reimbursable procedures, were actually performed. Additionally, the surgeon billed for and was paid for office visits to which he was not entitled. The victim health care programs included Medicare, TennCare, and the federal workers' compensation program. The total amount fraudulently billed from approximately October 1997 to January 2002 was over \$2.2 million.

- A pharmacist, a physician participating in TVA's health care plan, and two other individuals pled guilty to diverting thousands of dollars worth of prescription drugs, as follows.
  - The pharmacist pled guilty to six counts, including illegal distribution of controlled substances, illegal possession of controlled substances with intent to distribute, and obstruction of a criminal investigation of health care offenses. He was sentenced to 70 months' confinement and 3 years' supervised probation, and forfeited \$280,000 in cash seized during a search of his business.
  - The doctor and two individuals pled guilty to conspiracy to dispense and distribute controlled substances illegally. The doctor

wrote controlled substance prescriptions for these two individuals in their names and in the names of others, and those individuals either used, sold, or returned to the doctor those controlled substances.

- A pharmacist pled guilty to a seven-count information charging him with illegal distribution of a controlled substance (dihydrocodeinone), possession of a controlled substance with intent to distribute, and illegal possession of a firearm in furtherance of a drug trafficking crime. He was sentenced to a total of 63 months. He also forfeited over \$100,000 and the seized weapons.
- A chiropractor pled guilty to six counts in four indictments. The charges included conspiracy to possess with the intent to distribute a controlled substance (hydrocodone), carrying a firearm during and in relation to a drug trafficking crime, attempting to evade and defeat federal income taxes, and health care fraud. Among other things, the defendant ordered hydrocodone pills using the name and Drug Enforcement Administration number of a medical doctor who was associated with the defendant, without the knowledge or consent of the medical doctor. His sentence included 72 months' imprisonment, 5 years' supervised release, and \$40,000 in fines and restitution.

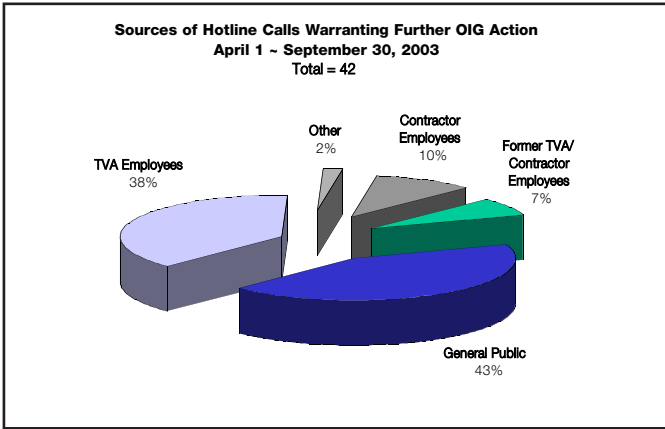
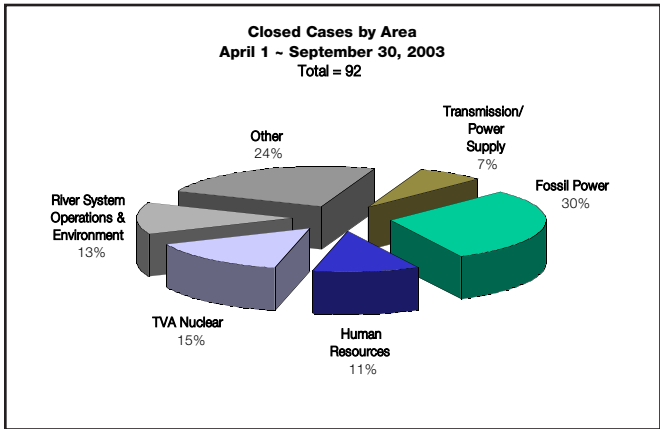
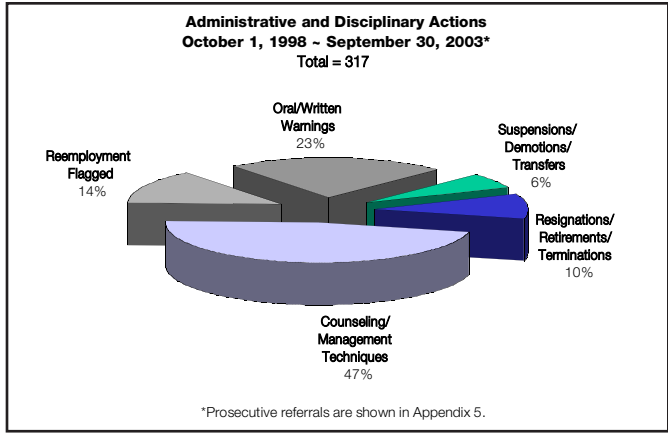


**Environmental Crimes Joint Task Force (ECJTF)**

As we previously reported, the Denver Environmental Crimes Task Force requested the assistance of the ECJTF in an investigation of a company headquartered in Chattanooga, Tennessee, which provided workers to contractors performing asbestos abatement work throughout the United States. The company used unauthorized aliens by obtaining false identification papers, using false names when taking required training, and certifying the workers had been fitted with respirators when no fit was conducted. This investigation led to multiple convictions, including conspiracy, violations of immigration laws, wire fraud, and money laundering. During this reporting period, the remaining defendant pled guilty to a pattern of violations of immigration laws and was fined and placed on probation.

**Joint Terrorism Task Force**

We continued our participation on the Joint Terrorism Task Force, which works to investigate and prevent acts of terrorism. We have devoted one special agent full-time to the task force, and have committed audit support on an as-needed basis.



We continued to follow issues of interest to the IG community and to TVA, including legislation introduced in the House and Senate to expand the size of the TVA Board and proposals to deregulate the electric utility industry. We believe the pros and cons of this proposed legislation are being fully explored, and look forward to working with both TVA and Congress in these matters.

In part because this is the 25th anniversary of the IG Act, there has been renewed discussion of possible ways to improve the IG concept, including ensuring IG independence. Issues being discussed include set terms for IGs, consolidation of smaller IG offices into larger ones, and independent personnel authority. We fully support continued pursuit of ways to augment the IG concept, and have discussed these and other suggestions both within the IG community and with individual members of Congress. We will continue to work with the community and Congress to ensure we have the best legislative back-

drop to fulfill our mission to our agencies, Congress, and the public.

We also are discussing the OIG budget process with the TVA Board and members of Congress. We understand the budgets for all other Presidentially appointed IGs are included as a separate appropriation account approved by Congress. TVA maintains, however, that the provisions of law which control the budget process at other OIGs do not apply to TVA as a wholly owned government corporation. While this Board has been fully supportive of this office and our budget, there is an appearance issue where the head of the agency has control over the IG budget with no independent third-party review. We intend to pursue this issue further to achieve a satisfactory resolution to ensure the process for approving the OIG budget preserves OIG independence in both fact and appearance.

THIS PAGE IS INTENTIONALLY LEFT BLANK.



# APPENDICES

## Index of Reporting Requirements Under the Inspector General Act

REPORTING REQUIREMENT	PAGE
Section 4(a)(2) Review of Legislation and Regulations	22
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	6-21
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	6-21
Section 5(a)(3) Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4) Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 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	9-21
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

<b>2003-013C-01</b> 04/01/2003	EPRI 501—Preaward			
<b>2003-013C-02</b> 04/01/2003	EPRI Solutions—Preaward			
<b>2003-013C-03</b> 04/01/2003	EPRI PEAC Corporation— Preaward			\$11,000
<b>2003-013C-04</b> 04/01/2003	Global Energy Partners, LLC— Preaward			
<b>2003-033C-01</b> 04/29/2003	PSC Safety and Health Services, Inc.—Preaward			
<b>2003-003C</b> 06/17/2003	Page Clearing Contractors	\$367,649		
<b>2003-050C</b> 06/27/2003	L.E. Myers—Preaward			
<b>2003-051C</b> 07/11/2003	Henkels & McCoy— Preaward			6,200,000
<b>2003-021C</b> 07/25/2003	Cleveland Automatic Sprinklers, Inc.			
<b>2003-033C-02</b> 07/28/2003	PSC Safety and Health Services Inc.—Contract No. 00004366	495		
<b>2003-038C</b> 08/05/2003	Temporary Living Allowance Program			
<b>2003-027C</b> 09/17/2003	Ferguson Harbour— Contract No. 0002663	3,455	\$3,455	
<b>2002-082C</b> 05/20/2003	Verizon Wireless	74,594		
<b>2002-080C</b> 08/07/2003	L. E. Myers Company—Contract No. 96P6G-156829-001	1,461,817	1,254,039	
<b>2003-035C</b> 08/11/2003	Lockheed Martin—Preaward			740,000
<b>2003-048P</b> 08/12/2003	Voith Siemens Hydro—Chatuge Delay Claim			

## Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
<b>FINANCIAL</b>				
<b>2003-011F</b> 04/15/2003	Controls Over TVA's Passport Payments Not Associated With a Contract or Purchase Order			
<b>2003-017F</b> 04/15/2003	Fiscal Year 2003 First Quarter Financial Information			
<b>2003-032F</b> 05/20/2003	Integrity of Generation Data Used to Estimate Unbilled Revenue			
<b>2003-030F</b> 05/22/2003	Calculation of Selected Components of the Transmission Tariff			
<b>2003-017F-01</b> 06/09/2003	TVA's Second Quarter Financial Information			
<b>2003-028F</b> 06/13/2003	TVA's Nuclear Decommissioning Liability			
<b>2003-052F</b> 06/19/2003	TVA's Compliance With the Green Pricing Accreditation Program Requirements for Calendar Year 2002			
<b>2003-015F</b> 07/28/2003	Completed Plant Retirements			
<b>2003-019F-01</b> 07/31/2003	RSO&E's Indirect Cost Recovery Rates			
<b>2003-017F-02</b> 08/14/2003	TVA's Third Quarter Financial Information			
<b>2003-012P-02</b> 06/09/2003	Accounting for Purchase Discounts			
<b>2002-043T-02</b> 04/04/2003	Revenue from Sales of Electricity for Fiscal Year 2002			



## Audit Reports Issued

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

### INFORMATION TECHNOLOGY

<b>2003-058F</b> 09/15/2003	Financial Information Security Management Act			
--------------------------------	--	--	--	--

<b>2003-025P</b> 08/12/2003	Electronic Coal Supply RFP System			
--------------------------------	--------------------------------------	--	--	--

<b>2003-014T</b> 05/16/2003	Resource Access Control Facility			
--------------------------------	----------------------------------	--	--	--

<b>2002-092T</b> 06/19/2003	Fixed Assets System General Computer Controls			
--------------------------------	--	--	--	--

### OPERATIONAL

<b>2003-012P-01</b> 06/09/2003	Heavy Equipment Division Operations			
-----------------------------------	--	--	--	--

<b>2003-039P</b> 09/16/2003	Process Standardization			
--------------------------------	-------------------------	--	--	--

<b>TOTAL</b>	<b>34</b>	<b>\$1,908,010</b>	<b>\$1,257,494</b>	<b>\$6,951,000*</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	2	\$136,786	\$0
B. Which were issued during the reporting period	5	\$1,908,010	\$1,257,494
<b>Subtotals of A and B</b>	<b>7</b>	<b>\$2,044,796</b>	<b>\$1,257,494</b>
C. For which a management decision was made during the reporting period	4*	\$214,835	\$3,455
(i) Dollar value of disallowed costs	3	\$137,299	\$3,455
(ii) Dollar value of costs not disallowed	2	\$77,536	\$0
D. For which no management decision has been made by the end of the reporting period	3	\$1,829,961	\$1,254,039
E. For which no management decision was made within six months of issuance	0	\$0	\$0

\* The total number of reports for which a management decision was made during the period 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 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	0	\$0
B. Which were issued during the reporting period	3	\$6,951,000
<b>Subtotals of A and B</b>	<b>3</b>	<b>\$6,951,000</b>
C. For which a management decision was made during the reporting period	3*	\$6,951,000
(i) Dollar value of disallowed costs	3	\$6,551,000
(ii) Dollar value of costs not disallowed	1	\$400,000
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 for which a management decision was made during the period 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 two preaward contract audits, four contract compliance audits, four operational audits, two financial-related audits, and eight information technology audits had not been fully implemented as of September 30, 2003; however, all are being implemented in accordance with currently established milestones.

AUDIT REPORT NUMBER AND DATE	DESCRIPTION
<b>2000-012P</b> 01/09/2002	<b>TVA's Affirmative Procurement Plan for Items Containing Recovered Materials</b> 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 will be issuing a revised plan to address these issues shortly.
<b>2000-026C-01</b> 04/02/2001	<b>Adecco Technical</b> 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 implementing reengineered processes for managing TVA's contract workforce. A recommendation for enabling technology in contract workforce management is expected in October 2003.
<b>2000-030P</b> 08/13/2002	<b>TVA's Active Employee Medical Plan Eligibility</b> This report contained recommendations to pursue recovery of ineligible payments and strengthen eligibility-related processing controls. TVA management has completed action on the pursuit of ineligible payments but has not yet established a timetable for completing enhanced dependent updating capability.
<b>2001-032F</b> 11/07/2001	<b>Internal Controls Over Real Estate Transactions</b> 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 will complete actions addressing these recommendations in early October 2003.
<b>2001-064T</b> 12/21/2001	<b>Hydro Automation Security—HDCC</b> 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. Change control procedures will be implemented by the end of June 2004.
<b>2001-074T</b> 01/07/2002	<b>Application Review of Pegasys</b> This report contained recommendations regarding facility access control. TVA has implemented temporary controls to address some of the audit findings until it decides whether to upgrade or replace the existing system. A decision on the system should be made by the end of December 2003.
<b>2001-087C</b> 04/30/2002	<b>Canberra Industries</b> This report included recommendations to recover ineligible costs and improve contract administration. TVA has taken action to address the contract administration issues. Although TVA is negotiating with the contractor on settlement of ineligible costs, the contractor has not yet agreed.
<b>2002-004C-01</b> 07/24/2002	<b>Electric Power Research Institute</b> This report included recommendations to strengthen contract terms in several areas and improve recordkeeping of costs incurred by the contractor. Although TVA is negotiating with the contractor to try and incorporate recommended changes in the contract, the contractor has not yet agreed.

## Audit Reports With Corrective Actions Pending

AUDIT REPORT  
NUMBER  
AND DATE

DESCRIPTION

AUDIT REPORT NUMBER AND DATE	DESCRIPTION
<b>2002-012T-01</b> 10/25/2002	<b>Nuclear Facility Access Control Systems Security—Sequoyah Nuclear Plant</b> This report contained recommendations regarding facility access control. TVA is implementing these recommendations and plans to complete final action by the end of October 2003.
<b>2002-013T</b> 07/24/2002	<b>Customer Portal Control Assessment</b> 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 IS implemented a security product to provide authentication and authorization services for the Customer Portal. TVA management is testing a new infrastructure and software to replace the Customer Portal, with delivery expected in October 2003.
<b>2002-017T</b> 06/25/2002	<b>Hydro Automation—Dams</b> 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. Change control procedures will be implemented by the end of June 2004.
<b>2002-025T</b> 08/07/2002	<b>Security of Windows 2000/Windows XP</b> 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 through (1) an IT security policy and program management plan which have been issued, (2) implementing procedures now awaiting final review by organizational security officers, and (3) reviews of physical security at some sites. The implementing procedures and physical security reviews are expected to be completed by the end of December 2003.
<b>2002-043T-01</b> 01/06/2003	<b>Power Billing System Security and Application Controls</b> This report included recommendations to improve physical and logical controls, ensure only authorized changes are made to computer programs, and develop and test formal contingency plans. TVA management agreed with and is implementing corrective action to address these recommendations.
<b>2002-045V</b> 02/07/2003	<b>Laroche Industries, Inc.—Preaward</b> This report contained recommendations to disallow the current supplier's requested price increase and review the pricing method included in the contract. TVA Procurement established a Joint Project Team to review the issues. TVA continues to pay the questioned price increase to the current supplier, but is in the process of negotiating with other suppliers for a pricing arrangement that would be more favorable to TVA.
<b>2001-091P</b> 09/05/2002	<b>Capital Project Results</b> This report included recommendations to define estimate types and their expected reliability; require organizations to provide supporting documentation for funding requests in advance of quarterly Project Review Committee meetings; and consider revising the Project Justification System database to incorporate "real time" data, including completed project information. Management has prepared a procedure addressing these recommendations. Review and approval of the procedure is expected by the end of October 2003 with procedure issuance shortly thereafter.

## Audit Reports With Corrective Actions Pending

AUDIT REPORT NUMBER AND DATE	DESCRIPTION
<b>2002-051T</b> 09/27/2002	<b>IT Store</b> This report contained recommendations to strengthen IT Store purchase approval controls. TVA management has drafted new standard program/process documents to address the IT Store procurement process, and they will be published following final approval by Chief Operating Officer management.
<b>2002-051V</b> 03/26/2003	<b>Investment Recovery's Program for GSA Materials Redeployment</b> This audit included recommendations to determine the value of property received subject to reimbursement or appropriation investment provisions of the TVA Act, limit the uses of GSA surplus property to those which are consistent with GSA rules, correct the weaknesses of a personal services contract forming a bartering arrangement, and improve the process for tracking property obtained through the GSA program. Management agreed with all our findings. Management is negotiating with GSA to determine an appropriate reimbursement, has reevaluated the process for future GSA acquisitions, has discontinued the bartering agreement, and updated the GSA database addressing discrepancies.
<b>2002-071C</b> 03/19/2003	<b>Diversified Pharmaceutical Services, Inc.</b> This report contained recommendations to pursue recovery of ineligible payments. TVA management has negotiated a settlement agreement with the contractor and is in the process of collecting the funds.
<b>2002-075E</b> 03/03/2003	<b>Integrity of Selected Fossil Power Data Input Into Model KW3000</b> This report included recommendations to improve the integrity of selected fossil data used in TVA's energy trading decision support model. TVA management initiated actions on all recommendations and has either completed or is in the process of completing actions to address the recommendations.
<b>2003-005C</b> 11/19/2002	<b>Numanco LLC—Labor Markup Rates—Preaward</b> We reviewed the salary burden proposals submitted by two competing contractors to provide staff augmentation services for the BFN 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. Following the end of this reporting period, TVA management resolved the last issue by issuing a contract supplement with lower insurance burden rates based on actual contractor insurance costs.

## Investigative Referrals and Prosecutive Results\*

### Referrals

Subjects Referred to U.S. Attorneys	63
Subjects Referred to Other Agencies for Investigative or Administrative Action	2

---

### Results

Subjects Indicted	4
Subjects Convicted	10
Referrals Declined	35

As a result of our investigations, OWCP reduced benefits for one former employee, resulting in a projected savings of \$526,887 over the individual's lifetime and declared a forfeiture of \$45,898 in benefits received by another individual.

\* The numbers below include task force activities.

	SEPT 30, 2003	MAR 31, 2003	SEPT 30, 2002	MAR 31, 2002	SEPT 30, 2001
ANNUAL BUDGET (In Millions of Dollars)	\$8.5	8.5	8.0	8.0*	8.6
CURRENT STAFFING	78	84	87	86	86

### AUDITS & SPECIAL PROJECTS

AUDITS IN PROGRESS					
Carried Forward	38	35**	33	38	45
Started	41	41	44	43	44
Canceled	(8)	(4)	(4)	(8)	(4)
Completed	(34)	(34)	(40)	(40)	(47)
In Progress at End of Reporting Period	37	38	33	33	38
AUDIT RESULTS (Thousands)					
Questioned Costs	\$1,908	\$1,125	\$3,816	\$1,780	\$3,519
Disallowed by TVA	137	989	911	267	1,236
Recovered by TVA	3,499	221	387	225	1,634
Funds to Be Put to Better Use					
Agreed to by TVA	\$6,951	\$34,755	\$52,037	\$31,874	\$10,401
Realized by TVA	6,551	37,969	44,944	6,069	10,155
Realized by TVA	0	38,172	16,014	6,090	8,277
NONAUDIT SERVICES					
Completed	15	36	16	12	0
Cost Savings Identified/Realized (Thousands)	0	0	0	0	0

### INVESTIGATIONS \*\*\*

INVESTIGATION CASELOAD					
Opened	100	87	78	93	94
Closed	92	75	89	114	120
In Progress at End of Reporting Period	135	127	115	126	147
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$100	\$879	\$961	\$233	\$5,862**
Savings	875	366	8	1,175	542
Fines/Penalties	421	56	86	0.1	114**
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	21	15	18	22	13
Actions Taken (# of Subjects)	24	16	7	6	8
Counseling/Management Techniques Employed (# of Cases)	21	16	24	15	3
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred	63	12	19	5	13
Indicted	4	6	9	5	5
Convicted	10	4	4	3	7

\* 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](http://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