

# Making



# better

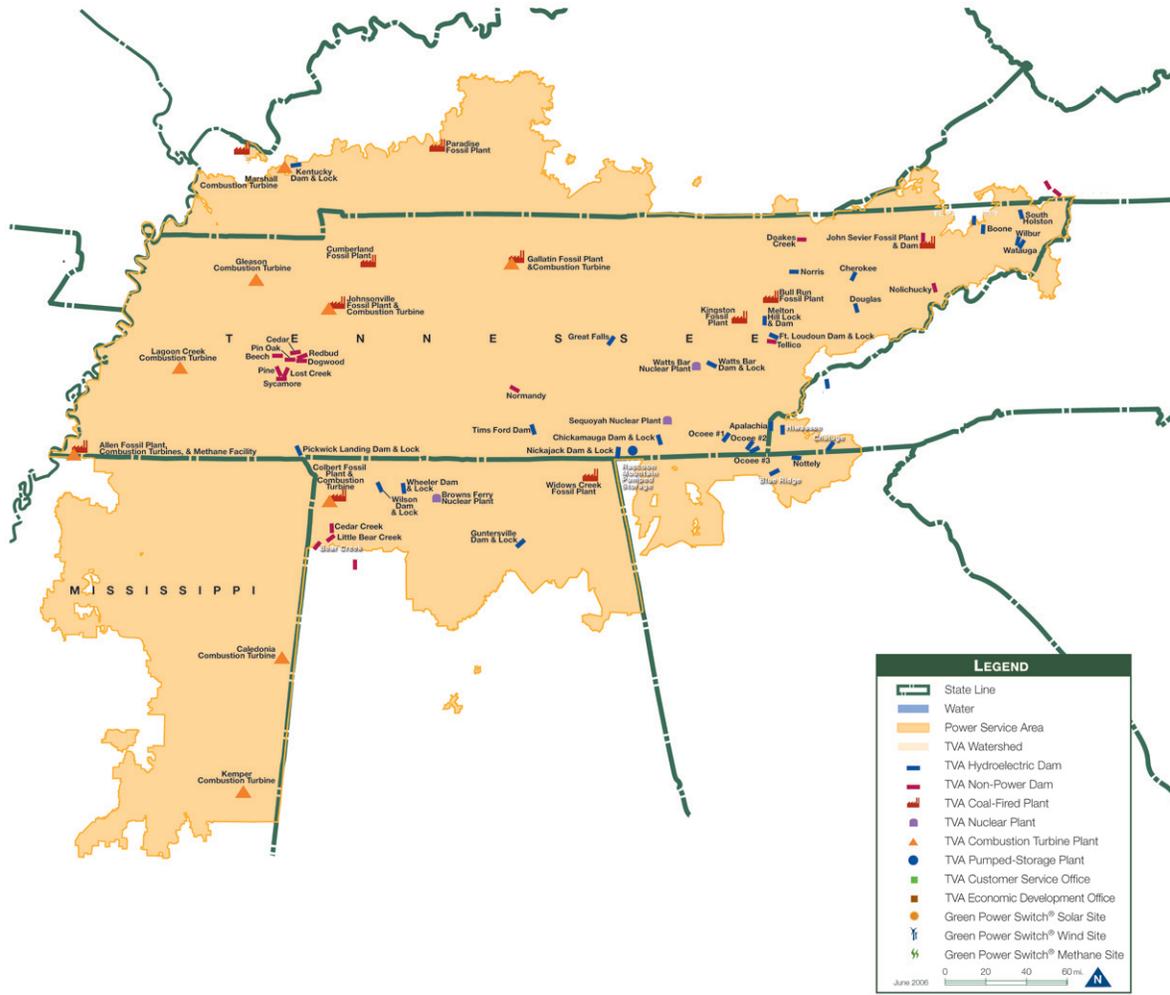


Office of the Inspector General  
Tennessee Valley Authority

*Semiannual Report*  
October 1, 2010 – March 31, 2011

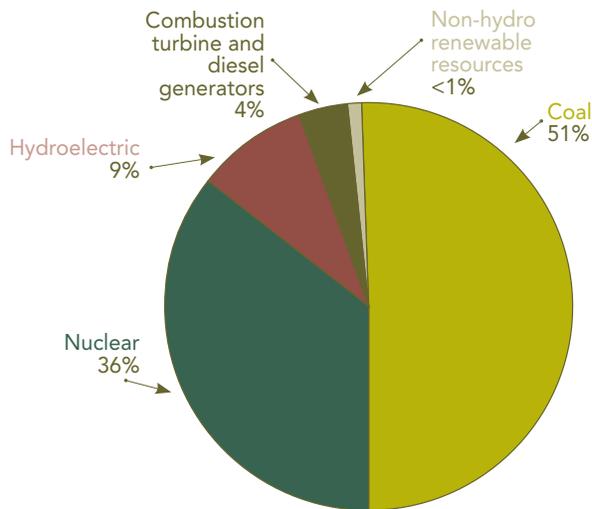


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## TVA Power Generation 2010

(in millions of kilowatt hours)



- Coal | 74,590
- Nuclear | 53,339
- Hydroelectric | 14,013
- Combustion turbine and diesel engines | 5,475
- Non-hydro renewable resources | 4



Tennessee Valley  
*making* **TVA** *better*

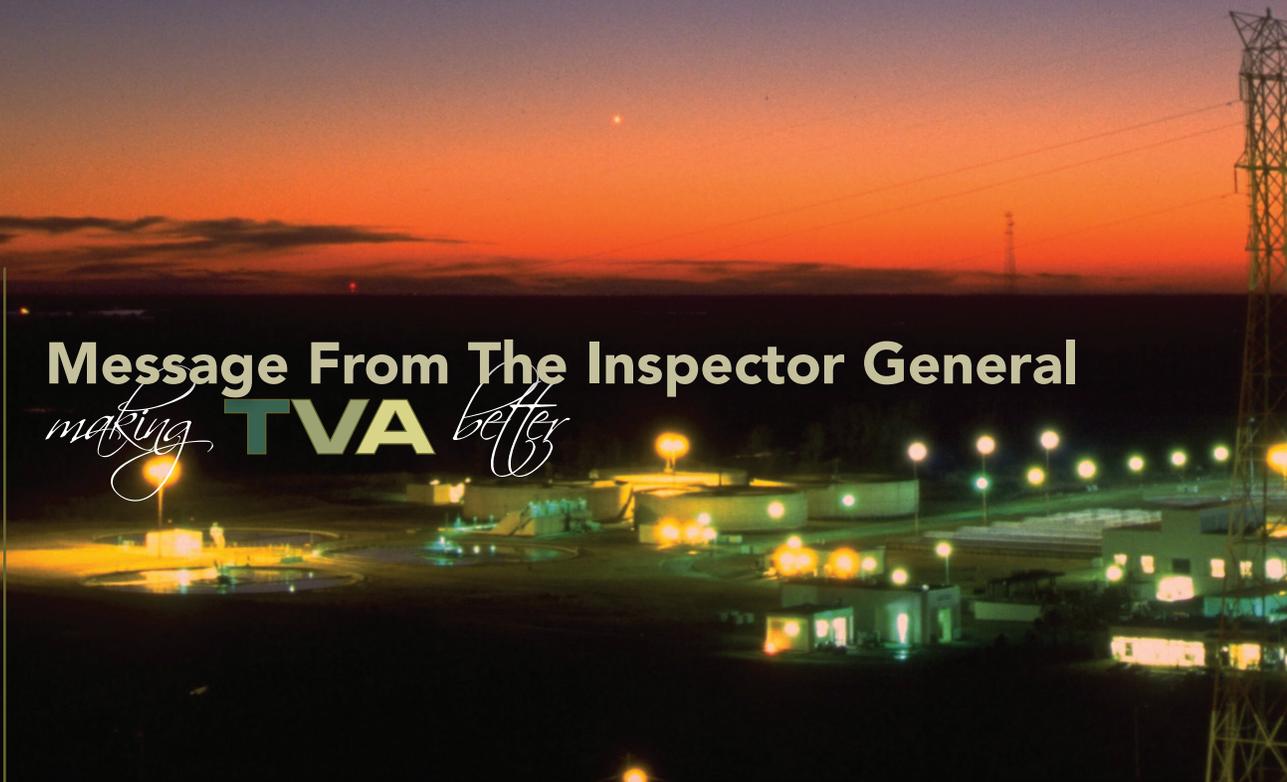
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# Message From The Inspector General

*making* **TVA** *better*



## Message from the Inspector General

*I am pleased to present our report for the period October 1, 2010, through March 31, 2011. The theme of this semiannual is "Making TVA Better." As you will see throughout this report, the TVA OIG employees are working hard to do just that. In this semiannual period, our audit, inspection, and investigation activities resulted in almost \$35 million in recoveries, fines/penalties, potential savings, questioned costs, and funds which could be put to better use, as well as numerous recommendations to help TVA become better.*

Some of the highlights include:

- Almost \$25 million of potential savings opportunities for TVA to use in negotiations of contracts associated with work primarily at TVA's Bellefonte Nuclear Plant as a result of our preaward audits.
- The first debarment of a TVA contractor and institution of a formal process for suspension and debarment as a result of an OIG criminal investigation.
- A follow-up audit to our 2006 review of TVA's Role as a Regulator which highlighted TVA has made slow progress in designing a program to enable TVA to fulfill its regulatory responsibilities.
- An inspection of the Kingston ash spill stability assessment

process which showed TVA has taken actions to improve ash management governance, drive culture change, and evaluate stability and safety surrounding ash impoundments. We will continue to monitor TVA's actions in this area as this is a long-term project that must continue to be a priority.

Making TVA better is a purpose we share with TVA management and the Board. Accomplishing this purpose depends, in part, on creating and maintaining a healthy relationship. Disagreements will occur. It is how we communicate and discuss issues that will determine in large part how effective all of us will be in making TVA better. The OIG and, we believe, TVA are committed to having mutually respectful dialogue on the tough issues.



**Richard W. Moore**  
*Inspector General*

I would like to thank Congress, the TVA Board, and TVA management for their continued support of our work. We look forward to continuing to do our part to make TVA better.



The Role of the OIG:  
*making* **TVA** *better*

## The Role of the OIG: Making TVA Better

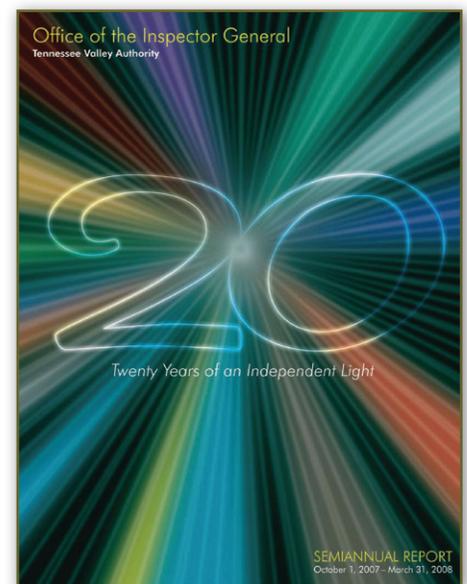
**Why we do what we do** *In 1993, Professor Paul C. Light's seminal work, Inspectors General and the Search for Accountability, quickly became the authoritative source on the work of Inspectors General (IGs). Light traced the origins of the federal IG concept and the sometimes unrealistic expectations placed on IGs to "clean up government." Congress expanded the number and size of the various Offices of Inspector General (OIGs) in the late 1970s and into the 1980s in response to a series of scandals in federal agencies.*

As Paul Light explains, the Inspector General Act of 1978 was designed to do basically four things: (1) consolidate the scattered audit and investigation divisions into an IG office for each federal agency; (2) ensure a measure of independence by putting presidential appointees into the IG jobs; (3) give the IGs wide latitude in the scope of their work and in how to organize their offices; and (4) provide greater resources for the war on fraud, waste, and abuse.

According to Light, the effectiveness of the IG concept should be measured in terms of the "quality of life produced by the government." Whether a better quality of life was being ushered in by the IGs could be addressed by asking these four questions: (1) Is anyone listening? (2) Is the public more trusting? (3) Is the government less vulnerable to fraud, waste, and abuse? and, (4) Is the government producing outcomes of greater public value? Light concluded that at least back in the early 1990s the results were mixed.

With all due respect to Professor Light, those inquiries seem to impute far more power than IGs actually enjoy. IGs should be able to "move the needle" on the metrics that count in government, but much of the final results lie outside the scope of an IG's work. Light recognized that measuring the effectiveness of OIGs is indeed tricky. Raw statistics rarely tell the whole tale.

For the TVA OIG, we have settled on a straightforward mission of "making TVA better." We, like all federal IGs, report our work in more complex metrics established by the IG Act which include terms such as, "funds put to better use" and "questioned and unsupported costs." See Appendices 2-6 on pages 44-50 for statistical information. Ultimately, however, Professor Light's conclusion that the work of an OIG should make life better for people seems right. For us, that means our work should improve the quality of life for the residents of the Tennessee Valley. It's a matter of public trust.



### What we did that makes a difference

Occasionally, as we did in our March 2008 semiannual report – *Twenty Years of an Independent Light*, we offer our stakeholders our perspective on what the TVA OIG is doing that makes a difference. We offer the traditional statistical data common to our work, but we go beyond that. The reviews we discuss here, for the most part, do not represent huge financial savings for TVA in terms of its annual operating costs. They do illustrate how our

work improves the quality of life for residents of the Tennessee Valley.

The OIG initiated a first in TVA history; the debarment of a contractor doing business with TVA. In October 2010, TVA debarred Holtec International, Inc., based on the results of a criminal investigation conducted by the OIG. Because of our recommendation, TVA created a formal suspension and debarment process and proceeded to debar Holtec for 60 days. Holtec agreed to pay a \$2 million administrative fee and submit to independent monitoring of its operations for one year. The TVA Board's Audit, Risk, and Regulation Committee and TVA management fully supported the OIG's recommendation to create a suspension and debarment process and submit Holtec to that process. TVA's Supply Chain organization and Office of General Counsel worked collaboratively with the OIG to achieve this milestone in TVA history.

How does one contractor being debarred make life better for Valley residents? Ultimately, the less vulnerable TVA is to fraud the better chance rates stay low. This debarment signaled TVA's commitment to do more than simply ask for the money back. This debarment action was literally heard around the world and drew a line in the sand. Yes, much of this was symbolic, but symbols matter when you are the largest public power company in America.

Another example of the TVA OIG adding value is our work in

examining TVA's status as an electric rate regulator. TVA wholesales power to 155 distributors across the Tennessee Valley. The TVA Act makes TVA the regulator of those distributors through power contracts that contain terms designed to basically provide fairness in the way distributors provide power to the end use customer. In 2006, the OIG issued a report that essentially questioned whether TVA was fulfilling its responsibility as a regulator of the distributors. This semiannual period, we looked once again at this issue. We completed our report entitled, "Follow-up Review of TVA's Role as a Regulator—Use of Electric System Revenues for Nonelectric Purposes," to check the progress of TVA management's efforts to improve oversight of its distributors.

This particular review illustrates the limited power of the OIG. We can make recommendations, but we have no power to make TVA follow these recommendations. In the case of our original report, "TVA's Role as a Regulator," issued in June 2006, there has been an interminable delay

in TVA management's resolution of the issues we raised. This delay is in part due to the fact that for too long TVA has neglected its regulatory responsibilities and correcting that pattern is now complicated. Since our first role as a regulator report, we initiated audits of the distributors in 2008. Our audits identify instances of noncompliance with the power contracts and weaknesses in TVA's role as a regulator that should be identified by management in its process to govern and regulate the distributors. Our distributor reviews are on-going and provide Valley residents with some measure of confidence that there are independent reviews being conducted of those distributors. To TVA management's credit, there has been steady progress to design a program that will enable TVA to fulfill its responsibilities as a regulator. We are hopeful that a renewed commitment to fulfill statutory responsibilities will make TVA better and ultimately life in the Valley better.

Finally, we would offer our Kingston work as another example of how we

*Sequoyah Nuclear Plant*





*Kingston Fossil Plant*

make TVA better. In the aftermath of the Kingston coal ash spill of December 2008, TVA set about to “make things right.” Our independent assessment of TVA’s remediation work verified that they did. We engaged Marshall Miller and Associates, Inc., (Marshall Miller) to provide the TVA OIG expert advice on whether TVA has taken appropriate steps to stabilize its coal ash impoundments and to appropriately address the risks associated with all of their coal ash processes. Given the reputational harm caused by the Kingston coal ash spill, TVA’s credibility was impaired and an independent review of their progress was essential.

Our reports on the remediation work of TVA in the aftermath of the Kingston coal ash spill provides documented evidence that TVA fulfilled its promise to “make things right.” That is not to say that everything was done perfectly or that all of TVA’s critics are happy now. What we have said is that our independent engineers have satisfied us that what TVA has done meets high standards and exhibits a commitment to aggressively address apparent risks to public safety in a professional way. TVA has made great strides in becoming a “good neighbor” once again.

In the end, the effectiveness of our office depends, in part, on a healthy

relationship between the OIG and the federal agency. Given the oft cited difficult dynamics between the “watchdog” and the reviewed agency, trust can be fickle. Naturally, the better the trust is, the better the relationship is and, hence, the better the results are. Mutually respectful communication between TVA and the OIG continues to grow which makes for a better TVA and a better OIG, but more importantly inures to the benefit of the residents of the Tennessee Valley. We recognize and appreciate the efforts made by both the TVA Board and TVA management to contribute to our mutual purpose of making TVA better.



Noteworthy Undertakings  
*making* **TVA** *better*

## Noteworthy Undertaking

**Audit and Investigation Teams Pass Peer Reviews** *All federal IG audit and investigative groups are required by standards to undergo a peer review every three years. These peer reviews are conducted by other OIG offices using guidance provided by Council of the Inspectors General on Integrity and Efficiency (CIGIE) to ensure compliance with applicable standards. During this semiannual period, we are pleased to announce both our Audit and Investigation teams passed their peer reviews.*



Council of the  
**INSPECTORS GENERAL**  
on INTEGRITY and EFFICIENCY

### Audits

Our audit organization's peer review was conducted by an ad hoc CIGIE team led by the Department of Education OIG with members from four other OIGs. The peer review team reviewed our audit organization's system of quality control in place to ensure compliance with the **Government Auditing Standards**. For the period ending September 30, 2010, our audit organization received a pass rating which is the highest rating. Specifically, the peer review report states:

*The system of quality control for the TVA OIG audit organization in effect for the year ended September 30, 2010, has been suitably designed and complied with to provide TVA OIG with reasonable assurance of performing and reporting*

*in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. TVA OIG has received a peer review rating of pass.*

### Investigations

Our Investigation organization's peer review was conducted by the Office of Personnel Management OIG. The peer review team reviewed our system of internal safeguards and management procedures to ensure conformity with both the **Quality Standards for Investigations** (December 2003) and the **Qualitative Assessment Review Guidelines for Federal Offices of Inspector General** (May 2009) established by CIGIE, as well as the **Attorney General Guidelines for Offices of Inspector General with Statutory Law**

**Enforcement Authority** (December 2003). For the period ending August 1, 2010, the peer review team found:

*In our opinion, the system of internal safeguards and management procedures for the investigative function of the TVA/OIG in effect for the year ending August 1, 2010, is in compliance with the Quality Standards for Investigations and the Attorney General Guidelines. These safeguards and procedures provide reasonable assurance of conforming with professional standards in the conduct of investigations.*



Executive Overview  
*making* **TVA** *better*

## Executive Overview

*During this semiannual period, we are highlighting – both generally and specifically – how the OIG works to make TVA better by overseeing its operations and making recommendations to enhance and streamline its processes. These functions are in keeping with the primary responsibilities of an IG’s office, which are to detect and prevent fraud, waste, abuse, and violations of law as well as to promote economy, efficiency, and effectiveness in federal government operations. Since our establishment in 1985, at the heart of our office’s mission has lived the purpose that drives us – to make TVA better. As discussed in the Special Feature, our 2008 semiannual report – [Twenty Years of an Independent Light](#) chronicles this history.*

As one of 73 IG offices with statutory independence, we have honored this authority by focusing on manifesting a better quality of life for TVA stakeholders. In this semiannual period, our audits, inspections, and investigations have led to TVA recovering or saving almost \$35 million. These savings ideally translate into lower electricity rates for TVA customers, which include everyone who uses electricity in the Tennessee Valley. Essentially, the more efficient and effective an IG’s office is, the more efficient and effective its beneficiary, in this case TVA, becomes. Below you will see how our office has specifically accomplished our informal mission statement to make TVA better during this semiannual period.

## AUDITS

Our Audits team issued 20 audits this semiannual period that identified nearly \$5 million in questioned costs, helped TVA to recover close to \$.8 million, and identified nearly

\$25 million that could be put to better use. In addition, these audits identified needed improvements in the areas of power distributor regulation, distributor compliance with contract terms, storage and handling of ammonia, as well as information technology (IT) security and controls.

## Contract Audits

To support TVA management in negotiating procurement actions and in support of the nuclear construction program, we completed five preaward audits of cost proposals submitted by companies proposing to provide (1) nondestructive examinations at TVA’s Nuclear and Fossil Power generating units, (2) engineering services for work on TVA’s Bellefonte Nuclear Plant Unit 1, and (3) geotechnical services. Our audits identified nearly \$25 million of potential savings opportunities for TVA to negotiate. Additionally, we completed four compliance audits of contracts with expenditures

totaling \$88 million related to providing financial management and consulting services; labor, materials, and equipment; and engineering, design, and construction support. These audits identified potential overbillings of \$4.8 million. The Contract Audits section begins on page 23 of this report.

## Financial and Operational Audits

In order to ensure that TVA has a reliable system of financial and operational controls, Financial and Operational Audits completed three engagements and reviewed the work of the external auditor related to the audit of TVA’s fiscal year (FY) 2010 financial statements. The team applied certain procedures agreed to by management to TVA Winning Performance Incentive Plan results to provide certain assurances to management, the Board, and others prior to incentive plan payouts to employees. The team also reviewed the work of the accounting firm, Ernst and Young LLP, contracted to

audit TVA's 2010 financial statements. Finally, the team reviewed TVA's storage and handling of anhydrous ammonia. The Financial and Operational Audits section begins on page 24 of this report.

## IT Audits

To ensure TVA's IT assets are properly secured and appropriate controls are in place, the IT Audits team completed four audits pertaining to: (1) the Federal Information Security Management Act (FISMA); (2) security monitoring; and (3) IT general controls over (a) a third-party hosted application, and (b) applications significant to TVA's FY 2010 financial reporting. The IT Audits section begins on page 26 of this report.

## Distributor Audits

To ensure compliance with contract terms between TVA and distributors, the OIG completed three audits of TVA distributors. We looked at classification and metering issues as well as other contract requirements, including the use of electric funds and cash reserves. We also looked at distributor internal controls and identified opportunities for better oversight of distributors by TVA. In addition, Distributor Audits performed a follow-up audit to a 2006 OIG report addressing TVA's role as a rate regulator to determine if the issues identified in that report had been addressed. The Distributor Audits section begins on page 27 of this report.

## INSPECTIONS

In order to ensure TVA programs are efficient, effective, and have proper controls in place, Inspections assessed TVA's Dam Safety Program and, as a follow up to previous inspections, reviewed TVA processes and actions pertaining to culture change, stability of ash impoundments, and ash management. The Inspections section begins on page 31 of this report.

## INVESTIGATIONS

As part of our mission to ferret out fraud, waste and abuse, one of our investigations led to the first contractor debarment in TVA's nearly 80-year history and payment of a \$2 million administrative fee to TVA. Investigations opened 190 cases and closed 161. Our investigators garnered an indictment on false statements, a conviction in a case involving transmission line



## STATISTICAL HIGHLIGHTS

*October 1, 2010 – March 31, 2011*

<b>Audit Reports Issued</b>	20
<b>Inspections Completed</b>	3
<b>Questioned Costs</b>	\$4,846,098
<b>Disallowed Costs</b>	\$1,303,202
<b>Funds Recovered</b>	\$762,791
<b>Funds to be Put to Better Use</b>	\$24,963,000
<b>Funds Realized by TVA</b>	\$12,749,961
<b>Investigations Opened</b>	190
<b>Investigations Closed</b>	161
<b>Recoveries/ Savings/Fines/Penalties</b>	\$5,111,718
<b>Criminal Actions</b>	2
<b>Administrative Actions (No. of Subjects)</b>	7



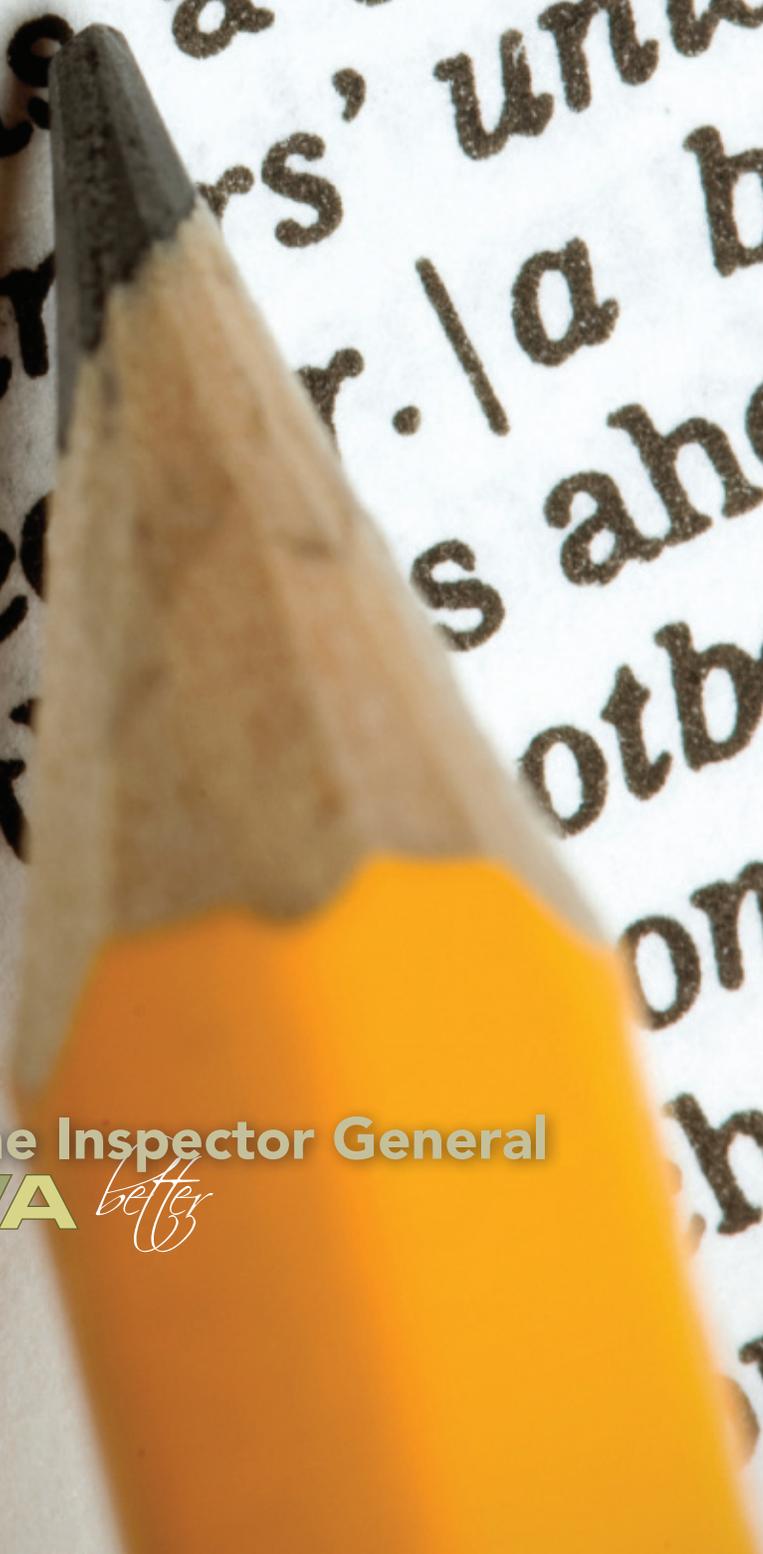
*Ft. Loudoun Lake*

destruction, and the sentencing of four individuals. In total, our investigations resulted in more than \$5 million in projected savings, recoveries, fines, and penalties. The investigations section begins on page 35 of this report.

Collectively, during this semiannual period, our Inspections, Audits, and

Investigations teams successfully identified almost \$35 million in recoveries, fines, penalties, potential savings, questioned costs, and funds that could be put to better use, as shown in the chart to the left.

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Office of the Inspector General  
*making* **TVA** *better*

## Office of the Inspector General

*The OIG's most important resources are its people. Our team is made up of experienced auditors, investigators, and administrative staff. The OIG is an independent office within TVA and is headquartered opposite TVA corporate offices in TVA's East Tower, overlooking downtown Knoxville. Inspector General Richard Moore believes that in order to effectively provide oversight to TVA, we must be strategic in our placement of OIG employees. As such, the IG has worked to ensure that our office has a presence at or near all major TVA offices throughout the Tennessee Valley.*

The OIG has a major satellite office in the Edney Building in Chattanooga, Tennessee, where the Inspections unit and several investigators are located. There are also field offices at the Watts Bar Nuclear Plant in Tennessee; Nashville, Tennessee; Huntsville, Alabama; and Mayfield, Kentucky.

As of March 31, 2011, the OIG had a total staff of 106. The Audits and Inspections units are composed of 58 individuals, the Investigations group includes 30 individuals, and the Administrative team is comprised of 18 people.

The number of personnel located at each office is as follows: Knoxville-82, Watts Bar Nuclear Plant-1, Chattanooga-16, Nashville-2, Huntsville-4, and Mayfield, Kentucky-1.

### Administration

The Administration team works closely with the IG, Deputy IG, and Assistant IGs in the conduct of the day-to-day operations of the OIG and to develop policies and procedures

### TVA's Chattanooga Office Complex

designed to drive and enhance productivity in achieving office goals. Responsibilities include operations for personnel administration, budget and financial management, purchasing and contract services, facilities, conferences, communications and IT support.

### Audits and Inspections

The Audits and Inspections group performs a wide variety of engagements designed to promote positive change and provide assurance to TVA stakeholders. Based upon the results of these engagements, the Audits and Inspections group makes recommendations to enhance the effectiveness and efficiency of TVA's programs and operations.

The team uses an impact- and risk-based approach to developing an annual work plan. The group's



plan considers TVA's strategic plans, major management challenges, TVA's enterprise risk management process, and other input from TVA management. The planning model also evaluates each potential engagement from the standpoint of materiality (i.e., costs or value of assets), potential impact, sensitivity (including public and/or congressional interest), and the likelihood it will result in recommendations for cost savings or process improvements. The result of the OIG audits and inspections planning process is a focus on those issues of highest impact and risk of fraud, waste or abuse. This focus extends to the field of IT and risk assessment related to a potential malicious or other intrusion of TVA's IT infrastructure.

# Organization



**Richard W. Moore**  
*Inspector General*



**Ben R. Wagner**  
*Deputy Inspector General*

## Investigations Management Team



**John E. (Jack) Brennan**  
*Assistant Inspector General, Investigations*



**Nancy J. Holloway**  
*Special Agent in Charge*



**Paul B. Houston**  
*Special Agent in Charge*

## Audits & Inspections Management Team



**Robert E. Martin**  
*Assistant Inspector General Audits & Inspections*



**Phyllis R. Bryan**  
*Director, IT Audits*



**Lisa H. Hammer**  
*Director, Financial & Operational Audits*



**Melissa M. Neusel**  
*Director (Acting), Distributor Audits*



**David P. Wheeler**  
*Director, Contract Audits*



**Gregory R. Stinson**  
*Director, Inspections*



**John H. Barrow III**  
*Project Manager Emerging Issues*



**Louise B. Beck**  
*Audit Quality Manager*

## Administration Management Team



**Jill M. Matthews**  
*Assistant Inspector General Administration*



**Kay T. Myers**  
*Manager, Human Resources*



**Stefanie D. Hoglund**  
*Public Affairs Officer*

## Legal Team



**Charles A. Kandt**  
*Legal Counsel*



**W. David Winstead**  
*Deputy Legal Counsel*

*The Audits team*, based in Knoxville, generates and oversees comprehensive financial and performance audits of TVA programs and operations, providing a landscape view of the organization's overall fiscal and operational health.

This dynamic team is made up of four departments—Contract Audits, Distributor Audits, Financial/Operational Audits, and Information Technology Audits.

- Contract Audits has lead responsibility for contract compliance and preaward audits. In addition, this group performs reviews of TVA's contracting processes and

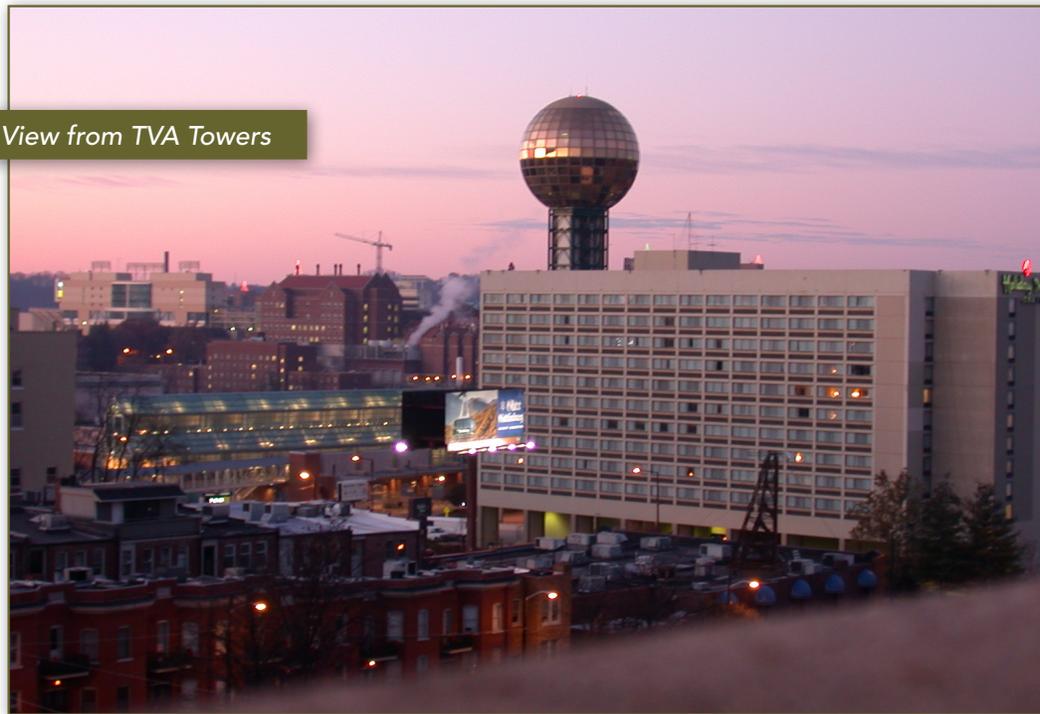
provides claims assistance as well as litigation support.

- Distributor Audits has lead responsibility for contract compliance reviews of TVA's distributors. This group assesses compliance with the terms of the power contracts between TVA and its distributors and identifies opportunities to improve TVA oversight of its distributors.
- Financial/Operational Audits has lead responsibility for oversight of TVA's financial statement audit and related services performed by TVA's external auditor, reviews of

TVA's internal controls related to financial reporting, operational efficiency, and compliance with laws and regulations as well as operational reviews to assess the results and economy and efficiency of TVA programs.

- IT Audits has lead responsibility for audits relating to the security of TVA's IT infrastructure, application controls, and general controls associated with TVA systems. This group also performs operational reviews of the effectiveness of IT-related functions.

*Downtown Knoxville | View from TVA Towers*



**The Inspections team**, based in Chattanooga, serves a unique function. This group was created when Inspector General Moore recognized the need for an auditing team that could provide a quick, yet thorough review of TVA functions. We refer to our Inspections group as the “Light Cavalry.” This group is able to complete reviews quicker than traditional audits by limiting the scopes of the reviews.

However, the team can and does provide standard reviews which may be broader in scope when needed and seeks to identify when program objectives and operational functions are not effective and efficient. In accordance with the **Quality Standards for Inspections**, the objectives of the Inspections group include providing a source of factual and analytical information, monitoring compliance, measuring performance, assessing the efficiency

and effectiveness of operations, and/or conducting inquiries into allegations of fraud, waste, abuse, and mismanagement.

Audit and inspection findings vary depending on the objectives of the project. Issues can be generalized into specific categories depending on the type of engagement performed. The following graphic shows some representative examples of issues commonly reported.

## Types of Audit and Inspection Issues

### Information Technology Audits

- Unauthorized Access
- Inadequate Controls
- Lack of Data Integrity
- Fraud

### Operational Audits

- Operational Inefficiency
- Not Achieving Intended Results
- Inferior Performance
- Legal/Regulatory Noncompliance
- Fraud

### Contract Audits

- Inflated Proposals
- Contract Overpayments
- Inferior Performance
- Fraud

### Financial Audits

- Internal Control Deficiencies
- Material Misstatements
- Legal Noncompliance
- Fraud

### Distributor Audits

- Contract Noncompliance
- Misstatement of Power Sales to TVA
- Fraud

### Inspections

- Internal Control Deficiencies
- Operational Inefficiency
- Policy Noncompliance
- Fraud

# Major Categories of Investigations

## Contract Fraud

Defrauding TVA through its procurement of goods and services. Fraud schemes may include misrepresenting costs, overbilling charges, product substitution, and falsification of work certifications.

## Theft of Government Property and Services

Theft of TVA property and "schemes to defraud...designed to deprive individuals, the people, or the government of intangible rights, such as the right to have public officials perform their duties honestly."

## Environmental Crime

Violations of environmental criminal law pertaining to the Tennessee River system and its watershed, along with any violations relating to TVA land and facilities. Actively participates with the Environmental Crimes Task Force, Eastern District of Tennessee.

## Health Care Fraud

The intentional misrepresentation of health care services, expenses, billings, needs, or coverage that results in unauthorized payments or other benefits.

## Illegal Hacking into TVA Computer Systems

Accessing a computer without authorization or exceeding authorized access.

## Workers' Compensation Fraud

Includes employee fraud, medical fraud, premium fraud, and employer fraud, most often a false claim of disability to receive benefits.

## Employee Misconduct

Generally includes misuse of TVA furnished equipment, travel voucher fraud, and a multitude of miscellaneous matters.

## Investigations

The Investigations team proactively searches for activity related to fraud and waste in and abuse of TVA programs and operations. This highly skilled team performs investigative activity in accordance with the *Quality Standards for Investigations*.

The investigators maintain liaison with federal and state prosecutors and file a report with the Department of Justice whenever the OIG has reason to believe there has been a violation of federal criminal law. Our investigators partner with

other investigative agencies and organizations on special projects and assignments, including interagency law enforcement task forces on terrorism, the environment, and health care. Above are major categories of investigations.

## Legal

The OIG Legal Counsel team monitors existing and proposed legislation and regulations that relate to the mandate, operations, and programs of the OIG and/or TVA. In addition, this team

provides legal advice as needed for administrative, audits, inspections and/or investigative projects. The OIG Legal Counsel also coordinates government relations for the office.



Representative Audits  
*making* **TVA** *better*

## Summary of Representative Audits

During this reporting period, the OIG completed 20 audits which identified approximately \$30 million in questioned costs and funds which could be put to better use. The OIG also identified numerous opportunities for TVA to improve program operations. Audits completed this period included: (1) contract preaward and compliance; (2) financial and operational; (3) information technology; and (4) distributors of TVA power.

### Contract Audits Preaward Contract Reviews

To support TVA management in negotiating procurement actions, we completed five preaward audits of cost proposals submitted by companies proposing to provide (1) nondestructive examinations at TVA's nuclear and fossil power generating units, (2) engineering services for work on TVA's Bellefonte Nuclear Plant Unit 1, and (3) geotechnical services. Our audits identified almost \$25 million of potential savings opportunities for TVA to negotiate. The savings opportunities were primarily related to overstated wage rates and indirect cost recovery rates.

### Contract Compliance Reviews

During this semiannual period, we completed four compliance audits of contracts with expenditures totaling \$88 million and identified potential overbillings of \$4.8 million. Highlights of our completed compliance audits follow.

- We audited \$51.2 million in costs that a contractor billed to TVA under two contracts for financial management and consulting services. Our audit objective was to determine if the costs, which were billed from July 2003 through December 2008, were in compliance with the provisions of the contracts. In summary, we found \$4.8 million of costs billed by the contractor were unsupported or not in accordance with the terms of the contracts as follows.
  - \$3,328,704 was overbilled because the contractor did not limit its overtime billings as represented in their proposals and in the final terms of one contract. (The overbilling included about \$890,000 that occurred from the end of our audit period through March 31, 2010.)
  - \$514,669 in labor costs were overbilled due to unapproved job categories or incorrect billing rates, timesheet discrepancies, and unallowable administrative labor.
  - An estimated \$51,233 was billed for unallowable or unsupported travel expenses and travel agency fees.
  - \$1,020,454 in overbillings occurred because work was performed prior to the issuance of a contract work authorization (CWA) or not authorized under the terms of the CWA or costs exceeded the CWA funding limits.

The overbillings itemized above included \$108,877 that was counted in more than one finding. Accordingly, the net overbilling after removing this duplication was \$4,806,183. TVA management is reviewing



Bellefonte Nuclear Plant

our recommendations to determine what actions to take.

- We audited \$6.9 million in payments TVA made to a contractor under two contracts from January 5, 2004, through April 19, 2010, for providing labor, material, and equipment to re-clear or provide maintenance of existing transmission line right-of-way. In summary, we found the contractor had overbilled TVA about \$1,400 due to miscellaneous billing errors. However, TVA's invoice approvers had found and adjusted most of the errors prior to paying the contractor.
- We audited \$24.9 million in payments made by TVA from 2007 through 2009 to a contractor for providing engineering, design, and construction support. In summary, we found the contractor overbilled TVA an estimated \$39,915 including (1) \$26,182 in overbilled labor and fee costs and (2) \$13,733 in overbilled direct costs. We recommended TVA management take action to recover the overbilled costs. The contractor agreed with our findings and issued a credit to TVA for the overbillings.
- We audited \$5 million in provisional billings for indirect costs by a contractor



Transmission Lines

that provided security services at TVA's nuclear plants during 2009. We found the contractor owed TVA \$746,482 due to its actual costs being less than the amounts provisionally billed during calendar year 2009. However, prior to our audit the contractor reimbursed TVA \$804,586 based on its preliminary estimate of the amount due TVA. As a result, the amount refunded to TVA was overstated by \$28,104.

## Financial and Operational Audits

During this semiannual period, we completed four engagements, including the audit of TVA's storage and handling of ammonia, performance of agreed-upon procedures for 2010 Winning Performance payouts; and monitoring of TVA's external auditor's FY 2010 audit of TVA's financial statements. Highlights of our completed reviews follow.

### TVA's Storage of Ammonia

We reviewed TVA's storage and handling of anhydrous ammonia to determine whether (1) TVA's policies and procedures complied with relevant ammonia-related Occupational Safety and Health Administration (OSHA) and other federal regulations, and (2) TVA fossil plants were in compliance with TVA's policies and procedures covering ammonia storage and management. In addition, we assessed the general physical security surrounding TVA's ammonia storage tanks and related supports.

In summary, we determined:

- TVA has two procedures intended to implement certain OSHA requirements. However, (1) TVA does not have a formal policy addressing American National Standards Institute (ANSI) and OSHA requirements regarding storage and handling of anhydrous ammonia; (2) TVA's Process Safety Management procedure does not address

all of the OSHA requirements; and (3) certain sites did not (a) complete all of the process hazard analysis requirements included in TVA's Process Safety Management procedure, (b) certify their operating procedures on an annual basis, (c) follow ammonia training requirements for their employees or have a mechanism for ensuring that the required training of their employees who handle ammonia or perform maintenance on ammonia systems was completed timely, and (d) satisfy the nameplate and/or marking requirements for their ammonia storage tanks as required by ANSI.

- No method exists to inform visitors or nonplant TVA personnel that ammonia training may be required prior to entering the plants, other

than the requirements provided for in one of TVA's procedures or reliance upon that visitor's or nonplant employee's site contact.

- Differences exist in the way ammonia storage tanks are protected among the seven plants visited.

We made recommendations to TVA's Designated Agency Safety and Health Official. TVA management generally agreed with our recommendations and has taken or is taking actions to address these recommendations.

### Agreed-Upon Procedures Applied to 2010 Winning Performance Payouts

TVA's Winning Performance (WP) Incentive Plan is a performance management program designed to promote teamwork, focus on continued high performance, and

motivate and reward employees for achieving strategic objectives and critical success factors. The WP program is based on the principle that operational improvements, reduced costs, and improved revenues can be achieved by applying management focus and offering monetary incentives.

We applied four agreed-upon procedures requested solely to assist management in determining the validity of the WP payout awards for the year ended September 30, 2010.

In summary, we found:

- The FY 2010 WP goals were properly approved. Between April 16, 2010, and November 2, 2010, the Chief Executive Officer (CEO) approved nine change forms affecting 16 measures and/or payout percentages. The 16 affected measures and/or payout percentages resulted in nine increases and three decreases to the payout.
- Actual year-to-date inputs for all the metrics agreed with the respective supporting documentation.
- The actual year-to-date inputs for two incentivized metrics agreed with the respective supporting documentation.
- The payout percentages provided were recalculated and compared without



Paradise Fossil Plant



**Password**

## FISMA Review Identified Needed Improvements

In accordance with FISMA and guidance from the Office of Management and Budget, TVA and the TVA OIG are required to report on agency-wide information technology security and privacy practices annually. In our 2010 review of TVA's information security program, we found TVA had made significant improvements in two FISMA control areas in the past year. However, overall progress in implementing IT controls required by FISMA had slowed while TVA continued work on previously recommended actions and redesigned some processes. Additional efforts were needed to improve compliance with existing controls and address concerns identified in the following control areas: (1) certification and accreditation process, (2) security configuration management, (3) incident response and reporting, (4) security training, (5) remote access, and (6) contingency planning.

exception. Subsequent changes to actual data and goals were received through November 5, 2010. We recalculated the payout percentages based on the revised data without exception. A subsequent change to the actual year-to-date metric measure was received through November 9, 2010, but it did not impact payout percentages. In addition, one organization's payout percentage was reduced by 4.89 percent based on an approved change form.

This also included the audit of TVA's internal controls over financial reporting as of fiscal year end. The firm also reviewed TVA's FY 2010 interim financial information filed on Form 10-Q with the Securities and Exchange Commission (SEC). The contract required the work be performed in accordance with generally accepted government auditing standards. Our monitoring of this work disclosed no instances where the firm did not comply, in all material respects, with generally accepted government auditing standards.

## FY 2010 Financial Statement Audit

TVA contracted with the independent public accounting firm of Ernst & Young LLP to audit TVA's balance sheet as of September 30, 2010, and the related statements of income, changes in proprietary capital, and cash flows for the year then ended.

## IT Audits

During this semiannual period, we completed four audits in the IT environment pertaining to: (1) FISMA; (2) security monitoring; and (3) IT general controls over (a) a third-party hosted application, and (b) applications significant to TVA FY 2010 financial reporting.

## TVA Improved Cyber Security Incident Response

In 2009, the OIG completed an audit on the state of IT Cyber Security monitoring within TVA which identified areas for improvement. At the request of TVA's CEO and Audit, Risk, and Regulation Committee, we re-evaluated the effectiveness

of controls and processes in place to (1) monitor for, (2) identify, and (3) respond to cyber security events. We assessed progress toward completing actions in response to findings and recommendations in our previous audit. While we found TVA had improved its ability to detect and respond to cyber security attacks, we identified several areas where the program could be further improved.

### Weak IT General Controls at an Application Service Provider

We audited the IT general controls for an application hosted by a third party vendor. TVA uses the application to manage contractor requests and approval, selection, time reporting/billing, and reporting for noncraft staff augmentation contractors. We determined control weaknesses existed in the areas of (1) account management, (2) system configuration management, and (3) computer operations. We also determined TVA's contract language could be improved by developing a standard clause that addressed the protection of TVA proprietary information stored on vendors' systems.

### IT General Controls for Financial Reporting were Generally Effective

When Congress passed the Consolidated Appropriations Act of 2005 which established the new nine member board for TVA, it also included requirements that TVA comply with SEC reporting requirements including certain

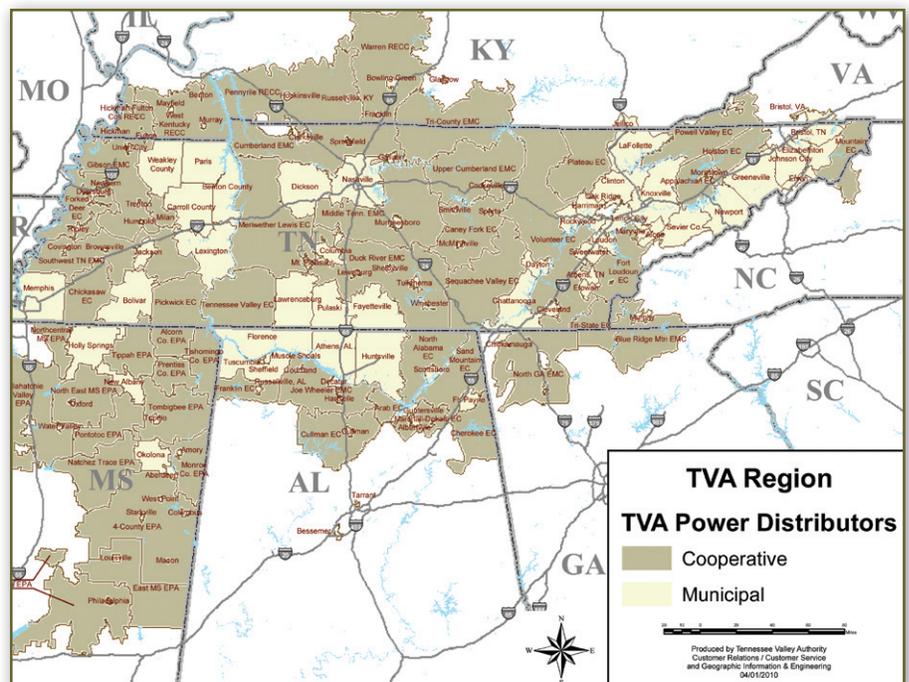
provisions of the Sarbanes-Oxley Act. We tested 30 control activities within five IT general control domains and seven applications designated by TVA as requiring supplemental testing for FY 2010 financial reporting. The purpose of testing was to provide control owners with the status of operating effectiveness of primary control activities at the end of FY 2010. We determined 19 control activities were operating as designed, two were not operating effectively, four could be improved, and five could not be tested due to the nonoccurrence of an activity that would trigger the control operation.

### Distributor Audits

TVA has 155 distributors – municipalities and cooperatives – that resell TVA power to consumers across the Tennessee Valley. Power sales to these distributors comprise about 85 percent of TVA's operating revenue. Distributor

Audits evaluates these distributors to assess compliance with key power contract provisions, including: accurate reporting of electric sales by customer class to facilitate proper revenue recognition and billing by TVA; nondiscrimination in providing power to members of the same rate class; and the use of power revenues. Additionally, Distributor Audits makes recommendations to help (1) distributors improve their internal controls, and (2) TVA management improve its oversight of the distributors.

During this semiannual period, the OIG completed three distributor audits. In addition, we performed a follow-up audit to a 2006 OIG report addressing TVA's role as an electric rate regulator to determine if the issues identified in that report had been addressed. The following describes the issues noted in one or more of the three completed distributor audits.



**Classification and Metering** | We noted instances where customers were not classified properly and similar customers were not classified the same. The impact of these issues, where we had adequate information to estimate, was not significant; however, there were some instances where we did not have enough information to estimate the impact. Generally, the distributors agreed with our findings and have already corrected or are taking action to correct these issues.

**Other Contract Requirements** | We found distributors were not complying with certain other contract requirements. Specifically, we noted: (1) contracts were not in place for all customers whose demand exceeded 1 megawatt; and (2) cost allocations for joint use of property and services approved by TVA were not being applied; instead, other allocation methods not approved by TVA were used, and/or allocations were applied improperly; (3) accounts were not classified in accordance with Federal Energy Regulatory Commission requirements; (4) required applications for customers receiving the Small Manufacturing Credit were not obtained; (5) the Enhanced Growth Credit (EGC) was not calculated correctly for all customers; (6) required EGC documentation was not maintained; and (7) a spreadsheet used by a distributor to calculate electric sales reported to TVA contained an error, causing the distributor to overpay TVA for demand by approximately \$104,000. Generally, TVA and the distributors agreed and

have already corrected or are taking action to correct these issues.

**Use of Electric Revenues** | We found one of the three distributors reviewed had more than enough cash on hand to fund planned/actual capital expenditures and provide cash reserves exceeding the minimum TVA guidelines of a cash ratio of 5 to 8 percent, and one distributor used electric department funds for nonelectric businesses without obtaining appropriate written agreements with TVA.

**Cash Reserves** | While TVA has established guidelines to determine if a distributor has adequate cash reserves (a cash ratio of 5 to 8 percent), TVA has not established guidelines to determine if a distributor's cash reserves are excessive. One of the three distributors reviewed had a cash ratio exceeding the minimum guidelines of 5 to 8 percent. TVA has agreed to define criteria for determining when a distributor's cash reserves are excessive.

**Use of Funds for Nonelectric Purposes** | One of the three distributors reviewed used electric department funds for nonelectric businesses without obtaining appropriate written agreements with TVA. The distributor (1) used electric system funds to pay for expenses of the broadband department without approval from TVA and (2) did not have loan documents in place between the electric department and the broadband department that specified interest rates, payment

amount, and recourse protections. Without an executed loan document, the electric department has no legal recourse to recover amounts expended to fund the broadband department. TVA and the distributor agreed to take corrective action.

**Distributor Internal Control Issues** | At one of the distributors audited, we found improvements could be made with respect to remediating a billing agency programming error that resulted in customers not receiving correct refunds. The distributor agreed and is taking action to correct the issue.

**Opportunities for TVA Oversight Improvements** | We found opportunities to enhance TVA's oversight at each of the three distributors that had also been reported in previous OIG distributor audit reports. In response, TVA agreed to take corrective action on these issues.

## Follow-up Review of TVA's Role as a Rate Regulator

In a 2006 OIG report, we recommended TVA execute contract modifications with distributors who wish to pursue nonelectric business ventures, and TVA management agreed to do so. However, during our follow-up audit, TVA management informed us that an alternative approach to protect the interests of TVA and other parties had been implemented. Instead of formal contract modifications, TVA will require written agreements with terms to protect all parties



Transmission Lines

when approving a distributor’s investment of “reserves for renewals, replacements, contingencies, and working capital” in nonelectric business ventures.

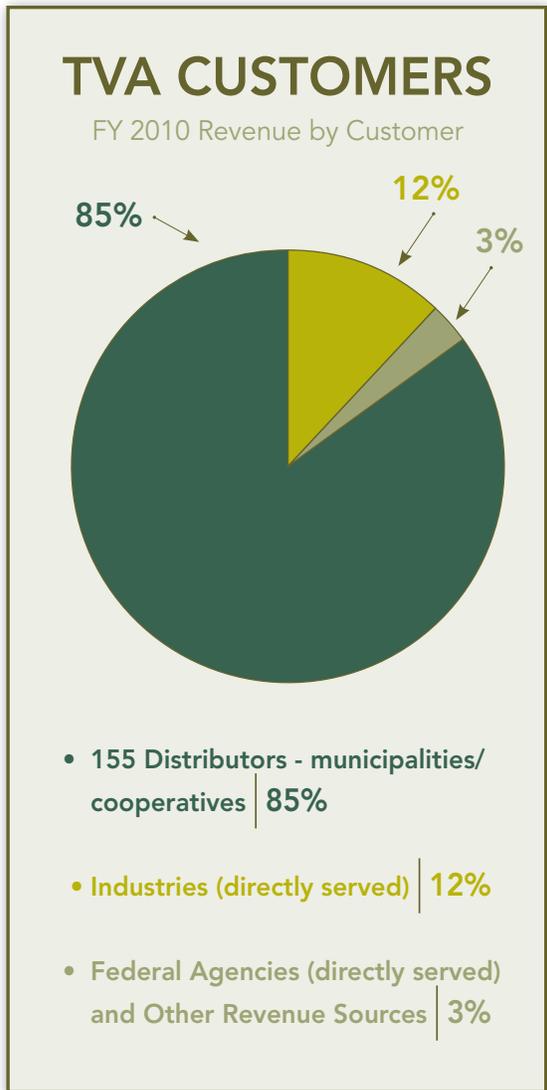
TVA designated one distributor’s request evaluation and subsequent agreements as the “model” for handling future requests. While the new approach and “model” may prove effective for controlling risks, we noted three areas where protection for the distributors, ratepayers, and TVA could be strengthened. TVA has corrected one of the issues. Specifically, we found TVA had not:

- Established guidelines to indicate when a distributor’s cash reserves are excessive and should be returned to the ratepayers through rate reductions, as required by the power contract. TVA has made some progress in formalizing procedures and metrics for

review of a distributor’s financial position; however, the procedures and metrics have not been approved and implemented.

- Reviewed distributors previously approved to use electric system revenues for nonelectric purposes, or reviewed those distributors that were using funds without approval, to determine if appropriate protections (e.g., formal written agreements) were in place.

TVA agreed to take action on these issues. TVA corrected a third issue by documenting (1) guidelines for reviewing business plans when a distributor proposes to invest in nonelectric ventures or use electric system revenues for nonelectric purposes and (2) the terms to be included in the resulting formal written agreements.





Representative Inspections  
*making* **TVA** *better*

## Summary of Representative Inspections

*During this reporting period, inspections completed three reviews including the assessment of (1) TVA's Dam Safety Program; and (2) processes in place to address deficiencies in ash management governance, cultural issues, the stability of ash impoundments, and deficiencies in the coal ash management program.*

### Review of TVA's Dam Safety Program Identified Areas for Improvement

This review was the result of broad interest by the media, TVA stakeholders, and the public at large surrounding the safety and condition of TVA dams after the ash spill at the Kingston Fossil Plant. TVA's Dam Safety organization (Dam Safety) is responsible for ensuring that TVA's Dam Safety Program, formalized in 1982, meets federal guidelines. TVA's Dam Safety Program consists of modifications to ensure the structural integrity and safe operation of TVA's 49 dams and related structures, instrumentation to monitor dam performance, periodic inspections, maintenance and repairs, as well as emergency preparedness. In addition, Dam Safety's scope of responsibility includes saddledams, dikes, and impoundments in the TVA system.

The objectives of our review were to determine if TVA's Dam Safety Program identified and adequately addressed significant risks; was in compliance with TVA policies and procedures, as well as

applicable laws and regulations; and encompassed all aspects of a comprehensive dam safety program. Our review found TVA was taking steps to identify and mitigate its risks; was adhering to the Federal Guidelines for Dam Safety, with a few exceptions; and had a comprehensive dam safety program. Specifically:

- TVA was moving from a reactive to a proactive posture by anticipating and mitigating risks. According to TVA's Hydro Board of Consultants, an independent team of three internationally recognized experts in dam engineering retained by Dam Safety, it would be very difficult for something to happen that would not be detected in time to mitigate disaster with the monitoring TVA has in place. In addition, TVA was implementing new analysis to assist with the identification and mitigation of risk, based on recommendations by TVA's independent consultants. However, based on interviews with TVA plant personnel,

clearer lines of responsibility; decreased lag time from inspection to report issuance; rotation of inspectors; and Dam Safety personnel presence during project work would enhance the identification and mitigation of dam safety risks.

- TVA's policy was to follow the Federal Guidelines for Dam Safety, although not required under federal law. TVA was adhering to the federal guidelines, with the exception of certain aspects of the operations and maintenance (O&M) manuals, Training and Awareness Program, and emergency action plans (EAPs). Specifically, O&M manuals were not updated on a regular basis and periodic evaluation was not performed of site personnel conducting monthly inspections. Additionally, the EAPs lacked a process for terminating an emergency, a designated EAP Coordinator, and information related to unmanned dams. These deficiencies could hinder risk identification and mitigation activities.



Nickajack Lake

- We contracted with Marshall Miller to conduct a peer review of TVA's Dam Safety Program. Based on Marshall Miller's review, it appeared that while TVA had a comprehensive dam safety program in place, the program could be strengthened in the areas of inspection, instrumentation, Dam Safety O&M programs, and emergency action planning.

Additionally, there were several issues identified in this review that were previously identified in our inspection report titled, *Review of Kingston Fossil Plant Ash Spill Root Cause Study and Observations about Ash Management* (Kingston Report). The Kingston Report noted areas where responsibility and accountability were unclear. Maintenance was also identified as a "big problem" and we

noted staffing and funding should be increased, and the O&M manuals needed to be updated. Since these issues negatively impacted TVA management of ash impoundments, we recommended the potential impact and risk of parallel issues identified in this review be thoroughly examined by TVA as part of its effort to change the company's culture. TVA management agreed with our findings and recommendations and has taken or plans to take corrective actions.

### Stability Assessment Process Review Determined TVA Responded Appropriately to the 2008 Kingston Ash Spill

The OIG identified weaknesses in TVA culture and the coal ash management program in previous inspections. This review was

initiated to assess and report on the appropriateness of TVA processes, and completed and planned actions pertaining to culture change, stability assessments of TVA ash impoundments, and ash management.

The objectives of this review were to determine what processes TVA had followed since the Kingston Fossil Plant ash spill to address: (1) deficiencies in ash management governance, (2) cultural issues identified, (3) stability of the other coal ash impoundments, and (4) deficiencies in the coal ash management program. The scope of this review included information available to the OIG regarding coal ash management and risk.

We found that since the Kingston Fossil Plant ash spill, TVA had taken appropriate actions to: (1) improve



Kingston Fossil Plant

ash management governance, (2) drive culture change, (3) evaluate the stability and corresponding safety factors pertaining to ash impoundments, (4) remediate risks, and (5) identify and address ash management deficiencies. Specifically, TVA had:

- Decided to include coal ash impoundments under the Dam Safety Program to increase governance and use the expertise of TVA's independent hydro review board in assessing the safety and stability of coal ash impoundments.
- Taken action to drive organizational culture change, including hiring an independent cadre of professionals to assess TVA culture, instituting an

organizational effectiveness initiative, and reorganizing to improve accountability.

- Hired a consultant, Stantec, Inc., to evaluate the stability of facility ash impoundments and established an appropriate evaluation and remediation process.
- Taken immediate actions to improve stability and remediate risks pertaining to many TVA coal ash impoundments.
- Compiled a gap analysis of recommendations to TVA from relevant review sources to ensure ash management problems were addressed. The development and implementation of the quality assurance/quality control

processes and development of ash management policies and procedures are examples of key actions taken.

While TVA has made significant progress to-date, it is important to note this is a long-term project that TVA must continue as a priority.



Representative Investigations  
*making* **TVA** *better*

## Summary of Representative Investigations

*During this reporting period, one of TVA OIG's investigations led to TVA's first contractor debarment and a \$2 million administrative fee due to TVA. Investigations opened 190 cases and closed 161. Our investigators garnered an indictment on false statements, a conviction in a case involving transmission line destruction, and the sentencing of four individuals. In total, our investigations resulted in more than \$5 million in projected savings, recoveries, fines, and penalties.*

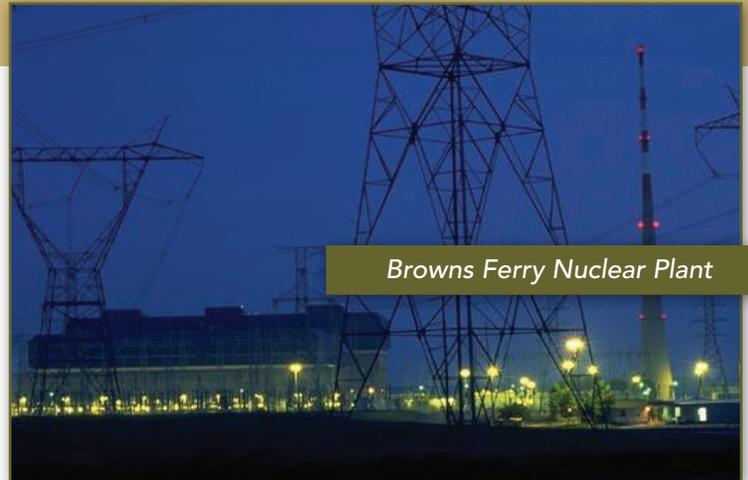
### Contractor Misconduct Leads to First TVA Debarment and the Collection of \$2 Million Administrative Fee

The OIG previously reported that a TVA technical contract manager received money from a TVA contractor. Criminal actions were taken against the former TVA technical contract manager in that investigation. In addition, a report of administrative inquiry was issued to TVA management regarding the actions of the contractor, Holtec International, Inc. In response to this report, TVA established and filled the position of a TVA suspension and debarment officer to review the matter, which led to the first debarment action at TVA. Holtec International, Inc., received a sixty-day debarment (October 12 through December 12, 2010); and, by agreement with TVA, will pay a \$2 million administrative fee to TVA; appoint a corporate governance officer and an independent monitor (at the contractor's expense); implement a code of conduct, to include training for all employees, executives, directors, and officers;

add three noncompany members to its board of directors and sign an administrative agreement ensuring compliance to the above terms.

### TVA Program Manager Receives a 30-Day Suspension Following an OIG Investigation

TVA OIG addressed an allegation that a custodial program manager was using TVA employees, equipment and supplies to run a private cleaning company. The manager's company has a contract to provide janitorial services to city buildings in the TVA region of responsibility. The investigation determined the employee did utilize a TVA vehicle during the normal TVA work schedule to do non-TVA work, and the individual was untruthful about this use during an interview. The OIG issued a report, and TVA management responded by suspending the individual for 30 days



*Browns Ferry Nuclear Plant*

without pay, issuing the employee a written warning, and requiring the employee to complete a request for approval of outside employment and a financial disclosure form. Additionally, all regional custodial/facilities maintenance employees were required to complete TVA's 2010 ethics training, and the custodial supply rooms were made more secure to prevent misuse. Also, TVA Facilities O&M group agreed to perform a cost-benefit analysis regarding installation of a security system to track entrances and exits to all custodial supply rooms accessible by noncustodial employees, analyze monthly use of custodial supplies to identify unsupported use, and remind employees of TVA policy regarding misuse of government property.



Watts Bar Nuclear Plant

## Chemistry Process at Watts Bar Nuclear Investigated

The OIG investigated a complaint that chemistry records were destroyed during an outage at Watts Bar Nuclear Plant. The complaint alleged that a TVA manager was told ahead of time that polishers, (which purify water) were in danger of failing, the result of which would be unacceptably elevated chemical concentrations immediately before re-start. The manager decided not to replace the polishers and they failed. In addition, steam generator samples were out of acceptable pressurized water reactor secondary water chemistry guidelines as set forth by the Electric Power Research Institute, and were destroyed by instruction of the same manager and removed from the computer database. The investigation concluded the facts as alleged were largely accurate, but that the actions of the manager were not technically in violation of written policy and procedure. A report to management was submitted, with which management generally agreed. As a result of our investigation, TVA's Watts Bar Chemistry manual was

revised regarding the deletion and retention of data.

## Missing Tools Located, TVA Credited

In a prior semiannual period, we received information from a TVA program manager that tools were missing from a spring 2010 outage at the Cumberland Fossil Plant. The missing tools were possibly utilized by an electrical contractor who had been assigned \$26,000 in tools by TVA tool management personnel. At the completion of the outage, the contractor failed to account for approximately \$23,000 in tools. Two separate searches of the contractor's shop uncovered \$5,939 in tools that clearly belonged to TVA. Following the searches, the contractor had a total of \$18,666 in tools they failed to return to TVA. This amount was credited to TVA. Additional walk-downs at the Cumberland plant revealed \$88,219 in unaccounted for tools and equipment.

Two fossil plants had procedures already in place to inventory

contractor tools and equipment at the beginning and the completion of outages. We recommended Fossil management adopt a similar procedure for all fossil plants and have plant security conduct periodic vehicle searches of contractors exiting the plants. Fossil management agreed to develop and implement a procedure for all TVA fossil plants, which was implemented this reporting period, and TVA Police is presently reviewing additional security needs at the plants.

## Two Convicted for Destruction of TVA Property

On September 8, 2009, at approximately 9:50 a.m., the Marshall-Murray 161 kV transmission line failed causing a power outage in Marshall and Calloway Counties, and the City of Murray, Kentucky. A TVA electrician responding to the power outage noticed that insulators had been shot at structure No. 331 on the property at 1265 Pugh School Road, Benton, Kentucky. A joint investigation was conducted with the TVA Police. A \$1,000 reward was posted for information leading to the arrest and conviction of the person or persons responsible for the damage to the transmission line. Our investigation resulted in the identification and conviction of two individuals: one convicted and sentenced last year; one during this reporting period. Both pled guilty in state court to one count of Criminal Mischief 2nd Degree, were sentenced to one year in jail, two years' probation, as well as

fined \$160 in court costs and ordered to pay restitution to TVA in the amount of \$4,300.

## **Allegation of Unethical Relationship Substantiated**

TVA Office of the General Counsel reported to the OIG an allegation that a subcontracting company working under a TVA custodial provider contract was owned and operated by the wife of a facilities custodial manager. The subcontractor worked in the area supervised by the TVA manager. TVA's contract manager was unaware of the relationship. Our investigation substantiated the allegation, and a report was issued to TVA management, who responded appropriately to ensure the conflict was addressed and that measures were taken to prevent future ethical conflicts.

## **OIG Followed Up on Concerns Regarding Dam Safety**

In conjunction with OIG Inspections, Investigations performed a risk-based special project concerning TVA's Dam Safety Program. The project closed this semiannual period. Investigations had received information that Wheeler Dam Unit 1 had structural issues, and that Wilson Dam had waterfalls on the downstream side of the dam possibly originating from seepage from the upside of the dam. Investigations performed reviews of the Wheeler, Wilson, Bear Creek (nonpower), Nickajack, and Douglas

sites. Investigations issued a report to TVA management concerning Wheeler Dam. OIG Inspections reported the results of the reviews at the other sites. Management responded by obtaining an independent third party assessment of Wheeler Dam Unit 1, installing additional sensors to measure vibration, and issuing new written procedures concerning start, stop and operation of the unit.

## **TVA Subcontract Manager Sentenced**

A TVA subcontract manager and an accomplice were sentenced after pleading guilty to felony mail fraud and related counts. The involved individuals falsified invoices for labor and materials related to preheating

welds at Browns Ferry Nuclear Plant. The subcontract manager was sentenced to 14 months probation (eight of those months are in home confinement) and his accomplice was sentenced to 12 months probation (four months in home confinement). The two were jointly and severally ordered to pay \$31,855 in restitution.

## **Former TVA Employee Sentenced on Stealing Four Credit Cards**

A former TVA employee at Allen Fossil Plant was sentenced in Tennessee state court after pleading guilty to theft of four TVA gas purchase credit cards. The individual was also required to pay restitution to TVA of \$16,262.





Legislation and Regulations  
*making* **TVA** *better*

## Legislation and Regulations

*In fulfilling its responsibilities under the IG Act of 1978, as amended, the OIG follows and reviews existing and proposed legislation and regulations that relate to the mandate, operations and programs of TVA. Although TVA's Office of the General Counsel reviews proposed or enacted legislation that could affect TVA activities, the OIG independently follows and reviews proposed legislation that affects the OIG and/or relates to economy and efficiency or waste, fraud, and abuse of TVA programs or operations.*

The TVA OIG has been tracking the following major pieces of legislation during the past six months:

### **S. 413 – The Cybersecurity and Internet Freedom Act**

Senator Joseph Lieberman (D-CT) introduced this legislation which would amend the Homeland Security Act of 2002 "to protect and enhance the Nation's cybersecurity infrastructure." S. 413 would establish an Office of Cyberspace Policy in the Executive Office of the President that would develop national strategies to increase cyberspace security and resiliency. It would also establish a National Center for Cybersecurity and Communication (NCCC) within the Department of Homeland Security (DHS) to implement the national strategies of the Office of Cyberspace Policy. IGs would be required to assess the adequacy and effectiveness of their agency's information security programs every two years. IGs would also be required upon request to give law enforcement information related to the security of the federal

information infrastructure to the Director of United States Computer Emergency Readiness Team. Agencies that fail to comply with corrective measures in accordance with DHS recommendations must submit a report to their agency IG explaining why; and agencies must ensure that information relating to the adequacy and effectiveness of information security practices is available to IGs on an automated and continuous basis.

### **S. 493 – The SBIR/STTR Reauthorization Act**

The bill was introduced on March 4, by Senator Mary Landriue (D-LA) and passed the Senate Committee on Small Business and Entrepreneurship on March 9. Among other things, S. 493 directs the Small Business Administration to revise the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) policy directives to require IGs at granting agencies to take steps to prevent fraud, waste, and abuse. Such measures would include coordinating information sharing between agencies; improving

education, training, and outreach; and establishing an SBIR/STTR fraud hotline. Members of the CIGIE Legislation Committee are currently working with Allison Lerner, National Science Foundation IG and Chair of the CIGIE Misconduct in Research Working Group, to address concerns regarding IG independence and to propose requiring lifecycle certifications by every small business entity that applies for or receives an award under one of the programs.

### **Office of Government Ethics (OGE) Draft to Amend Ethics in Government Act**

OGE recently circulated for comment a draft of its new legislative proposal to amend the Ethics in Government Act (EIGA). Among other things, it would amend Section 403 of EIGA to provide the OGE Director with the authority to request an IG to investigate an ethics matter. The IG may decline the request, but the IG must provide a written reason for the declination within 30 days. The draft would also require agencies to notify OGE of any relevant IG investigations

as soon as the IG determines there are grounds to believe a conflict of interest violation has occurred.

## Four Bills Would Establish New IGs

H.R. 727 and S. 348 would each create a Judicial Branch IG, who would be appointed to a four year term.

H.R. 808 (The Department of Peace Act) would establish a Cabinet level department in the Executive Branch with a presidentially appointed IG for the department. Notably, there is not an explicit requirement that the IG be appointed with the advice and consent of the Senate.

S. 428 introduced by Senator Claire McCaskill (D-MO), establishes an IG for the Senate. The IG would be appointed jointly by the Senate majority and minority leaders and would be under their general supervision. The IG would serve a term of five years and would be limited to two reappointments.

## Ongoing Matters

There has been no further action on S. 241 (The Non-Federal Employee Whistleblower Protection Act); S. 300 (The Government Charge Card Abuse Prevention Act); or H.R. 209 (The Reducing Information Controls Designations Act). We continue to be interested in these bills and will closely monitor them.





Cades Cove | Great Smoky Mountains National Park



Appendices  
*making* **TVA** *better*

## INDEX OF REPORTING REQUIREMENTS UNDER THE INSPECTOR GENERAL ACT

REPORTING	REQUIREMENT	PAGE
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Section 5(a)(3)	Recommendations Described in Previous Semiannual Reports in 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) and 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of Audit and Inspection Reports	Appendix 2
Section 5(a)(7)	Summary of Particularly Significant Reports	23-37
Section 5(a)(8)	Status of Management Decisions for Audit and Inspection Reports Containing Questioned Costs	Appendix 3
Section 5(a)(9)	Status of Management Decisions for Audit and Inspection Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 3
Section 5(a)(10)	Summary of Audit and Inspection Reports Issued Prior to the Beginning of the Reporting Period for Which No Management Decision Has Been Made	None
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions With Which the Inspector General Disagreed	None
Section 5(a)(13)	Information Under Federal Financial Management Improvement Act of 1996	None
Section 5(a)(14)	Appendix of results of any peer review conducted by another Office of Inspector General during the reporting period and, if none, a statement of the date of the last peer review.	Appendix 8
Section 5(a)(15)	List of outstanding recommendations from any peer review conducted by another Office of Inspector General, including a statement describing the status of the implementation and why implementation is not complete.	None
Section 5(a)(16)	List of peer reviews conducted of another Office of the Inspector General during the reporting period, including a list of any outstanding recommendations made from any previous peer review that remain outstanding or have not been implemented.	Appendix 8

# Appendix 2

## OIG AUDIT REPORTS ISSUED DURING THE SIX-MONTH PERIOD ENDED MARCH 31, 2011

Report Number and Date	Title	Questioned Costs	Unsupported Costs	Funds Put To Better Use
<b>CONTRACT AUDITS</b>				
2010-13249 10/19/2010	DF&K Right-of-Way Clearing	\$0	\$0	\$0
2008-11553 10/27/2010	Deloitte Consulting, LLP	\$4,806,183	\$0	\$0
2010-13058 10/27/2010	WorleyParsons	\$39,915	\$523	\$0
2010-13463 12/01/2010	Pinkerton Government Services	\$0	\$0	\$0
2010-13485 01/21/2011	Preaward Review – Proposal to Provide Nondestructive Examinations at TVA Nuclear and Fossil Generation Units	\$0	\$0	\$1,159,000
2010-13503 01/26/2011	Preaward Review – Proposal for Bellefonte Nuclear Plant Unit 1 Master Completion Contract	\$0	\$0	\$4,900,000
2010-13550-01 02/16/2011	Preaward Review – Proposal to Provide Engineering Services for Bellefonte Nuclear Plant Unit 1	\$0	\$0	\$7,300,000
2010-13550 03/03/2011	Preaward Review – Proposal to Provide Engineering Services for Bellefonte Nuclear Plant Unit 1	\$0	\$0	\$11,543,000
2010-13643 03/08/2011	Preaward Review – Proposal to Provide Geotechnical Services	\$0	\$0	\$61,000
<b>DISTRIBUTOR AUDITS</b>				
2009-12699 12/09/2010	Follow-up Review of TVA's Role as a Rate Regulator – Use of Electric Revenues for Nonelectric Purposes	\$0	\$0	\$0
2010-13021 12/09/2010	Pulaski Electric System	\$0	\$0	\$0
2010-13025 01/04/2011	North Georgia Electric Membership Corporation	\$0	\$0	\$0
2010-13024 02/08/2011	Newport Utilities	\$0	\$0	\$0
<b>FINANCIAL AND OPERATIONAL AUDITS</b>				
2010-13251 10/04/2010	TVA Storage and Management of Ammonia	\$0	\$0	\$0
2010-13596 11/10/2010	Agreed-upon Procedures Applied to TVA Fiscal Year 2010 Performance Measures	\$0	\$0	\$0
2010-13143 03/21/2011	Review of the Rework on Watts Bar Unit 2	\$0	\$0	\$0
<b>INFORMATION TECHNOLOGY AUDITS</b>				
2010-13033 10/12/2010	Effectiveness of Cyber Security Monitoring Follow-up Review	\$0	\$0	\$0
2010-13507 10/22/2010	Sarbanes Oxley Testing – IT General Controls and Application Control Narratives	\$0	\$0	\$0
2010-13446 12/02/2010	Federal Information Security Management Act (FISMA) Evaluation	\$0	\$0	\$0
2010-13077 02/17/2011	Contractor Workforce Management Application Security Assessment	\$0	\$0	\$0
<b>TOTAL AUDITS (20)</b>		<b>\$4,846,098</b>	<b>\$523</b>	<b>\$24,963,000</b>

## OIG INSPECTION REPORTS ISSUED DURING THE SIX-MONTH PERIOD ENDED MARCH 31, 2011

Report Number and Date	Title	Questioned Costs	Unsupported Costs	Funds Put To Better Use
2009-12651 10/13/2010	Review of TVA's Dam Safety Program	\$0	\$0	\$0
2010-13105 11/10/2010	Stability Assessment Process Review	\$0	\$0	\$0
2010-13571 03/31/2011	Review of TVA's Raccoon Mountain Fire Protection Systems	\$0	\$0	\$0
<b>TOTAL INSPECTIONS (3)</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

*Note: A summary of or link to the full report may be found on the OIG's Web site at [www.oig.tva.gov](http://www.oig.tva.gov).*

# Appendix 3

TABLE I | TOTAL QUESTIONED AND UNSUPPORTED COSTS | AUDITS

Audit Reports	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the period	0	\$0	\$0
B. Which were issued during the reporting period	2	\$4,846,098	\$523
<b>Subtotal (A+B)</b>	<b>2</b>	<b>\$4,846,098</b>	<b>\$523</b>
C. For which a management decision was made during the reporting period	2 <sup>1</sup>	\$4,846,098	\$523
1. Dollar value of disallowed costs	2	\$1,303,202	\$523
2. Dollar value of costs not disallowed	1	\$3,542,896	\$0
D. For which no management decision has been made by the end of the reporting period	0	\$0	\$0
E. For which no management decision was made within six months of issuance	0	\$0	\$0

<sup>1</sup> The total number of reports for which a management decision was made during the reporting period differs from the sum of C(1) and C(2) when the same report(s) contain both recommendations agreed to by management and others not agreed to by management.

TABLE I | TOTAL QUESTIONED AND UNSUPPORTED COSTS | INSPECTIONS

Inspection Reports	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the period	0	\$0	\$0
B. Which were issued during the reporting period	0	\$0	\$0
<b>Subtotal (A+B)</b>	<b>0</b>	<b>\$0</b>	<b>\$0</b>
C. For which a management decision was made during the reporting period	0	\$0	\$0
1. Dollar value of disallowed costs	0	\$0	\$0
2. 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	0	\$0	\$0
E. For which no management decision was made within six months of issuance	0	\$0	\$0

TABLE II | FUNDS TO BE PUT TO BETTER USE | AUDITS

Audit Reports	Number of Reports	Funds To Be Put To Better Use
A. For which no management decision has been made by the commencement of the period	2	\$13,695,565
B. Which were issued during the reporting period	5	\$24,963,000
<b>Subtotal (A+B)</b>	<b>7</b>	<b>\$38,658,565</b>
C. For which a management decision was made during the reporting period	5 <sup>2</sup>	\$19,815,565
1. Dollar value of recommendations agreed to by management	5	\$7,450,161
2. Dollar value of recommendations not agreed to by management	3	\$12,365,404
D. For which no management decision has been made by the end of the reporting period	2	\$18,843,000
E. For which no management decision was made within six months of issuance	0	\$0

<sup>2</sup>The total number of reports for which a management decision was made during the reporting period differs from the sum of C(1) and C(2) when the same report(s) contain both recommendations agreed to by management and others not agreed to by management.

TABLE II | FUNDS TO BE PUT TO BETTER USE | INSPECTIONS

Inspection Reports	Number of Reports	Funds To Be Put To Better Use
A. For which no management decision has been made by the commencement of the period	0	\$0
B. Which were issued during the reporting period	0	\$0
<b>Subtotal (A+B)</b>	<b>0</b>	<b>\$0</b>
C. For which a management decision was made during the reporting period	0	\$0
1. Dollar value of recommendations agreed to by management	0	\$0
2. Dollar value of recommendations not agreed to by management	0	\$0
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

# Appendix 4

## AUDIT AND INSPECTION REPORTS WITH CORRECTIVE ACTIONS PENDING

As of the end of the semiannual period, final corrective actions associated with eight audits and three inspections were not completed within twelve months of the final report date. Presented below for each audit and inspection are the report number and date, a brief description of the open recommendations, and the date management expects to complete final action.

Audit Report Number and Date	Report Title and Recommendation(s) for which Final Action is Not Complete
2007-11216 06/02/2008	<p><b>Review of TVA Actions to Protect Social Security Numbers and Eliminate Their Unnecessary Use</b></p> <p>TVA agreed to implement protective measures for applications and reports containing social security numbers, such as restricting access and logging downloads. Management expects final action to be completed by August 31, 2011.</p>
2007-11388 08/21/2008	<p><b>Sequoyah Nuclear Plant – Cyber Security Assessment</b></p> <p>TVA agreed to (1) implement additional device segmentation; (2) use private non-Internet routable IP addresses; (3) evaluate the use of third-party applications; (4) regularly change system passwords; and (5) secure remote access to control systems when this access is necessary. Management expects final action to be completed by September 30, 2011.</p>
2008-11965 02/04/2009	<p><b>Contractor Workforce Management (CWM) – Access and General Control Review</b></p> <p>TVA is currently undergoing a request for proposal process to either replace or upgrade the existing CWM system. Replacement of the system will remediate the identified vulnerabilities. As of March 31, 2011, TVA was evaluating the proposals.</p>
2008-12127 09/24/2009	<p><b>Hydroelectric Plant Automation – General, Physical, and Security Controls Review</b></p> <p>TVA agreed to implement the new access control system at all sites and further restrict access to key components. Management expects final action to be completed by June 1, 2013.</p>
2009-12338-05 01/26/2010	<p><b>Enterprise Backup and Recovery – Information Systems</b></p> <p>TVA agreed to (1) change the process for remote backups by centralizing offsite storage and tape disposal in Chattanooga, procuring additional tape safes for sites and tape vaults in Chattanooga, and instituting a process for securing tapes transmitted from the sites to Chattanooga; and (2) work with the backup software vendor to (a) address partial back-up tracking, (b) search industry best practice, and (c) define requirements. Management expects final action to be completed by September 15, 2011.</p>
2009-12338-07 01/26/2010	<p><b>Enterprise Backup and Recovery – Fossil Power Group</b></p> <p>TVA agreed to (1) complete documented formal backup and restore procedures and processes for each power plant; (2) establish a repository for critical instruments and controls for each power plant and maintain the repository; (3) develop procedures to inventory, properly store, and test backup media for each power plant; (4) identify processes where reliance for backup is with Information Technology and develop service level agreements to meet backup and restore requirements; and (5) perform periodic backup testing to verify procedures are functional. Management expects final action to be completed by May 27, 2011.</p>
2009-12697 01/25/2010	<p><b>Federal Information Security Management Act (FISMA) Evaluation</b></p> <p>TVA agreed to improve reporting, monitoring, and remediate security weaknesses, as well as improve efforts to meet remediation due dates. Management expects final action to be completed by August 31, 2011.</p>
2008-12042 01/19/2010	<p><b>Distributor Review of Tullahoma Utilities Board</b></p> <p>TVA agreed to update the joint cost allocations. Management expects final action to be completed by April 30, 2011.</p>

## AUDIT AND INSPECTION REPORTS WITH CORRECTIVE ACTIONS PENDING (CONTINUED)

Inspection Report Number and Date	Report Title and Recommendation(s) for which Final Action is Not Complete
2005-5181 08/31/2005	<p><b>Review of Physical and Environmental Controls for the Chattanooga Data Center</b></p> <p>TVA agreed to replace the Chattanooga office complex telephone system with a system operating on the Internet Protocol to eliminate three specific failure modes which could hamper or eliminate TVA's communication ability. Implementation of the new communication system has been delayed by management due to what is considered higher priority projects. Management expects final action to be completed by December 31, 2012.</p>
2008-12007 05/13/2009	<p><b>Distributor Review of Monroe County Electric Power Authority</b></p> <p>TVA agreed to (1) consider feasibility of a comprehensive guideline for permissible expenditures, and (2) recommend to the Board that additional financial metrics, including when cash reserves become excessive, be implemented in the rate setting process. Management expects final action to be completed by November 30, 2011.</p>
2008-12040 05/13/2009	<p><b>Distributor Review of Lewisburg Electric System</b></p> <p>TVA agreed to (1) consider feasibility of a comprehensive guideline for permissible expenditures, and (2) recommend to the Board that additional financial metrics, including when cash reserves become excessive, be implemented in the rate setting process. Management expects final action to be completed by November 30, 2011.</p>

# Appendix 5

## INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS<sup>1</sup>

Referrals	
Subjects Referred to U.S. Attorneys	22
Subjects Referred to State/Local Authorities	1
Results	
Subject Indicted	1
Subjects Convicted	1
Pretrial Diversion	0
Referrals Declined	19

<sup>1</sup> These numbers include task force activities and joint investigations with other agencies.

	MAR 31, 2011	SEPT 30, 2010	MAR 31, 2010	SEPT 30, 2009	MAR 31, 2009
<b>AUDITS</b>					
<b>AUDIT STATISTICS</b>					
Carried Forward	40	60	44	70	28
Started	29	28	46	46	59
Canceled	3	(7)	(4)	(6)	(3)
Completed	20	(41)	(26)	(66)	(14)
In Progress at End of Reporting Period	46	40	60	44	70
<b>AUDIT RESULTS (Thousands)</b>					
Questioned Costs	\$4,846	\$2,7130	\$980	\$6,744	\$1,226
Disallowed by TVA	1,303	1,8790	2,255	2,799	829
Recovered by TVA	763	1,921 <sup>1</sup>	2,655 <sup>2</sup>	909	453 <sup>3</sup>
Funds To Be Put To Better Use	\$24,963	\$13,696	\$9,703	\$50,570	\$0
Agreed to by TVA	7,450	149	8,853	4,723	0
Realized by TVA	12,750 <sup>4</sup>	2,091	480	4,395	0
<b>OTHER AUDIT-RELATED PROJECTS</b>					
Completed	13	27	10	16	8
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$0	\$0	\$0
<b>INSPECTIONS</b>					
Completed	3	9	2	21	4
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$0	\$0	\$0
<b>INVESTIGATIONS<sup>5</sup></b>					
<b>INVESTIGATION CASELOAD</b>					
Opened	190	199	168	194	171
Closed	161	221	198	223	91
In Progress at End of Reporting Period	199 <sup>6</sup>	167	189 <sup>7</sup>	251	280
<b>INVESTIGATIVE RESULTS (Thousands)</b>					
Recoveries	\$2,144	\$36.2	\$41.8	\$20.6	\$10,725.3
Savings	2,515	4,028	0	472.1	0
Fines/Penalties	453	8 <sup>8</sup>	5.9	.4	352.7
<b>MANAGEMENT ACTIONS</b>					
Disciplinary Actions Taken (# of Subjects)	7	14	7	6	3
Counseling/Management Techniques Employed (# of Cases)	24	31	25	10	1
Debarment	1 <sup>9</sup>				
<b>PROSECUTIVE ACTIVITIES (# of Subjects)</b>					
Referred to U.S. Attorneys	22	51	16	45	18
Referred to State/Local Authorities <sup>10</sup>	1	2	2	6	--
Indicted	1	7	4	3	4
Convicted	1	8	3	3	3
Pretrial Diversion	0	1	2	0	0

<sup>1</sup> Adjusted to correct amount reported in prior semiannual reports.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Includes \$304,036 savings realized in excess of amounts identified in the audits.

<sup>5</sup> These numbers include task force activities and joint investigations with other agencies.

<sup>6</sup> Adjusted from the previous period.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Category added in semiannual period ended March 31, 2011.

<sup>10</sup> Category added in semiannual period ended September 30, 2009.



Wheeler Dam

## Appendix 7

### GOVERNMENT CONTRACTOR AUDIT FINDINGS

The National Defense Authorization Act for Fiscal Year 2008, P.L. 110-181, requires each Inspector General appointed under the Inspector General Act of 1978 to submit an appendix on final, completed contract audit reports issued to the contracting activity that contain significant audit findings—unsupported, questioned, or disallowed costs in an amount in excess of \$10 million, or other significant findings—as part of the Semiannual Report to Congress. During this reporting period, OIG issued no contract review reports under this requirement.

# Appendix 8

## PEER REVIEWS OF THE TVA OIG

### Audits Peer Review

IG audit organizations are required to undergo an external peer review of their system of quality control at least once every three years, based on requirements in the **Government Auditing Standards** (Yellow Book). Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. During this reporting period, TVA OIG was the subject of a peer review of its audit organization. The review was performed by an ad hoc team appointed by the Council of the Inspectors General on Integrity and Efficiency and led by the U.S. Department of Education (Education) Office of the Inspector General (OIG). Education OIG issued the report, dated March 21, 2011, in which it concluded that the TVA OIG audit organization's system of quality control for the year ended September 30, 2010, was suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Accordingly, TVA OIG received a rating of pass. The peer review report is posted on our Web site at <http://oig.tva.gov/peer-review.html>.

### Investigations Peer Review

Investigative operations undergoes an external peer review, Quality Assessment Review (QAR), at least once every three years. During this reporting period, the Office of Personnel Management (OPM) OIG conducted a QAR of the TVA OIG Investigative Operations. The OPM OIG found the "...system of internal safeguards and management procedures for the investigative function of the TVA OIG in effect for the year ending August 1, 2010, is in compliance with the **Quality Standards for Investigations** and the Attorney General guidelines. These safeguards and procedures provide reasonable assurance of conforming with professional standards in the conduct of investigations." The QAR report can be found on the TVA OIG Web page at <http://oig.tva.gov/peer-review.html>.

## PEER REVIEW PERFORMED BY THE TVA OIG

As reported in our last semiannual report, TVA OIG led a multi-agency peer review of the investigative operations of the Special Inspector General for Afghanistan Reconstruction (SIGAR). The peer review resulted in a report reflecting ten findings/deficiencies, and lead Inspector General Moore, in his role as CIGIE Chair, Investigations Committee, forwarded the report to the Attorney General for the United States for consideration on whether SIGAR's law enforcement powers should be suspended pending corrective action on the deficiencies.

By request of SIGAR, a remediation or "follow-up" review was conducted at SIGAR's offices in Arlington, Virginia, January 3-5, 2011, by two of the original review team members. The ten findings/deficiencies cited in the initial report were broadly in the areas of a historical lack of policies and procedures (Finding 1), training (Findings 2 through 5), established priorities and planning (Findings 6 and 7), and file/records maintenance (Findings 8 through 10). The findings/deficiencies reflected a lack of conformity to applicable **Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority** (2003) and President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency **Quality Standards for Investigations** (December 2003) for at least a significant portion of the review period. The July 2010 Quality Assessment Report is posted on SIGAR's Web site at [http://www.sigar.mil/pdf/peer\\_review/Section5.pdf](http://www.sigar.mil/pdf/peer_review/Section5.pdf).

The remediation review resulted in the conclusion that SIGAR has implemented or taken steps to remediate all of the findings contained in the **Peer Evaluation of the Special Inspector General for Afghanistan Reconstruction Report**. The remedial review did not modify the opinion and conclusions in the original report and did not constitute an external peer review of SIGAR's investigative organization. SIGAR's investigative organization is scheduled to undergo another full scope peer review of their investigations operations in mid 2013.

# Glossary

**Disallowed Cost** | A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the agency.

**Final Action** | The completion of all management actions, as described in a management decision, with respect to audit findings and recommendations. When management concludes no action is necessary, final action occurs when a management decision is made.

**Funds Put To Better Use** | Funds, which the OIG has disclosed in an audit report, that could be used more efficiently by reducing outlays, deobligating program or operational funds, avoiding unnecessary expenditures, or taking other efficiency measures.

**Management Decision** | The evaluation by management of the audit findings and recommendations and the issuance of a final decision by management concerning its response to such findings and recommendations.

**Questioned Cost** | A cost the IG questions because (1) of an alleged violation of a law, regulation, contract, cooperative agreement, or other document governing the expenditure of funds; (2) such cost is not supported by adequate documentation; or (3) the expenditure of funds for the intended purposes was unnecessary or unreasonable.

**Unsupported Costs** | A cost that is questioned because of the lack of adequate documentation at the time of the audit.

# Abbreviations and Acronyms

**The following are acronyms and abbreviations widely used in this report.**

ANSI	American National Standards Institute
CEO	Chief Executive Officer
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CWA	Contract Work Authorization
Dam Safety	Dam Safety organization
DHS	Department of Homeland Security
EAPs	Emergency Action Plans
EGC	Enhanced Growth Credit
EIGA	Ethics in Government Act
FISMA	Federal Information Security Management Act
FLETA	Federal Law Enforcement Training Accreditation
FY	Fiscal Year
IG	Inspector General
IT	Information Technology
Kingston Report	Review of Kingston Fossil Plant Ash Spill Root Cause Study and Observations About Ash Management
Marshall Miller	Marshall Miller and Associates, Inc.
OGE	Office of Government Ethics
OIG	Office of the Inspector General
O&M	Operations and Maintenance
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
SBIR	Small Business Innovation Research
SEC	Securities and Exchange Commission
STTR	Small Business Technology Transfer
TVA	Tennessee Valley Authority
USEPA	U.S. Environmental Protection Agency
WP	Winning Performance
WVDEP	West Virginia Department of Environmental Protection



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**Knoxville, Tennessee 37902**

The OIG is an independent organization charged with conducting audits, inspections, and investigations relating to TVA programs and operations, while keeping the TVA Board and Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations.

The OIG focuses on (1) making TVA's programs and operations more effective and efficient; (2) preventing, identifying, and eliminating waste, fraud, and abuse and violations of laws, rules, or regulations; and (3) promoting integrity in financial reporting.

If you would like to report to the OIG any concerns about fraud, waste, or abuse involving TVA programs or violations of TVA's Code of Conduct, you should contact the OIG Empowerline system. The Empowerline is administered by a third-party contractor and can be reached 24 hours a day, seven days a week, either by a toll-free phone call (1.877.866.7840) or on the Web ([www.oigempowerline.com](http://www.oigempowerline.com)). You may report your concerns anonymously or you may request confidentiality.

### Report Concerns to the OIG Empowerline

**EMPOWERLINE™**  
*A confidential connection for reporting fraud,  
waste or abuse affecting TVA.*

**HOW TO REPORT A CONCERN**

Call toll-free: **877.866.7840**

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Or report on the web:  
**[www.OIGempowerline.com](http://www.OIGempowerline.com)**

The background of the entire image is a close-up, slightly angled view of a red brick pavement. The bricks are arranged in a traditional staggered pattern, with some bricks showing signs of wear and discoloration. A semi-transparent yellow rectangular box is centered on the page, containing the title and two paragraphs of text.

# OIG Leadership Philosophy

The TVA OIG strives to be a high performing organization made up of dedicated individuals who are empowered, motivated, competent, and committed to producing high quality work that improves TVA and life in the Valley.

Each of us has important leadership, management, team, and technical roles. We value integrity, people, open communication, expansion of knowledge and skills, creative problem solving and collaborative decision making.

*better*

**TVA**

*making*



Tennessee Valley Authority  
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