

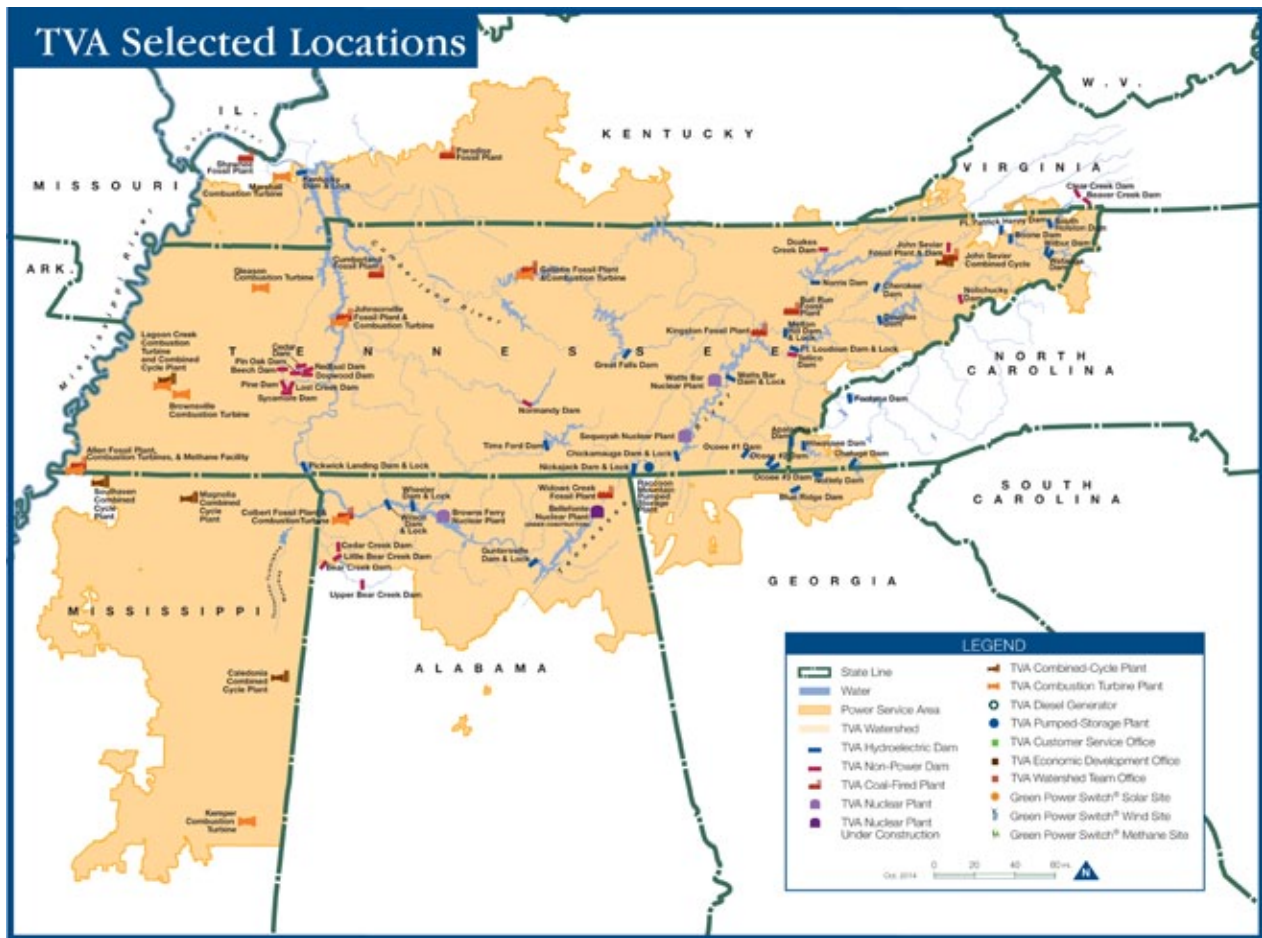
Building a Better TVA... Together



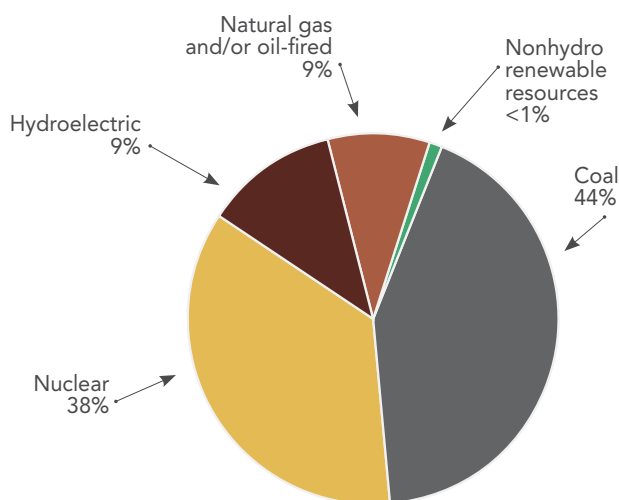
Office of the Inspector General
TENNESSEE VALLEY AUTHORITY
Semiannual Report
October 1, 2014 - March 31, 2015



TVA Selected Locations



TVA POWER GENERATION SIX MONTHS ENDED SEPTEMBER 30, 2014 (in millions of kilowatt hours)



- Coal - 62,525
- Nuclear - 53,778
- Hydroelectric - 13,228
- Natural gas and/or oil-fired - 12,615
- Nonhydro renewable resources - 5*

*Operation and maintenance issues reduced the available renewable generation during 2014, 2013, and 2012 from several facilities, including those utilizing methane, solar, and wind.

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MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to present our report to Congress for the period October 1, 2014, to March 31, 2015. As discussed in our feature article, “Building a Better TVA... Together,” Tennessee Valley Authority (TVA) continues to face challenges from an operational and financial perspective. In these challenging times, it is especially evident that to best serve the people of the Tennessee Valley, the Office of the Inspector General (OIG) not only needs to provide an independent view of the issues facing TVA, but also work collaboratively with TVA management to identify optimal alternatives and the best solutions. Some may say balancing independence and collaboration is difficult. Our experience says it is not only possible, it is integral to helping TVA management and the TVA Board identify the best solutions to mitigate the risks and address the challenges that lie ahead.

In this semiannual period, our audit, evaluation, and investigative activities identified nearly \$11 million in funds that could be put to better use, questioned costs, recoveries, savings and penalties as well as opportunities for TVA to improve its programs and operations. Some of the highlights include:

- A preaward audit that identified \$1.1 million of potential savings opportunities, related primarily to overstated indirect cost recovery rates, for TVA to negotiate.
- Compliance audits of four contracts which found (1) TVA would pay up to an estimated \$6 million more to a contractor than would have been incurred due to unsupported assumptions used to amend the contract's pricing structure and (2) potential overbillings of \$2.9 million.
- A review of TVA executive hiring and dismissal costs found TVA incurred approximately \$7.4 million in recruiting, hiring, and severance expenses for 20 executives who were hired and also departed between March 2005 and May 2014.
- Audits of TVA's controls over protection of personally identifiable information (PII) and TVA's compliance with the Federal Information Security Management Act of 2002 (FISMA) identified opportunities to improve both areas.
- A review of three major initiatives TVA conducted related to workforce productivity and operational performance revealed TVA did not effectively monitor the initiatives to ensure planned benefits would be achieved. In addition, the sustainability of the initiatives was hindered by the lack of employee engagement and resource constraints that made improvements unachievable or unrealistic and damaged employee morale.
- An evaluation of TVA's natural gas monitoring found while generally TVA effectively monitors gas and pipeline transportation costs and efficiently manages storage capacity, our office identified

opportunities for improvement regarding the monitoring of natural gas and transportation costs.

- An investigation that led to the conviction of a TVA police officer and five other law enforcement agents involved in a high-stakes illegal gambling operation, violating the Hobbs Act. Investigative activity also resulted in \$925.8 thousand in restitution, fees, and projected savings.

In May 2015, Director Richard Howorth's term on the TVA

Board will end; however, he will continue to serve until someone is appointed or until the end of this session of Congress, whichever comes first. Director Howorth has served the people of the Valley since July 2011 and was a member of four committees during his tenure. He served as Chair of the Customer and External Relations Committee and, most recently, as Chair of the People and Performance Committee. The OIG extends our appreciation for his support of our office and his contributions to TVA and the citizens of the Valley.

We appreciate the positive relationship with TVA Board members and management. In December 2014, two new members, Virginia Lodge and Ronald Walter, joined the TVA Board. We welcome them to TVA and look forward to working with them toward building a better TVA together.



Richard W. Moore
Inspector General



SPECIAL FEATURE



Special Feature: **BUILDING A BETTER TVA...TOGETHER**

TVA was created in 1933 to improve the quality of life in a seven-state region through the integrated management of the region's resources. In carrying out its mission, TVA was instrumental in lifting the Tennessee Valley region out of the Great Depression by providing reliable and low-cost electricity, creating jobs, taming the river, and inventing techniques and products that helped replenish the lands.

Nearly 30 years ago, the OIG was created at a time when TVA was encountering challenges with its nuclear program. Through our audits, evaluations, and investigations, the OIG provides an independent assessment of TVA operations and makes recommendations with the intent to help TVA become better. It is often said that relationships between an OIG and its agency can be challenging and, in some cases, adversarial. A key factor in managing healthy working relationships is a strong shared vision for making the agency better as well as a commitment to stay in dialogue regardless of differences on the issues. We are fortunate that our office and TVA management have this shared vision and a mutual respect for everyone's role in building a better TVA.

As TVA addresses its challenges, it is more important than ever that TVA and the OIG continue to balance our roles in helping TVA achieve its mission. We will continue to provide our independent view of the effectiveness of TVA operations and work with TVA to find the

best solutions for any identified issues. In this article, we are providing an overview of TVA's strategic initiatives and actions to address its challenges. Also, we will discuss some of the challenges we see ahead for TVA and how our work contributes to helping TVA navigate those challenges.

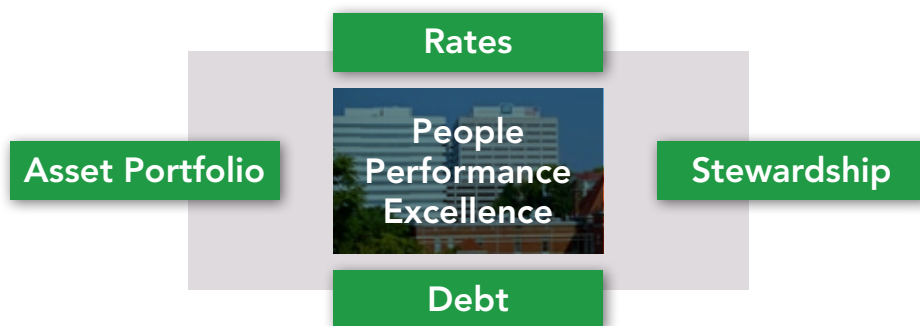
TVA Strategic Initiatives and Actions

TVA has identified four key strategic imperatives: (1) maintain rates as low as feasible, (2) live within its means, (3) manage its assets to meet reliability expectations and provide a balanced portfolio, and (4) be responsible stewards of the region's natural resources. These imperatives are intended to help TVA become safer, better, faster, and leaner.

As described below, TVA has undertaken several strategic initiatives to help position itself to achieve these strategic imperatives.

Generation Fleet/ Environmental Performance

TVA is making adjustments to its generation fleet to address future demand, environmental regulations, aging infrastructure, and economic considerations. TVA is also updating its 2011 Integrated Resource Plan this year. Some of the key actions underway include: (1) proceeding with emissions control projects at Gallatin and Shawnee, (2) completion of natural gas-fired facilities at Paradise and Allen Fossil sites, (3) retirement of coal-fired units, (4) completion of Watts Bar Unit 2, and (5) incorporation of additional renewable and clean energy



sources into its portfolio. These projects are important to TVA's continued focus to balance its portfolio and to enhance its environmental performance as TVA continues to reduce emissions from its coal-fired plants.

TVA is also focusing on increasing energy efficiency as part of its balanced portfolio approach. TVA uses a variety of programs that are designed to reduce the use of energy and shift or reduce peak demand. TVA collaborates with its customers to establish and implement effective programs across the Tennessee Valley.

Finally, TVA is nearing completion of cleanup efforts related to the 2008 ash spill at the Kingston Fossil Plant as well as making plans to convert its wet fly ash and gypsum facilities to dry collection facilities.

Maintaining Rates and Managing Debt

In recent years, TVA has focused on initiatives to reduce costs and debt. These initiatives are designed to assist with the goal of keeping rates as low as feasible, keeping reliability high, maintaining a healthy financial position, and continuing to fulfill its broader mission of environmental stewardship and economic development. TVA set a goal to reduce its operating and maintenance costs by a sustainable \$500 million (as compared to its fiscal year [FY] 2013 budget) by the end of FY 2015. As part of these cost reduction initiatives, an organizational restructuring occurred in 2014, which resulted in approximately 2,000 position reductions achieved through attrition, elimination of vacant positions, and employees leaving TVA either voluntarily or involuntarily.

Economic Development

TVA continues to partner with its customers and communities to create quality jobs and attract significant capital investments from new and existing companies. TVA has received recognition for its economic development efforts. For example, TVA made *Site Selection* magazine's list of the top 10 utilities in North America for economic development activity for nine consecutive years.

Technological Innovation

TVA's history clearly demonstrates its commitment to support and find innovative ways to meet the challenges ahead. TVA has a number of major initiatives underway including: small modular nuclear reactors, grid modernization, and energy utilization that could help reduce costs, lower emissions to the environment, and better position the agency for the future.

OIG Work on Management Challenges

While these initiatives will potentially help TVA improve operations and reduce cost, TVA continues to face significant challenges both internally and externally. For example, significant uncertainty exists related to external factors such as weather, the economy, and decreased demand from energy efficiency and demand response



initiatives. While these factors are somewhat uncontrollable, TVA is challenged to find ways to mitigate the negative impacts. Significant internal challenges exist, as well. Discussed below are some of these challenges and the work the OIG is doing to help TVA manage these challenges.

Sustaining Efforts to Improve Organizational Health

At the heart of TVA's past and future success is the TVA workforce. To meet the challenges ahead, TVA needs its workforce fully engaged. The term "employee engagement" is commonly understood to mean that employees give discretionary effort to be successful because they understand and believe in the mission, they are understood and supported by management, and they are recognized for their good work.

In recent years, the TVA workforce has seen a lot of change through staffing reductions, organizational realignments, and turnover at the senior manager ranks. Specifically, over the last ten years, TVA has had seven restructurings, with three of those being major reorganizations. Our review of executive retention noted that as of March 1, 2005, TVA had 46 executives compared to 54 executives as of May 31, 2014. During that period, 47 executives were hired, 55 employees were promoted to

executive positions, 15 executives were demoted and/or reclassified to nonexecutive positions, and 79 executives departed TVA.

TVA management is making hard decisions that are intended to improve the financial health, meet environmental regulations, and position TVA operations for a successful future. The OIG's study of TVA's historical cultural initiatives suggests that improving and sustaining a long-term healthy work environment will continue to be difficult given the transitions occurring in TVA to meet operational and financial challenges.

Recently, under Chief Executive Officer (CEO) Bill Johnson's leadership, TVA has begun to recognize employee engagement as a key risk. The OIG continues to have dialogue with the TVA Board, CEO, and senior management on the nature of the risk and how to mitigate it. TVA is currently working through a change management plan to help mitigate this risk. Elements of this plan include: (1) establishing clear value and behavior statements, (2) aligning performance management systems with TVA values and behaviors, (3) a rollout of an internal branding initiative, (4) improved communication processes, and (5) a focus on leadership development.

The OIG's charge in the Inspector General (IG) Act to help TVA become more efficient drives our actions in helping TVA (1) identify areas where work environment issues may be affecting the organization's ability to succeed and (2) assess the design of their strategies to improve the work environment. Currently, we are performing organizational effectiveness reviews in individual business units which are designed to assess the work environment as well as the operational performance of individual groups. Through these reviews, we intend to provide TVA management information on not only how well a group is performing from an operational perspective, but also how the work environment is positively or negatively influencing its performance. TVA management and employees can then work together to leverage their strengths and make improvements that could not only help them meet but exceed performance goals. In addition, we are planning an assessment of the design of TVA's change management program to determine the reasonableness of the design, the effectiveness of the implementation, and the achievement of results/meeting of expectations.

Maintaining Assets While Controlling Organizational Spending

TVA's effort to reduce non-fuel operating and maintenance spending and reduce debt is a worthy effort that should put TVA in a much stronger and a more financially healthy position if managed properly. As noted previously, this effort has resulted in substantial staffing reductions, cost avoidances, and cost savings throughout all the programs and operations in TVA. Additionally, many financial challenges remain including addressing underfunding in the pension plan, continued debt reduction, and significant capital spending requirements while managing the pressure to keep rates low and competitive. The OIG continues to monitor these activities and conduct reviews as needed to ensure (1) TVA maintains operational readiness within the aging infrastructure, (2) management control environments are not weakened by the reduction in staffing, and (3) sound capital funding decisions are made to ensure adequate return on investments.

The inherent challenge of controlling and cutting organizational spending in a company with an aging infrastructure has been high on the OIG's work priority list over the past three years. The OIG has conducted several audits and evaluations intended to help

TVA understand and mitigate the related risks. Specifically, the OIG reviewed (1) how TVA determines the condition of its assets, (2) how it addresses assets known to be in poor condition, (3) preventive maintenance practices, and (4) TVA's efforts to mitigate the risk of significant equipment failures. In addition, the OIG is currently planning an audit to determine how TVA has assessed and mitigated risks in areas where spending was specifically targeted for reduction.

Ensuring Cyber Security on Critical Assets

Protecting TVA's critical assets and information is a continually evolving task. The playing field changes on a daily basis as new vulnerabilities and attack methods come to light. TVA, a part of the nation's critical energy infrastructure, must prepare for and monitor its assets to reduce the risks that an attack or mishandling could damage TVA assets and reputation, or result in the release of personally identifiable, proprietary, or sensitive information. For many years, the OIG and TVA have worked together to strengthen the cyber security posture of TVA. TVA Information Technology (IT), Enterprise Information Security and Policy group, and operational organizations work daily to implement and monitor necessary controls. The OIG provides an independent look

at the effectiveness of TVA's IT security programs and controls as well as conducts investigations, as needed, for security incidents. During this semiannual period, we completed the annual FISMA evaluation and the biennial PII reviews and identified opportunities to improve security. The focus of our reviews in this area range from FISMA and PII reviews which are OIG statutory requirements, reviews of IT Security program effectiveness to security assessments of key assets. Our experience has shown that building the right relationships with agency staff and management leads to better (1) discussion of the issues and (2) collaboration in finding the best solution to secure TVA assets and information.

Improving Overall Major Project Execution

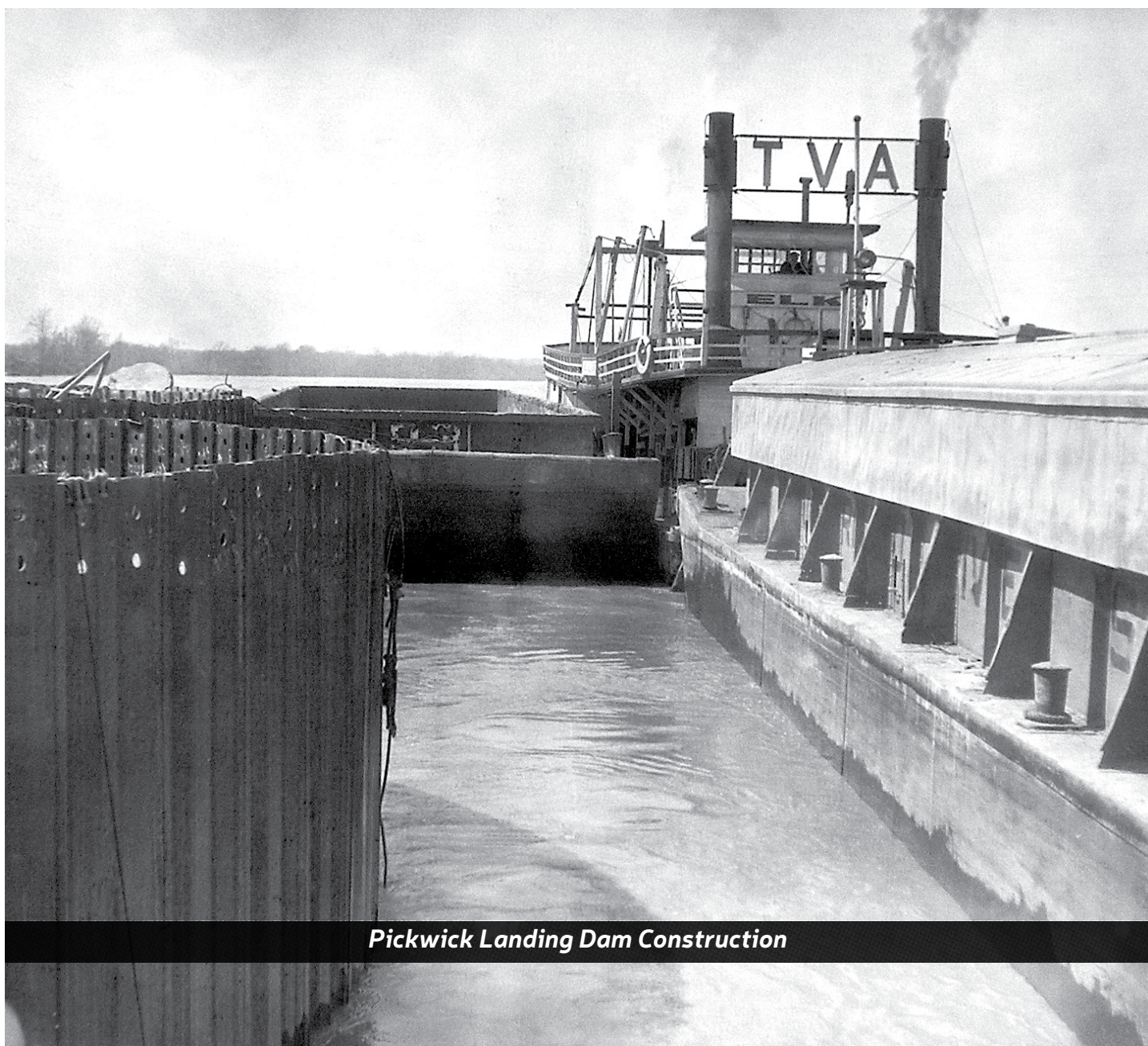
TVA is estimating it will spend more than \$2 billion on capital projects in FY 2016. These projects include completion of Watts Bar Unit 2, clean emission projects at Gallatin, conversion of Paradise and Allen Fossil plants to natural gas operations, major dam improvement projects, and a continuation of efforts to convert wet ash ponds to dry ash storage. In addition, TVA continues to improve its IT by replacing legacy systems or performing major upgrades to increase efficiency and provide better support to TVA operations. Each of these projects will

need to be managed in a very efficient and effective way to ensure investments in these projects provide the expected benefits. Efficient execution of major projects has been a high risk to TVA in the past. As such, the OIG stays abreast of major projects and devotes resources as needed to review execution of these projects.

OIG involvement in reviewing major projects can take different forms. Recent examples of OIG reviews include:

- The 2012 review of the cost and schedule estimates for the Watts Bar Unit 2 project. In the review, we identified serious weaknesses in oversight of the project that were hampering construction performance.

The OIG recommendations resulted in better estimates of construction cost and schedule and better project oversight. This work was significant because it identified serious problems much earlier than these would have otherwise been discovered, thereby allowing the company to save money by getting the project on track and addressing



Pickwick Landing Dam Construction

the construction delays identified. TVA hired external consultants with expertise in major project management to monitor and help establish a more realistic cost estimate and schedule. TVA currently estimates Watts Bar Unit 2 will begin commercial operation within the revised timeframe of September 2015 and June 2016 and meet revised budget estimates.

- The OIG routinely reviews internal controls and security controls prior to a new system implementation. At the request of TVA management, we work with TVA operational and IT organizations as the project progresses. We have found the OIG can have a better impact by working collaboratively with the agency to assess the sufficiency of controls early in the development and implementation of systems when it is easier and less costly to make changes. Past or ongoing reviews include replacement of TVA's Human Resources system, a major upgrade to a supply chain system, and implementation of a new coal supply chain system. For the completed projects, TVA management generally took action on our recommendations during the project.
- At the request of TVA management, the OIG reviews proposals for contracts or extensions to current contracts that support major projects. The results of these reviews provide TVA management with information that allows them to better negotiate contract terms. By working together, TVA can negotiate significant cost savings. In this semiannual reporting period, an OIG preaward review of the current labor and labor markup rates in a contract with a company providing qualified personnel to perform modification, outage and supplemental maintenance services, and technical support services at TVA generating facilities identified \$1.1 million in potential savings.
- The OIG routinely conducts post award compliance audits of large partnering contracts supporting major projects. These reviews identify payments that were not made in accordance with contractual agreements. In this reporting period, we audited more than \$785 million in contract expenditures and questioned more than \$8.9 million. TVA reviews our findings and determines what amounts are recoverable. These audits also identify areas where contract administration processes can be improved.

Conclusion

TVA's unique mission to improve the quality of life for the Tennessee Valley residents distinguishes it from utility companies that focus mostly on stockholder return. While there have been formidable challenges in TVA's more than 80-year history, repeatedly through the generations, TVA employees have risen to meet those challenges. The mutual trust required between TVA management and its workforce is a critical factor in whether TVA meets its current goals. The OIG is committed to evaluating that level of mutual trust and encouraging safe and productive dialogue between TVA management and employees. We continue to see TVA management demonstrate positive leadership for TVA employees by its focus on both operations and people. We appreciate their understanding and support for the role of the OIG at TVA. Together, we can build a better TVA that will continue to serve the residents of the Tennessee Valley for many years to come.

Pickwick Landing Dam



NOTEWORTHY UNDERTAKING



NOTEWORTHY UNDERTAKING

OIG Partners With TVA to Host a Suppliers' Forum

TVA manages about 2,200 active supplier and vendor contracts totaling about \$3 billion annually. In October, TVA hosted a Supplier Best Practice Workshop in Knoxville, Tennessee. The workshop focused on how industry best practices among TVA suppliers help enable TVA's commitment to service its customers across the Valley. Key messages conveyed at the event included TVA's continued focus on supply chain ethics and compliance, TVA's positive relationships with suppliers, and a "thank you" for their role in helping TVA fulfill its mission of service.

The OIG worked with TVA's Supply Chain organization collaboratively to plan and participate in the workshop. IG Richard Moore was one of the event's keynote speakers, and he spoke about the OIG's oversight role of TVA contracting. In addition, Paul Houston, Assistant Inspector General for Investigations, and Curt Hudson, Director of OIG Contract Audits, joined representatives from

TVA's Supply Chain and Office of General Counsel organizations on a panel discussion regarding various aspects of TVA contracting and answered questions from suppliers.

"We appreciate the chance to collaborate with TVA on this event," Richard Moore said. "The workshop was an opportunity for TVA to build stronger relationships

with suppliers and reinforce the importance of ethics and compliance and for suppliers to gain a better understanding of the OIG's role in oversight of TVA contracting activities."

In addition to Richard Moore, speakers included TVA President and CEO Bill Johnson and other TVA executives and leadership from TVA suppliers and vendors. "All of us – TVA and the suppliers



Marie Gillman, Director, Nuclear Projects; Wayne Palmer, Senior Manager, Major Projects, Supply Chain; Althea Jones, Senior Program Manager for Supplier Diversity; Cliff Beach, Associate General Counsel, Finance and Corporate Contracts; Curt Hudson, Director, OIG Contract Audits; and Paul Houston, Assistant Inspector General, Investigations

we rely on – are here to serve the 9 million people and 700,000 businesses of the Tennessee Valley region,” Johnson said. “That includes people who rely on us for safe, clean, reliable and affordable power, and businesses that rely on us for competitively priced electricity to make them more successful and promote good jobs and economic growth for the future. We thank all our suppliers for their commitment to service and working hand-in-glove with us to continually improve everything we do. Service truly is the best ‘best practice’ of all.”



Ralph Rodgers, TVA General Counsel; Bruce Schofield, TVA Vice President, Supply Chain and Facilities; Richard Moore, Inspector General; and Barbara Petitti, Ethics and Compliance Officer for Alstom

Raccoon Mountain Pumped Storage Facility







EXECUTIVE OVERVIEW

EXECUTIVE OVERVIEW

TVA was initially built as an experiment administered in the spirit of exploration and innovation, according to original TVA Board member David Lilienthal who added, “Look to TVA as a national example of people looking ahead—not behind, not preoccupied with studies of why it can’t be done, but looking forward with the old spirit of ‘can do.’” While Mr. Lilienthal made this statement not long after TVA was created in 1933, in many ways his statement can be applied to the TVA of today.

As predicted by its founders, the TVA of today continues to grow, expand, and evolve by making adjustments to its generation fleet with less reliance on coal-fired energy and more on nuclear and renewable sources, working toward reducing operating and maintenance costs, continuing to collaborate with its customers and communities to create more jobs, and leveraging technology to build better operational efficiency. Our audits, evaluations, and investigations can often help provide TVA a better “blueprint” in building its future as our independence allows us to consider obstacles and growth opportunities that might not be readily evident to TVA and our commitment to collaboration with TVA enables us to share our findings in such a way that they are well-received and ultimately become integral cogs in the wheel of building a better TVA...together.

AUDITS

The TVA OIG audit organization completed 11 audit, review, and agreed-upon procedures engagements. This work

identified more than \$8.9 million in questioned costs for TVA to recover and \$1.1 million in funds the company could put to better use. We also identified several opportunities for TVA to improve the effectiveness and efficiency of its programs and operations.

Contract Audits

To support TVA management in negotiating procurement actions, we completed a review of the current labor and labor markup rates in a contract with a company providing qualified personnel to perform modification, outage and supplemental maintenance services, and technical support services at TVA generating facilities. Our review identified \$1.1 million of potential savings opportunities for TVA to negotiate. We also completed four compliance audits of contracts with expenditures totaling \$785.6 million related to (1) transporting coal by barge to TVA’s Cumberland Fossil Plant; (2) engineering, procurement, construction, and related services in support of the completion of TVA’s Watts Bar Nuclear Plant Unit 2; (3) commercial and industrial energy efficiency

services; and (4) engineering services for Bellefonte Nuclear Plant Unit 1. These audits (1) determined TVA would pay up to an estimated \$6 million more to a contractor than would have been incurred due to amending the contract’s pricing structure and (2) identified potential overbillings of \$2.9 million. The Contract Audits section begins on page 27 of this report.

Corporate Governance and Finance Audits

With a focus on TVA’s corporate governance activities, compliance with applicable laws and regulations and financial reporting, we completed audits of (1) the costs associated with the hiring of executives from outside TVA and (2) compliance with contract terms for a contract between TVA and a local power company. In addition to our audit work, we (1) applied agreed-upon procedures related to TVA’s 2014 Winning Performance (WP) payout and (2) monitored the audit of TVA’s FY 2014 financial statements by an external auditor. The Corporate Governance and Finance Audits section begins on page 31 of this report.

STATISTICAL HIGHLIGHTS

October 1, 2014 - March 31, 2015

Audit Reports Issued	11
Evaluations Completed	1
Questioned Costs	\$8,908,279
Questioned Costs Agreed to by TVA	\$8,908,279
Questioned Costs Recovered by TVA	\$89,009
Funds to be Put to Better Use	\$1,067,000
Savings Realized by TVA	\$7,374,946
Investigations Opened	126
Investigations Closed	146
Recoveries/Fees/Projected Savings	\$925,789
Criminal Actions	12
Administrative Actions (No. of Subjects)	10

IT Audits

We completed two audits in the IT environment pertaining to (1) the OIG's biennial assessment of TVA's controls to protect PII and (2) IT security and privacy practices as required by the FISMA. We identified areas for improvement in both audits. The IT Audits section begins on page 33 of this report.

Operational Audits

Operational Audits assessed the effectiveness of TVA's management of certain productivity improvement initiatives and found TVA management did not effectively monitor the initiatives to ensure planned benefits would be achieved. The Operational Audits section begins on page 35 of this report.

EVALUATIONS

We assessed TVA's natural gas monitoring due to TVA's increased use of natural gas and risks identified during a review of its coal terminals. This evaluation found TVA effectively monitors gas and pipeline transportation costs and storage capacity; however, improvements could be made in monitoring natural gas and transportation costs. The Evaluations section begins on page 36 of this report.

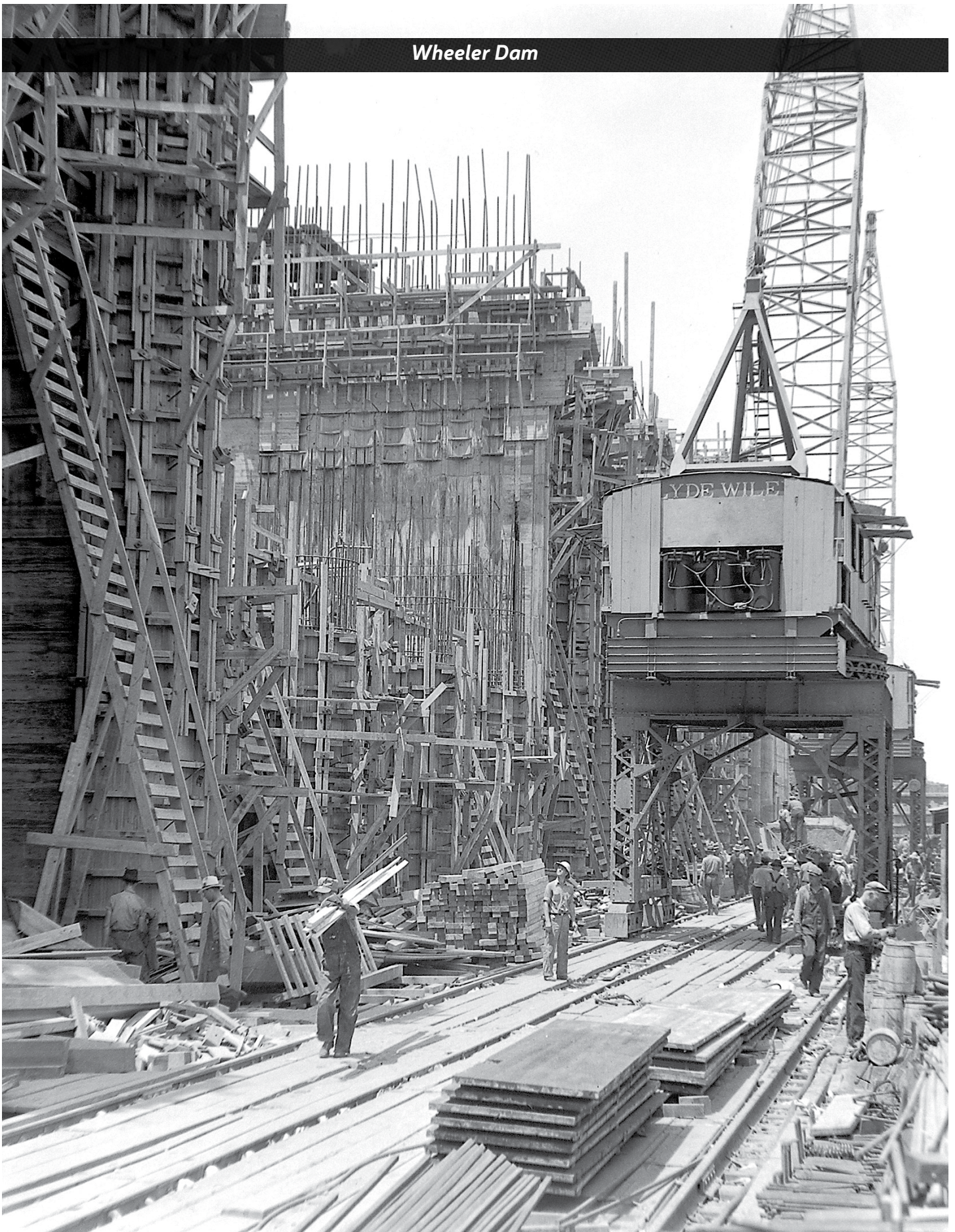
INVESTIGATIONS

During this reporting period, we opened 126 cases and closed 146. Our investigative results include six indictments and six convictions, as well as restitution/recoveries and projected savings to TVA exceeding \$900,000. The Investigations section begins on page 38 of this report.

Chickamauga Dam



Wheeler Dam



ORGANIZATION

Charles A. Kandt
Counselor to the IG

Richard W. Moore
Inspector General

Ben R. Wagner
Senior Advisor
Stakeholder Relations

Jill M. Matthews
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Kathy Kirkham
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Resources

Phyllis R. Bryan
Director, IT Audits

James E. Hunter
Special Agent In Charge

Curtis C. Hudson
Director,
Contract Audits

**Rick C.
Underwood**
Director, Corporate
Governance &
Finance Audits

ORGANIZATION

Since 1985, the OIG has worked to help TVA become better which is the OIG vision. Through our audits, evaluations, and investigations, we provide TVA management, the TVA Board, and Congress with an independent look at the economy, efficiency, and effectiveness of TVA programs and help prevent and detect fraud, waste, and abuse. Over the years, the OIG has helped TVA save or recover millions of dollars and recommended numerous program improvements. We credit our success to the efforts of our hardworking and talented staff and the professional responsiveness of TVA management to our recommendations.

TVA OIG Office Locations

The OIG has a work philosophy of being in the right place at the right time to do the best work possible. We support that philosophy by encouraging our OIG employees to work where they can be most effective whether that is in one of our physical offices, in the field, or in one of our virtual offices that enable our employees to telework from home or while traveling.

The OIG has strategically located its offices near all major TVA offices throughout the Tennessee Valley. We are headquartered in TVA's East Tower, opposite TVA's corporate offices, overlooking downtown Knoxville.

The OIG has field offices in Chattanooga, Tennessee, where the Evaluations unit, members of the Corporate Governance and Finance team, and several special agents are located, as well as in Nashville, Tennessee, and Huntsville, Alabama. We also have office locations at Watts Bar Nuclear Plant in Spring City, Tennessee; Bellefonte Nuclear Plant in Hollywood, Alabama; and

Sequoyah Nuclear Plant in Soddy-Daisy, Tennessee. Staff work in these locations as needed. As of March 31, 2015, the OIG had a total staff of 108.

ADMINISTRATION

The Administration team works closely with the IG, Deputy IG, and Assistant IGs to address the day-to-day operations of the OIG and to develop policies and procedures designed to drive and enhance productivity in achieving office goals. Responsibilities include personnel administration, budget and financial management, purchasing and contract services, facilities coordination, training event planning, communications facilitation, and IT support.

AUDITS AND EVALUATIONS

The Audits and Evaluations teams perform 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 Evaluations teams make recommendations to enhance the effectiveness and efficiency of TVA programs and operations.

The teams use an impact- and risk-based approach to develop an annual work plan. In developing the plan, the OIG considers TVA's strategic plans, major management challenges, TVA's enterprise risk management process, and other input from TVA management. This 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 congressional interest), and the likelihood it will result in recommendations for cost savings, recovery of dollars, or process improvements. The result of the OIG Audits and Evaluations planning process is a focus on those issues of highest impact and risk to TVA.

The Audits team, primarily based in Knoxville, generates and oversees comprehensive financial and performance

TYPES OF AUDIT & EVALUATION ISSUES

Corporate Governance and Finance Audits

- Internal Control Deficiencies
- Program Inefficiencies/Ineffectiveness
- Policy Noncompliance
- Fraud

Operational Audits

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

IT Audits

- Internal Control Deficiencies
- Policy Noncompliance
- Integrity of Data and Assets
- Fraud

Evaluations

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

Contract Audits

- Inflated Proposals
- Contract Overpayments
- Inferior Performance
- Fraud

audits of TVA programs and operations, providing an inclusive picture of TVA's overall fiscal and operational health. This team is made up of four departments—Contract Audits, Corporate Governance and Finance Audits, IT Audits, and Operational Audits—and performs its work in accordance with *Government Auditing Standards*.

- Contract Audits has lead responsibility for contract compliance and preaward reviews. In addition, this team performs reviews of TVA contracting processes and provides claims assistance as well as litigation support.
- Corporate Governance and Finance Audits has lead responsibility for (1) oversight of TVA's financial statement audit and related services performed

by TVA's external auditor and (2) reviews of TVA's governance activities. This team also conducts operational reviews to assess the results as well as the 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 team also performs operational reviews of the effectiveness of IT-related functions.
- Operational Audits focuses on risk and impact-driven operational audit work. The team performs audits of operational effectiveness and efficiency, as well as TVA compliance with laws and regulations.

The *Evaluations* team seeks to ensure that program objectives and operational functions are achieved effectively and efficiently. It performs both comprehensive reviews and more limited scope policy and program reviews. In accordance with the *Quality Standards for Inspection and Evaluation*, the objectives of the unit include providing a source of factual and analytical information, monitoring compliance, measuring performance, assessing the efficiency and effectiveness of operations, and conducting inquiries into allegations of fraud, waste, abuse, and mismanagement.

Audit and evaluation issues vary depending on the objectives of the project. The graphic shows some representative examples of issues our audit and evaluation

projects are commonly designed to identify.

INVESTIGATIONS

The Investigations team proactively and reactively uncovers activity related to fraud, waste, and abuse in TVA programs and operations. This team performs its investigations in accordance with the *Quality Standards for Investigations* as prescribed by the Council of the Inspectors General on Integrity and Efficiency (CIGIE), applicable United States (U.S.) Attorney General Guidelines, and other

guiding documents. OIG special agents maintain liaisons with federal and state prosecutors and notify the U.S. Department of Justice whenever the OIG has reason to believe there has been a violation of federal criminal law. The special agents partner with other investigative agencies and organizations on special projects and assignments, including interagency law enforcement task forces on terrorism, the environment, health care, and public corruption, as well as securities fraud. The graphic shows the 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 TVA. Additionally, this team provides legal advice as needed for administrative, audit, evaluation, and investigative projects.

MAJOR CATEGORIES OF INVESTIGATIONS

Contract Fraud

Defrauding TVA through its procurement of goods and services including fraud schemes such as misrepresenting costs, overbilling charges, product substitution, and falsification of work certifications.

Theft of Government Property and Services

Theft of TVA property such as material, tools, equipment, or resources.

Environmental Crime

Violations of environmental criminal law pertaining to the Tennessee River system and its watershed, along with violations relating to TVA land and facilities.

Health Care Fraud

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

Unauthorized Access Into TVA Computer Systems

Accessing a TVA computer without authorization or exceeding authorized access.

Workers' Compensation Fraud

Falsification of documents to receive payments by employees, former employees, or health care providers.

Employee Misconduct

Misuse of TVA furnished equipment, travel voucher fraud, a multitude of miscellaneous matters of abuse, conflict of interest, and violations of code of conduct.

Special Projects

Management requests, data mining and predictive analysis, congressional and TVA Board requests, and fraud risk assessments.

SUMMARY OF REPRESENTATIVE AUDITS



SUMMARY OF REPRESENTATIVE AUDITS

During this reporting period, the TVA OIG Audit organization completed 11 audit, review, and agreed-upon procedures engagements. This work identified more than \$8.9 million in questioned costs for TVA to recover and \$1.1 million in funds the company could put to better use. We also identified several opportunities for TVA to improve the effectiveness and efficiency of its programs and operations.

Contract Audits

Preaward Contract Reviews

To support TVA management in negotiating procurement actions, we completed a review of the current labor and labor markup rates in a contract with a company providing qualified personnel to perform modification, outage and supplemental maintenance services, and technical support services at TVA generating facilities. Our review identified \$1.1 million of potential

savings opportunities for TVA to negotiate. The savings opportunities were primarily related to overstated indirect cost recovery rates.

Contract Compliance Reviews

During this semiannual period, we completed four compliance audits of contracts with expenditures totaling \$785.6 million and (1) determined TVA would pay up to an estimated \$6 million more to a contractor than would have been

incurred due to amending the contract's pricing structure and (2) identified potential overbillings of \$2.9 million. Highlights of our completed compliance audits follow.

- We audited \$141.3 million in costs billed from February 1, 2009, through May 7, 2014, by a contractor for transporting coal by barge to the Cumberland Fossil Plant. The contract's original compensation provisions provided for TVA to pay per

Douglas Dam





Cherokee Dam

ton rates to the contractor for barge services based on the origin loading point. The compensation provisions were amended effective January 1, 2012, to provide for (1) fixed monthly rate(s) for the number of boats the contractor utilized and (2) variable rate per ton based on the origin loading point. Our audit objectives were to determine if (1) the costs the contractor billed

to TVA were in accordance with the contract terms and conditions and (2) the data and assumptions TVA used in its analysis to support the amended pricing structure were reasonable.

We found the contractor billed costs to TVA in accordance with the contract terms and conditions. However, TVA's analysis for determining a

revised pricing methodology for its contract with the contractor used assumptions that were not supported by the contract or historical information that was available. As a result, the amended pricing structure resulted in TVA paying up to an estimated \$6 million more from January 1, 2012, to December 31, 2014, than would have been incurred under the original pricing structure.

We recommended TVA management ensure data and assumptions used to determine future contract pricing decisions with the contractor or other barge transportation providers are based on the contract's provisions and historical information that is available.

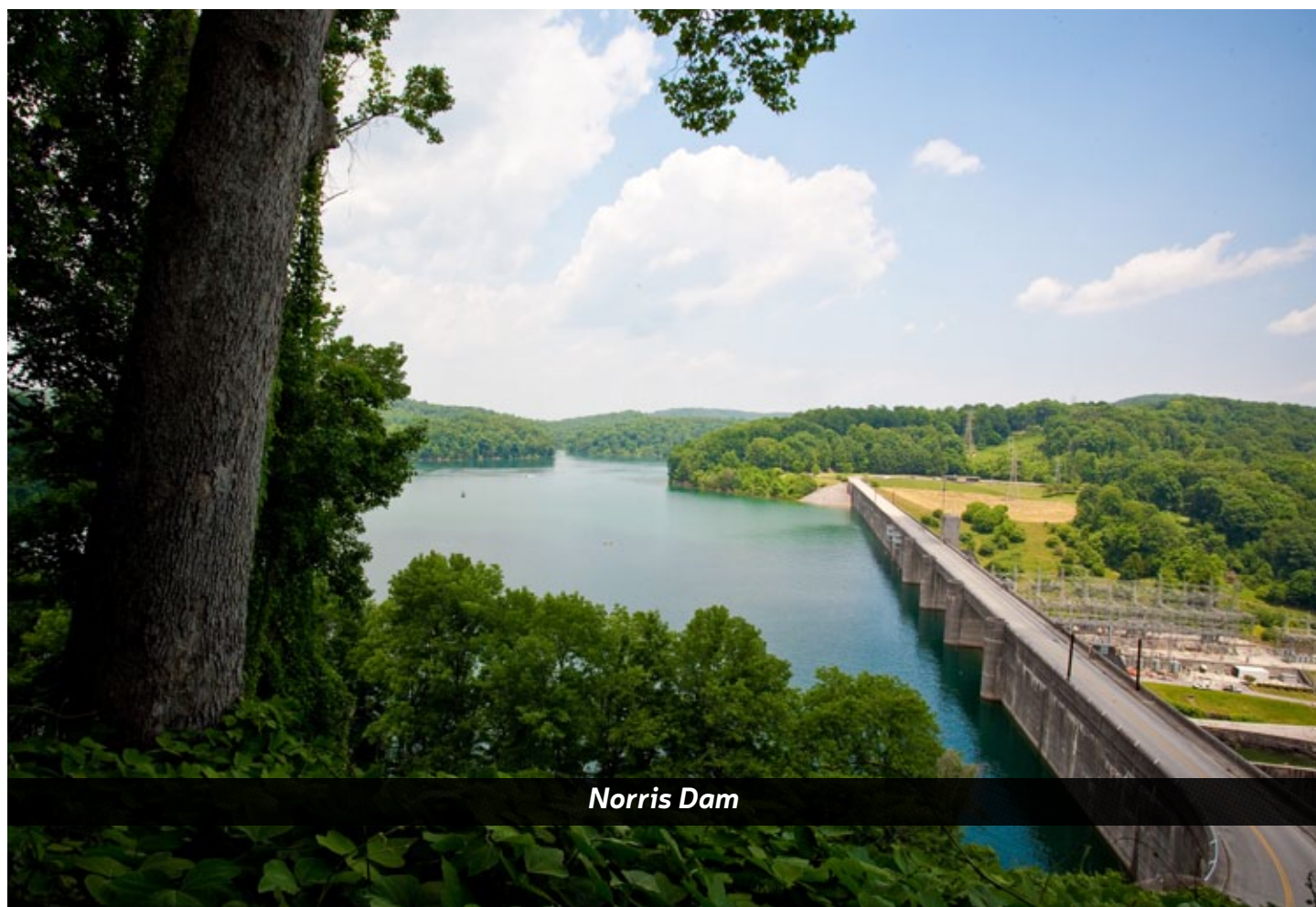
TVA management agreed with our conclusions and recommendations and plans to (1) ensure measures used in the analysis are reasonable based on contract provisions and (2) utilize historical information where it is relevant and available.

- We performed an interim audit of \$520 million in costs billed by a contractor for providing engineering, procurement, construction, and related services in support of the completion of TVA's Watts Bar Nuclear Plant Unit 2. In summary, we determined the contractor overbilled TVA an estimated \$2,066,495, including:

- \$923,231 in labor and related costs, which included (1) \$696,841 in ineligible labor hours and rates billed, (2) \$228,490 in ineligible home office labor costs, (3) \$24,044 in excessive

payroll additive costs, and (4) a net credit of \$26,144 in other labor costs.

- \$938,928 in ineligible or unsupported relocation, permanent and temporary assignment, and travel costs, which included (1) \$520,370 in relocation costs, (2) \$372,048 in permanent and temporary assignment monthly allowances, (3) \$23,932 in other temporary assignment costs, and (4) \$22,578 in travel costs.



- \$204,336 in ineligible or unsupported affiliate company and subcontractor costs.
 - We audited \$63.6 million in costs billed between December 29, 2009, and March 21, 2014, by a contractor for commercial and industrial energy efficiency services. We determined the contractor overbilled TVA an estimated \$431,846 which included (1) \$269,009 in subcontractor costs, (2) an estimated \$144,570 in labor costs, and (3) an estimated \$18,267 in travel costs. Additionally, we found TVA overpaid \$67,189 in incentive payments. The contractor has refunded \$15,685 of the \$67,189 in incentive payments.
 - We performed an audit of \$60.7 million in costs billed by a contractor between October 1, 2010, and December 31, 2012, providing engineering services for Bellefonte Nuclear Plant Unit 1. We determined the contractor overbilled TVA an estimated \$358,434 in costs which included (1) \$246,353 in ineligible other direct costs, (2) \$64,103 in ineligible labor costs, and (3) an estimated \$47,978 in temporary living costs.
- In addition, we noted several opportunities to improve contract administration by TVA. Specifically, we found TVA paid the contractor (1) an estimated \$1,747,353 in temporary living allowance (TLA) costs for employees for time periods not shown on employee TLA certification forms, and (2) an



estimated \$50,486 in excess costs because temporary living monthly allowances were not included in the contract's compensation terms until April 30, 2011.

Corporate Governance and Finance Audits

During this semiannual period, Corporate Governance and Finance Audits (1) reviewed the costs associated with the hiring of executives from outside TVA; (2) applied agreed-upon procedures related to TVA's 2014

WP payout; (3) monitored the audit of TVA's FY 2014 financial statements by an external auditor; and (4) audited a contract between TVA and a local power company for compliance with contract terms.

Executive Retention

Over the last several years, there has been anecdotal information indicating a high level of turnover among TVA executives. We reviewed the costs associated with the hiring and dismissal of executives brought in from outside TVA since the change to

TVA's part-time board structure. For the purposes of this audit, we considered an executive to be an employee with the title of vice president or above.

To perform our audit, we reviewed TVA's documentation of personnel who were classified as executives for the period March 2005 through May 2014. Also, we reviewed TVA's recruiting, hiring, and severance expense information for executives who were hired and departed during the period.



In summary, we found:

- As of March 1, 2005, TVA had 46 executives compared to 54 executives as of May 31, 2014. During the period, TVA hired 47 executives and promoted 55 employees to executive level positions. TVA also demoted and/or reclassified 15 executives to nonexecutive level positions and 79 executives departed TVA.
- Executives who were promoted from within appeared to remain a TVA executive longer than those who were hired from outside TVA.
- TVA incurred approximately \$7.4 million in recruiting, hiring, and severance expenses for 20 executives who were hired and also departed TVA during the period. We estimated it costs TVA an average of almost \$400,000 when an executive leaves TVA and another executive is recruited and hired to fill the vacancy.

We also compared the number of TVA executive departures as reported to the Securities and Exchange Commission (SEC) to the reported departures of TVA's compensation peer group for the period January 2007 through May 2014. Although we found TVA reported more executive departures than most

of the peers, companies may interpret SEC filing requirements differently, making it difficult to ensure the information reported by TVA's peer group was consistent with TVA's reporting.

Agreed-Upon Procedures Applied to 2014 WP Payouts

TVA's 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 six agreed-upon procedures which were requested and agreed to by TVA management solely to assist management in determining the validity of the WP payout awards for the year ended September 30, 2014. In summary, we found:

- The FY 2014 WP goals for the enterprise-wide and strategic business unit (SBU) measures were properly approved.
- The FY 2014 goals (i.e., target) for the corporate multiplier measures were properly approved.

- The actual year-to-date results for the SBU scorecard measures agreed with the respective supporting documentation.
- The actual year-to-date results for the enterprise-wide scorecard measures agreed with the underlying support.
- The actual year-to-date results for the corporate multiplier measures agreed with the underlying support.
- The FY 2014 WP payout percentages provided by the Benchmarking and Performance Analysis organization on October 20, 2014, were mathematically accurate and agreed with the OIG's recalculations.

Oversight of the FY 2014 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, 2014, and the related statements of income, changes in proprietary capital, and cash flows for the year. This also included the audit of TVA's internal control over financial reporting as of fiscal year-end. Additionally, the firm also reviewed TVA's FY 2014 interim financial information filed on Form 10-Q with the SEC. The contract required the work be performed in accordance with

Government Auditing Standards. Our monitoring of their work disclosed no instances where the firm did not comply, in all material respects, with these standards.

Review of Bristol Tennessee Essential Services Demand Side Management – Residential Water Heater Research and Demonstration Project Contract

TVA and Bristol Tennessee Essential Services (BTES) entered into a contract, effective October 6, 2008, for a demonstration project to develop, evaluate, and test the effectiveness of smart two-way communicating residential water heater direct load control (DLC) switches. The project was to be conducted by BTES and funded by TVA. Total payments under the contract when completed would be about \$4.3 million.

We scheduled an audit to determine if costs billed by BTES were in compliance with the contract and its supplements and whether TVA received the primary deliverables identified under the contract and supplements. Our audit included \$3,362,724 in payments TVA had made to BTES as of September 30, 2014.

In summary, we found costs billed to TVA were supported by invoices paid to third parties

by BTES. However, we noted instances where costs billed were not supported by evidence that work associated with the invoices had been completed, resulting in a potential overpayment of approximately \$133,440. Additionally, we found BTES did not complete all actions required under the contract, and TVA had not determined the benefits of the project. Finally, we noted TVA was providing excessive credits to BTES each month under an existing DLC program based on documentation provided to us by BTES.

Based on the findings, we made recommendations to ensure payments made were for completed work that was properly supported and that TVA not move forward into a new program unless the findings of the project produced the desired effect for TVA, distributors, and residential customers. TVA management generally agreed with our findings and recommendations and is taking corrective actions to address these issues.

IT Audits

During this semiannual period, we completed two audits in the IT environment pertaining to the OIG's biennial assessment of TVA's controls to protect PII and IT security and privacy practices as required by FISMA. We

identified areas for improvement in both audits.

FISMA Controls Improving But More Still Needs to be Done

FISMA is meant to bolster computer and network security within the federal government. In accordance with FISMA and guidance from the Office of Management and Budget (OMB), TVA and the TVA OIG are required to report on agency-wide IT security and privacy practices annually. In our 2014 review of TVA's information security program, we found TVA was in compliance in the areas of: (1) incident response and reporting, (2) plan of action and milestones, (3) remote access management, (4) contingency planning, and (5) security capital planning. However, TVA needs improvements in the areas of: (1) continuous monitoring management, (2) configuration management, (3) identity and access management, (4) risk management, (5) security training, and (6) contractor systems. We recommended TVA implement additional improvements in its security configuration management program, update its security awareness and training, update interconnection security agreements, and update the FISMA system inventory. TVA management agreed with our findings and recommendations

Paradise Fossil Plant



and is implementing its remediation plan.

Privacy Program Showed Improvement

PII is defined by OMB Memorandum 07-16 and refers to information which can be used alone to distinguish or trace an individual's identity. This includes an individual's name, social security number, biometric records, or when combined

with other personal/identifying information, is linked or linkable to a specific individual, such as date and place of birth or mother's maiden name. The OIG conducted this audit as an independent review of TVA's use of PII in accordance with privacy provisions of the Consolidated Appropriations Act of 2005.

This is our fourth audit since the requirement was enacted. Since the OIG's previous audit, TVA hired a Senior Program Manager for Privacy to manage the agency's privacy program. We generally found the privacy program improved since our prior audit; however, we found that controls could be strengthened in the areas of: (1) written policies, (2) storage of hard copy and electronic PII, (3) monitoring

of systems containing PII, and (4) system inventory. TVA management agreed with our findings and recommendations.

Operational Audits

During this semiannual reporting period, Operational Audits assessed the effectiveness of TVA's management of certain productivity initiatives. During FY 2009 through FY 2013, TVA engaged in three major initiatives related to workforce productivity and operational performance. Under the direction of the former TVA Chief Operating Officer, TVA contracted with a consultant, effective August 1, 2009, for the purpose of assessing and analyzing fossil and nuclear plant processes and operations for improvement opportunities. During the initiative, the consultant was to provide tools, including a unique system and training methods designed to reduce costs, improve processes, and increase management and employee effectiveness. Specific benefits to be achieved included "improved leadership and oversight behaviors from first line supervisors, increased labor productivity, reduced maintenance costs and backlogs, reduced employee overtime, and optimization of contractor expenditures." The contract ended December 31, 2012, with claimed savings of \$82.6 million.

Concurrently, in August 2009, TVA contracted with a second consultant for an organizational effectiveness initiative focused on improving operational effectiveness and creating a culture of ownership and accountability at TVA. To simultaneously improve both organizational health and performance, this consultant launched a pilot program at Paradise Fossil Plant in December 2009 with the purpose of providing employees an opportunity to suggest and discuss improvement ideas in four major areas: operations, outages, maintenance, and fuels. These efficiency efforts continued and, in May 2011, were begun at other fossil and nuclear plants through consultant-led performance boosts. The consultant claimed savings of \$11.1 million and \$330 million, respectively, as a result of these efforts which ended in December 2012.

In February 2012, TVA began an initiative called "Diet and Exercise" (D&E) in response to decreased revenues as a result of unusually mild winter weather, slow economic growth, and consumer behavior changes. D&E was a business strategy designed to keep rates competitive by lowering spending, resulting in immediate savings or cost reductions. In February 2013, D&E ended when TVA's current CEO advised that TVA's focus would be on

financial excellence, in order to be "as efficient, as productive, as effective" as TVA can. Savings claimed as a result of D&E were \$1.2 billion, with a portion of these savings attributed to productivity ranging from \$122.7 million to \$343 million.

We assessed the effectiveness of TVA's management of the two consultant-led initiatives, as well as the D&E initiative, and determined TVA management did not effectively monitor the initiatives to ensure planned benefits would be achieved. Specifically, we identified a deficiency in the control design related to tracking and monitoring claimed savings attributed to the two consultant-led initiatives. In addition, the sustainability of each initiative was hindered by the lack of employee engagement and resource constraints that made operational efficiency improvements unachievable or unrealistic. Further, morale suffered from employees' perceptions of disrespect towards them by one consultant's personnel and a perceived lack of follow-through by TVA management to provide funding necessary to implement improvements identified during the other consultant's efforts.

SUMMARY OF REPRESENTATIVE EVALUATIONS



SUMMARY OF REPRESENTATIVE EVALUATIONS

During this semiannual period, our Evaluations team conducted a review of TVA's natural gas monitoring and found, generally, TVA effectively monitors gas and pipeline transportation costs and efficiently manages storage capacity; however, our review identified opportunities for improvement regarding the monitoring of natural gas and transportation costs. Due to TVA's increased use of natural gas and risks identified during a review of its coal terminals, we initiated this review to determine if TVA was effectively monitoring natural gas and pipeline transportation costs and efficiently managing pipeline transportation and leased storage.

We found, generally, TVA was effectively monitoring gas and pipeline transportation costs and efficiently managing storage capacity; however, we identified opportunities for improvement in its monitoring of natural gas and transportation costs. Specifically, we determined TVA had not (1) tracked the financial impact of penalties, (2) consistently witnessed pipeline meter testing, and (3) verified the accuracy of the variable cost portion of pipeline transportation invoices. We also determined TVA's reconciliation process addressed

the risk of overpayments to natural gas suppliers; however, we identified a \$20,000 credit provided to TVA by a natural gas supplier that management subsequently determined was credited in error. Additionally, while TVA efficiently managed natural gas storage capacity, due to a strategic decision to base firm transportation capacity needs on a percentage of the plants' capacities to ensure reliability, it had not actively managed pipeline transportation capacity.

We recommended the Senior Vice President, Power Operations, perform a periodic assessment of gas pipeline penalties and require meter tests to be consistently witnessed by appropriately trained personnel. We also recommended the Senior Vice President, Power Operations, in conjunction with the Vice President and Controller, Corporate Accounting, implement a process to verify the accuracy of transportation invoices and take action to reimburse the \$20,000 that was mistakenly credited to TVA.



SUMMARY OF REPRESENTATIVE INVESTIGATIONS



SUMMARY OF REPRESENTATIVE INVESTIGATIONS

This reporting period, we opened 126 cases and closed 146. Our investigative results include six indictments and six convictions, as well as restitution/recoveries and projected savings to TVA exceeding \$900,000. Representative highlights of our activities follow.

TVA Police Officer, Five Others, Convicted in Corruption Probe

During this reporting period, five former members of local law enforcement and a former TVA Police (TVAP) officer were convicted in federal court, each pleading guilty to one count of the Hobbs Act. The investigation was conducted by the Federal Bureau of Investigation (FBI) and TVA OIG.

By pleading guilty to violating the Hobbs Act, the men admitted to attempting to commit extortion under color of official right, which means a public official obtains a payment to which he or she is not entitled, believing that the money is being given to him or her in return for taking, withholding, or influencing official action—in this case, protecting a high-stakes illegal gambling operation.

Those convicted were a former TVAP officer; three former Knox County, Tennessee, sheriff's deputies; one detective with the Pigeon Forge, Tennessee, Police Department; and one former University of Tennessee (UT) Police officer. The convictions were based primarily on events occurring during 2009 in the

Knoxville, Tennessee area, when all were active-duty police officers.

The men agreed to provide armed protection and/or escort currency for a high-stakes poker game, with full knowledge the gaming was illegal. The high-stakes game was arranged by the FBI as part of a police-corruption probe. One officer would wear his uniform and drive his official agency vehicle to provide secure transportation of the gambling money, and others would fill additional roles to protect or otherwise further the game. All officers were paid in advance, receiving a single payment ranging from \$500 to \$1,000.

On the night of the poker game, each purported gambler provided \$100,000 cash for the "buy-in" and \$10,000 for "house money" at a local hotel room. Officers arrived, received \$1,000,000, confirmed the amount using an automated money counter, and placed the money into two containers, each holding \$500,000. The two containers were transported by officers in separate FBI undercover vehicles, which they believed to be privately owned, each vehicle

traveling to a different hotel. One of the officers escorted the vehicles using his Knox County Sheriff's Office vehicle and wearing his uniform. At an interstate exit, he engaged the vehicle's overhead lights to control traffic to ease the path of the vehicles transporting the currency. After making the deliveries, five of the men went to the purported gambling game at a local apartment.

Additionally, two of the individuals' guilty pleas describe a similar transaction for a prior, lower-dollar game in Gatlinburg, Tennessee.

Two former officers have been sentenced at this writing. The former TVAP officer was sentenced to three years of probation and two months of home detention. The former UT police officer was sentenced to three years of probation and six months of home detention. The remaining individuals await sentencing in the coming weeks.

Temporary Living Expense Violations

Investigative activity revealed two employees involved in a personal relationship violated

temporary living expenses (TLE) reimbursement policy. The two were assigned to different duty stations in the Tennessee Valley. As work required them to travel near each other's local area, each filed for TLE reimbursement while staying in the other's home. One of the employees was paid approximately \$15,000 based on the claims over time; the other individual attempted to file a similar claim and was denied. The evidence supports a finding that the two violated the federal travel regulation, "Lodging with friend(s) or relative(s)" and the TVA policy, "Fraudulent Claims." After reporting our findings to management, one of the employees was discharged, and the other left TVA voluntarily. Each person's TVA record is flagged to take

these findings into consideration should they seek reemployment at the agency. Prosecution was declined by the U.S. Attorney's Office.

Data Mining and Continuous Monitoring

TVA OIG is evolving into a data-driven office, allowing us to maximize our efficiency in detecting and preventing fraud, waste, and abuse through data mining and the establishment of continuous monitoring systems. TVA's territory spans 7 states, and the agency employs more than 10,000 people, conducts business with 155 power distributors, and manages approximately 2,200 active supplier and vendor contracts. Our data mining program allows us to more quickly evaluate

and allocate resources to the cases that pose the highest risk to TVA operations, finances, infrastructure, or personnel.

The OIG's investigative data mining group was recently restructured and is now a cross-functional team of a special agent, fraud examiners, and software engineers working together to determine the risks presented in TVA's data. Projects are selected based on the potential for monetary returns to TVA, the likelihood for identification of potential fraud schemes, and future continuous-monitoring capabilities to reduce the risk of recurrence to TVA.

The addition of the software engineers to the team has enabled us to directly access



Watts Bar Nuclear Plant



Widows Creek Fossil Plant



the data supporting TVA's major applications, allowing in-house continuous monitoring independent of TVA's systems or resources. This access has been transformative in our data-analytic efforts.

Using the improved availability of the data as a launch point, we have been able to increase the accuracy and sophistication of pre-existing data mining efforts as well as anticipating tasks for additional areas to be mined. One example involved our office focusing on a known area of potential fraud—overbillings on blanket purchase order contract items—and developing a Web-interface that delivers the data results on a recurring basis in a user-friendly manner completely independent of TVA, providing actionable, on-demand results to our office.

The highest risks identified through data mining are then referred to OIG's Investigations, Audits, or Evaluations, or a report is issued to TVA with recommendations for improving their internal processes or strengthening program management. Additionally, our continuous monitoring program has been shared with TVA and adapted to allow TVA to actively monitor and more effectively manage its programs.

Data Mining and Workers' Compensation Inquiries

The Federal Employees' Compensation Act (FECA) enables assistance to federal employees with work-related injuries or illnesses. The Act is administered by the U.S. Department of Labor (DOL), Office of Workers' Compensation Programs (OWCP). FECA requires that compensation benefits be provided to injured federal employees. These benefits include medical expenses, compensation for wage loss, and payment to dependents of employees who die from work-related injuries or diseases. OWCP administers the program, and it is funded by each recipient's employing agency.

For the period July 2013 through June 2014, TVA spent more than \$45 million on OWCP benefits, which includes a 5.33 percent administrative fee paid to DOL/OWCP. TVA made medical-costs-only payments on 807 cases, monthly payments on a permanent basis—"periodic roll" compensation benefits—to 941 TVA OWCP claimants, and payments on 92 death benefit claims to spouses of those who died due to, at least in part, a work-related injury.

OWCP data mining efforts identified 34 instances where investigative activity was warranted.

Nineteen of these cases related to claimants on the periodic rolls who were 90 years old and above. OIG special agents reached out to these individuals across the Tennessee Valley to verify their eligibility and to check on the welfare of these former TVA employees because prior inquiries have revealed abuse, neglect, and/or relatives absconding with former employees' benefits.

In addition, after applying various filters and gathering pertinent information, 15 claimants were identified whose information contained indicators the claimants could be receiving benefits to which they were not entitled. One ongoing matter has already resulted in a projected long-term savings to TVA exceeding \$300,000.

FECA was established to compensate federal employees, such as TVA employees, who rightly and legitimately deserve compensation. To make TVA better, we continually strive to uncover the exploitation of TVA's Workers' Compensation Program by fraud, waste, or abuse, which detrimentally impacts all of TVA and its stakeholders.

LEGISLATION AND REGULATIONS



LEGISLATION AND REGULATIONS

Section 4(a) of the Inspector General Act of 1978, as amended, provides that the Inspector General shall review existing and proposed legislation and regulations relating to programs and operations of such establishment and make recommendations in the semiannual reports...concerning the impact of such legislation or regulations on the economy and efficiency in the administration of such programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.

In this section of our semiannual report, it is our intent to address only current and pending legislation which relates to the economy or efficiency of TVA operations when we have recommendations or comments to make to Congress regarding the legislation. At times, we

may direct recommendations to general positions and issues, particularly when there are multiple bills dealing with the issue. At other times, we anticipate making recommendations relating to particular statutes and bills and their particular wording.

During this reporting period, we are not making any recommendations to Congress regarding current or pending legislation.



Cumberland Fossil Plant

APPENDICES



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Section 5(a)(13)	Information Under Federal Financial Management Improvement Act of 1996	Not Applicable
Section 5(a)(14)	Appendix of results of any peer review conducted by another Office of the Inspector General during the reporting period, and if none, a statement of the date of the last peer review	Appendix 8
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APPENDIX 2

OIG AUDIT REPORTS • Issued During the Six-Month Period Ended March 31, 2015

Report Number and Date	Title	Questioned Costs	Unsupported Costs	Funds Put To Better Use
CONTRACT AUDITS				
2014-15037 11/17/2014	Bechtel Power Corporation	\$2,066,495	\$46,841	\$0
2014-15044 11/19/2014	Nexant, Inc.	\$483,350	\$0	\$0
2012-14913 11/25/2014	VECTOR JV – Bechtel Power Corporation Subcontract	\$358,434	\$7,885	\$0
2014-15038 12/18/2014	Canal Barge Company	\$6,000,000 ¹	\$0	\$0
2015-15278 03/05/2015	Review of Existing Rates for a Contract Extension	\$0	\$0	\$1,067,000
CORPORATE GOVERNANCE AND FINANCE AUDITS				
2014-15030 10/23/2014	Executive Retention	\$0	\$0	\$0
2015-15267 11/05/2014	Agreed-Upon Procedures for TVA Fiscal Year 2014 Performance Measures	\$0	\$0	\$0
2014-15225 12/17/2014	Bristol Tennessee Essential Services Demand Side Management – Residential Water Heater Research and Demonstration Project	\$0	\$0	\$0
OPERATIONAL AUDITS				
2012-14811 11/04/2014	Productivity Improvement Initiatives	\$0	\$0	\$0
INFORMATION TECHNOLOGY AUDITS				
2014-15059 01/13/2015	2014 Federal Information Security Management Act Compliance Audit	\$0	\$0	\$0
2014-15060 02/19/2015	Use and Protection of Personally Identifiable Information – Biennial Audit	\$0	\$0	\$0
TOTAL AUDITS (11)		\$ 8,908,279	\$ 54,726	\$1,067,000

¹ These dollars are unrecoverable.

OIG EVALUATION REPORTS • Issued During the Six-Month Period Ended March 31, 2015

Report Number and Date	Title	Questioned Costs	Unsupported Costs	Funds Put To Better Use
2014-15048 12/22/2014	Natural Gas Monitoring	\$ 0	\$ 0	\$ 0
TOTAL EVALUATIONS (1)		\$ 0	\$ 0	\$ 0

Note: A summary of or link to the full report may be found on the OIG's Web site at www.oig.tva.gov.

Allen Fossil Plant



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	4	\$8,908,279	\$54,726
Subtotal (A+B)	4	\$8,908,279	\$54,726
C. For which a management decision was made during the reporting period	4	\$8,908,279	\$54,726
1. Dollar value of disallowed costs	4	\$8,908,279	\$54,726
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

TABLE I • TOTAL QUESTIONED AND UNSUPPORTED COSTS • EVALUATIONS

Evaluation 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
Subtotal (A+B)	0	\$0	\$0
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

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	1	\$512,000
B. Which were issued during the reporting period	1	\$1,067,000
Subtotal (A+B)	2	\$1,579,000
C. For which a management decision was made during the reporting period	1	\$512,000
1. Dollar value of recommendations agreed to by management	1	\$512,000
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	1	\$1,067,000

TABLE II • FUNDS TO BE PUT TO BETTER USE • EVALUATIONS

Evaluation 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
Subtotal (A+B)	0	\$0
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

APPENDIX 4

AUDIT AND EVALUATION REPORTS WITH CORRECTIVE ACTIONS PENDING

As of the end of the semiannual period, final corrective actions associated with 15 audits and 14 evaluations/inspections reported in previous semiannual reports were not completed. Presented below for each audit and evaluation are the report number, date, and a brief description of final actions planned to resolve the open recommendations, including the date management expects or expected to complete final action.

Audit Report Number and Date	Report Title and Recommendation(s) for Which Final Action is Not Complete
2010-13132 06/15/2011	Physical and Logical Access for Contractors TVA agreed to create a cross-reference matrix of TVA roles to assets with the associated qualification/background requirements needed to gain access to that asset and develop a process to restrict contractor access to sensitive data and assets until the proper clearances have been obtained. Management expects to complete final action by September 30, 2015.
2011-14244 09/28/2012	TVA's Direct Load Control (DLC) Program TVA agreed to develop a strategy for replacing the DLC. TVA informed the OIG it had bought out the ten-year contracts of eleven of the twelve distributors participating in the program and does not plan to adjust the wholesale credits for the remaining participant until a replacement program is developed. Management expected to complete final action by January 30, 2015.
2012-14567 01/30/2013	Building and Infrastructure Failure Risks TVA agreed to (1) reexamine its approach to challenged properties under its Strategic Real Estate Plan, (2) enhance Tririga functionality and other tools for building asset information, and (3) address weaknesses in the Tririga production database. Management expects to complete final action by September 30, 2015.
2013-14983 06/14/2013	Protection of Personally Identifiable Information on TVA Desktop and Laptop Computers TVA management agreed to evaluate the feasibility of full-disc encryption and other methods of protection of data on TVA personnel computers. Management expects to complete final action by September 30, 2015.
2013-15190 02/03/2014	Proposal for Hydro Modernization and Rehabilitation TVA agreed to (1) negotiate the recommended markups for fixed-price work, (2) negotiate the recommended overhead and general and administrative rates, (3) include contract language to ensure the vendor cannot bill more than 40 hours per week for nonmanual employees, (4) obtain a comprehensive list of equipment rates prior to completing negotiations and specify the cost components of the equipment rates in the contract, and (5) consider expanding the performance-based fee language to the vendor's fixed price and time and materials pricing. Management expects to complete final action by April 30, 2015.
2013-15104 02/12/2014	PowerWAN Security and Architecture TVA agreed to (1) modify system configuration policies and practices to better harden systems, (2) modify password policies to comply with TVA policies, (3) develop policies and practices to ensure legitimate traffic is traversing the PowerWAN network, and (4) limit clear-text protocols and restrict traffic to specific hosts or destinations and protocols or ports. Management expects to complete final action by April 1, 2016.
2013-15239 05/29/2014	Comdata Network, Inc. – Fuel Card Program Contract Compliance TVA agreed to recover overpayments of \$1,211,262 and reimburse Comdata for \$164,663 in state fuel taxes for which TVA is liable or Comdata cannot file with the state for a refund. Management expects to complete final action by May 29, 2015.
2014-15186 06/18/2014	Alabama Emergency Management Agency (AEMA) – Contract Compliance TVA agreed to revise language in a new contract with the State of Alabama which clearly distinguishes between annual lump sum and cost reimbursable payment methodologies, and requires supporting documentation for actual costs incurred by AEMA, Alabama Department of Public Health, and the five counties be provided to TVA annually. Management expects to complete final action by June 18, 2015.

AUDIT AND EVALUATION REPORTS WITH CORRECTIVE ACTIONS PENDING (continued)

Audit Report Number and Date	Report Title and Recommendation(s) for Which Final Action is Not Complete
2014-15027 06/23/2014	<p>Official Stations</p> <p>TVA agreed to consider developing specific guidance for assigning and reassigning official stations to positions at TVA requiring frequent or continuous travel that is not to a single location; develop report requirements, supervisor guidance, evaluation, documentation, and approval requirements related to the review of official stations for employees in extended travel status at a single location; consider updating the Travel Policy to reflect official station guidance, including review of personal residence at their official station; and communicate changes to the current Travel Policy as appropriate. Management expects to complete final action by June 23, 2015.</p>
2013-15296 06/24/2014	<p>Plant Cyber Security Assessment</p> <p>TVA agreed to develop a process for identifying unauthorized wireless access points located within TVA's nuclear facilities, implement a strategy to manage the detected device, and train Nuclear Power Group and Information Technology personnel on the strategy and resulting processes. Management expects to complete final action by April 30, 2015.</p>
2014-15039 06/30/2014	<p>Choctaw Generation LTD – Contract Compliance</p> <p>TVA agreed to add an additional internal review of manual entries to the invoice calculation model to ensure accuracy and explore collection of the \$5,135 owed as they continue to work with Choctaw to minimize data entry errors; update the invoice calculation model as recommended, effective with the June 2014 invoice billing; work with Power Billing to ensure Power Origination is apprised of any outstanding meter issues at the Red Hills facility going forward; and explore collection of the \$12,674 owed as they continue to work with Choctaw. Management expects to complete final action by June 30, 2015.</p>
2013-14959 08/07/2014	<p>TVA Environmental Risk Management</p> <p>TVA agreed to update its system to better describe (1) environmental risk assessment processes, (2) organizational responsibilities and information repositories, (3) environmental review processes and responsibilities, and (4) requirements for property acquisitions and planning for idled plants. TVA Environment also agreed to implement ENTRAC enhancements, complete new job orientation analysis and curricula development, and begin using TVA's Enterprise Lessons Learned Information System. Management expects to complete final action by June 30, 2015.</p>
2014-15036 09/03/2014	<p>Bartlett Holdings, Inc. – Bechtel Power Corporation Subcontract</p> <p>TVA agreed to recover \$1,484,582 in questioned payroll tax and insurance costs and related fee; \$60,287 in ineligible costs for an employee who did not maintain a permanent residence more than 60 miles from his assigned workplace; and \$2,565 in ineligible labor costs and fee. Management expects to complete final action by September 3, 2015.</p>
2014-15065 09/23/2014	<p>Network Security Zones and Perimeter Architecture</p> <p>TVA agreed to design a new cable plant system and install new conduit and cables. Management expects to complete final action by March 18, 2016.</p>
2014-15064 09/29/2014	<p>Oracle Database Security</p> <p>TVA agreed to set up the configuration pack in Oracle Enterprise Manager and monitor production databases against the standard TVA configuration. Management also agreed to review all production databases and clean up any deviations from standard password policies. Management expects to complete final action by October 30, 2015.</p>

APPENDIX 4

AUDIT AND EVALUATION REPORTS WITH CORRECTIVE ACTIONS PENDING (continued)

Evaluation Report Number and Date	Report Title and Recommendations on which Final Action is Not Complete
2008-11829 06/02/2010	TVA Records Retention TVA agreed to continue current plans to replace the Electronic Data Management System. Management expects to complete final action by May 29, 2015.
2012-14535 03/21/2013	Master Key Program Management – Energy Delivery TVA agreed to secure facilities protected by master keys to minimize the risk posed by keys outside TVA's control and develop specifications for the purchase of a new system. A contract has been awarded and management expects to complete final action by September 30, 2016.
2012-14636 08/28/2013	Master Key Program Management – Property & Natural Resources TVA agreed to develop standard policies and procedures and secure facilities protected by master keys to minimize the risk posed by master keys outside TVA's control. Management expects to complete final action by September 30, 2015.
2013-14950 09/19/2013	TVA's Succession Planning TVA management agreed to (1) use Talent Action Readiness Plans and a new performance management system, ePerformance, (2) continue to evaluate ways to improve cross-pollination using a system to reduce preparation time and plan to submit a proposal for a new system during fiscal year 2016 business planning, (3) use Succession Pipeline Depth and Key Positions Filled metrics, (4) identify critical executive positions, and (5) design and implement the New Leader Integration Process. Management expects to complete final action by September 30, 2016.
2012-14845 09/24/2013	TVA's Nuclear Power Group Preventive Maintenance TVA agreed to address the issue with the "Counts as Deferral" flag used in preventive maintenance tracking and expedite preventive maintenance organization efforts. Management expects to complete final action by June 1, 2015.
2012-14587 10/17/2013	Nuclear Power Group and Coal and Gas Operations Critical Spare Parts Program TVA agreed to (1) develop the appropriate procedures to define the roles, responsibilities, and accountabilities of key persons, and define the decision and approval process in regard to the procurement of critical spare parts; (2) define maintenance program accountabilities for inventory including critical spares; (3) take steps to follow up on actions recommended by the management consulting firm; (4) develop processes and procedures required to manage critical spare part information; and (5) define the decision and approval process for the removal of the critical spare part designation from spare parts in inventory. Management expected to complete final action by October 17, 2014.
2013-15332 06/02/2014	Effectiveness of TVA's Enterprise Risk Management Program TVA agreed to focus on aligning enterprise risks with strategic imperatives and business objectives and engage executive management and the Audit, Risk, and Regulation Committee on the subject of risk appetite. Enterprise Risk Management (ERM) leaders are improving risk management culture and the quality of risk tolerances while continuing to implement a multi-point risk approach and a more efficient and effective risk management application that is consistent with the goals of TVA's ERM program. Management expects to complete final action by September 30, 2015.

AUDIT AND EVALUATION REPORTS WITH CORRECTIVE ACTIONS PENDING (continued)

Evaluation Report Number and Date	Report Title and Recommendations on which Final Action is Not Complete
2013-15157 06/05/2014	<p>Actions to Address River Operations Systems and Components with Poor Ratings</p> <p>TVA agreed to develop a 10-year asset management plan to further document risks and develop a long-term strategy for addressing systems and components with poor ratings across the non-nuclear fleet. Management expects to complete final action by June 5, 2015.</p>
2013-15135 07/30/2014	<p>Actions to Address Coal Plant Systems and Programs with Poor Ratings</p> <p>TVA agreed to (1) document justification when actions are not taken to address systems and programs with red and yellow ratings, (2) reinforce the importance of consistent documentation of system health reports, and (3) consider the potential impact of eliminating the requirement to do asset health assessments on TVA's non-nuclear asset condition risk and determine a schedule for completing health assessments that will adequately mitigate the risk of equipment failure. Management expects to complete final action by September 30, 2015.</p>
2014-15056 09/25/2014	<p>Nuclear Groundwater Review</p> <p>TVA agreed to (1) address the Bartlett assessment top risk issues at each site and improve the monitoring program, (2) form a groundwater working group with representatives from all sites to address outstanding program weaknesses, and (3) review the risk ranking to ensure items are in current priority. Management expects to complete final action by May 31, 2015.</p>
2014-15053 09/29/2014	<p>Coal Plant Preventive Maintenance</p> <p>TVA agreed to (1) increase preventive maintenance (PM) completion and reduce deviations from PM schedules and reinforce the importance of PM activities, (2) develop a way to more accurately capture and report PM compliance and other appropriate PM tracking metrics, (3) expedite maintenance basis optimization efforts, and (4) consider the potential impact of having PM governed only by guidelines and not requirements. Management expects to complete final action by May 15, 2015.</p>
2014-15216 09/29/2014	<p>Follow-Up Review of Coal Fire Protection</p> <p>TVA agreed to prioritize current impairments and either establish a due date for all long-term fire impairments or make a formal decision to not pursue repair; train employees at each site on the proper use of work management priorities for fire impairments; track high priority fire impairments to resolution using a monthly scorecard; revise standard policies and procedures (SPPs) to allow for a formal non-conformance process; take an inventory to determine baseline equipment status; revise SPPs to include a standard equipment list and develop an action plan with dates to replace or purchase needed equipment to fill gaps; offer training based on participant feedback; revise SPPs to require a Problem Evaluation Report when minimum staffing is not met; revise SPPs to include a requirement to write a lessons-learned document for all fires and include a new rating calculation and process for sharing assessment data with Power Operations senior leadership. Management expects to complete final action by September 29, 2015.</p>
2012-14882 09/30/2014	<p>Injury Reporting at TVA</p> <p>TVA agreed to improve the reporting of injuries including (1) require all Form 17719s to be reviewed for accuracy and completeness prior to being entered on the Occupational Safety and Health Administration (OSHA) log; (2) enter all recordable injuries on the OSHA 300 log; (3) perform reconciliations of workers' compensation information and Form 17719s; (4) develop training to educate employees of their reporting responsibilities; and (5) create a process for reconciling Form 1444 to Form 17719. Additionally, TVA agreed to evaluate the potential influence of the corporate multiplier, as it relates to recordable injuries, on the reporting of injuries. Management expects to complete final action by September 30, 2015.</p>
2014-15055 09/30/2014	<p>Process for Determining Cost Information Used in Making Commitment and Dispatch Decisions for Coal and Combined Cycle Plants</p> <p>TVA agreed to reevaluate the start costs for combined cycle units before the next long-range plan update; establish procedures to review inputs and calculations used to determine start and dispatch costs by developing a dispatch pricing policy that includes a more formalized review of inputs and calculations; update combined cycle start and variable operations and maintenance (VOM) costs annually; update policies and procedures; review combined cycle VOM estimates annually; and review long-term service agreements for general accuracy. TVA agreed to also consistently evaluate units within an asset class with the best information available for estimates. Management expects to complete final action by September 30, 2015.</p>

APPENDIX 5

INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS¹

Referrals	
Subjects Referred to U.S. Attorneys	8
Subjects Referred to State/Local Authorities	0
Results	
Subject Indicted	6
Subjects Convicted	6
Pretrial Diversion	0
Federal Referrals Declined	8
State Referrals Declined	0

¹ These numbers include task force activities and joint investigations with other agencies.



Fontana Dam

HIGHLIGHTS – STATISTICS

	MAR 31, 2015	SEPT 30, 2014	MAR 31, 2014	SEPT 30, 2013	MAR 31, 2013
AUDITS					
AUDIT STATISTICS					
Carried Forward	28	24	28	38	32
Started	11	20	17	21	23
Canceled	(0)	(1)	(1)	(1)	(1)
Completed	(11)	(15)	(20)	(30)	(16)
In Progress at End of Reporting Period	28	28	24	28	38
AUDIT RESULTS (Thousands)					
Questioned Costs	\$8,908	\$2,612	\$635	\$2,916	\$1,262
Disallowed by TVA	\$8,908	\$2,612	\$308	\$647	\$2,039
Recovered by TVA	\$89	\$484	\$164	\$2,447	\$559
Funds to Be Put to Better Use	\$1,067	\$512	\$9,584	\$36,522	\$0
Agreed to by TVA	\$512	\$414	\$20,938	\$23,100	\$0
Realized by TVA	\$7,375	\$13,114	\$375	\$2,479	\$145
OTHER AUDIT-RELATED PROJECTS					
Completed	5	10	5	5	7
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$0	\$0	\$0
EVALUATIONS					
Completed	1	10	3	6	6
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$0	\$0	\$0
INVESTIGATIONS¹					
INVESTIGATION CASELOAD					
Opened	126	134	112	173	134
Closed	146	123	148	158	105
In Progress at End of Reporting Period	152	163	150	179	160
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$522.2	\$89.1 ²	\$10,874.7 ³	\$899.9	\$0
Projected Savings	\$403.3	\$125	\$0	\$550.4	\$770.2
Fines/Penalties/Fees	\$0.2	\$0.8	\$1	\$603.8	\$0
Other Monetary Loss	\$0	\$0	\$0	\$519.3	\$0
MANAGEMENT ACTIONS					
Disciplinary Actions Taken (Number of Subjects)	10	14	22	18	16
Counseling/Management Techniques Employed (Number of Cases)	17	12	14	20	14
Debarment	0	0	0	0	0
PROSECUTIVE ACTIVITIES (Number of Subjects)					
Referred to U.S. Attorneys	8	16	14	18	13
Referred to State/Local Authorities	0	0	2	0	0
Indicted	6	0	5	0	2
Convicted	6	0	1	2	4
Pretrial Diversion	0	0	1	0	0

¹ These numbers include task force activities and joint investigations with other agencies.

² \$12,573 of this amount is restitution ordered to be paid to a non-governmental financial institution as the result of a criminal investigation.

³ \$10,794,728 of this total is restitution ordered in a TVA OIG led federal criminal case. The defendant was ordered to repay victims of a Ponzi scheme, the largest portion of which was comprised of his fraudulent collection of money from Valley-wide investors under the pretense that they were helping fund the Kingston ash spill remediation.

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.



Bull Run Fossil Plant

PEER REVIEWS OF THE TVA OIG

Audits Peer Review

Inspector General 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*. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. TVA OIG underwent its most recent peer review of its audit organization for the period ended September 30, 2013. The review was performed by the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). The SIGTARP issued the report, dated March 31, 2014, in which it concluded the TVA OIG audit organization's system of quality control for the fiscal year ended September 30, 2013, was suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional auditing standards in all material respects. Accordingly, the TVA OIG received a rating of pass. The peer review report is posted on our Web site at <http://www.oig.tva.gov/PDF/PeerReviewReport03312014>.

Investigations Peer Review

Investigative operations undergoes an external peer review, Quality Assessment Review (QAR), at least once every three years. The U.S. Department of Commerce OIG conducted a QAR of the TVA OIG Investigative Operations. The Commerce OIG found the "...system of internal safeguards and management procedures for the investigative function of the Office of Inspector General for the Tennessee Valley Authority in effect for the year ended April 30, 2013, is in compliance with the quality standards established by CIGIE and the applicable Attorney General guidelines. These safeguards and procedures provide reasonable assurance of conforming with professional standards in the planning, execution and reporting of its investigations." The QAR report can be found on our Web site at <http://oig.tva.gov/PDF/22NOV2013-tvaog-inv-peer-review.pdf>.

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.

Improper Payment – Any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements, as defined in the IPIA.

Management Decision – 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 & ACRONYM

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

AEMA	Alabama Emergency Management Agency
BTES	Bristol Tennessee Essential Services
CEO	Chief Executive Officer
CIGIE	Council of the Inspectors General on Integrity and Efficiency
D&E	Diet and Exercise
DLC.....	Direct Load Control
DOL.....	U.S. Department of Labor
ERM.....	Enterprise Risk Management
FBI	Federal Bureau of Investigation
FECA	Federal Employees' Compensation Act
FISMA.....	Federal Information Security Management Act of 2002
FY	Fiscal Year
IG	Inspector General
IT	Information Technology
OIG.....	Office of the Inspector General
OMB.....	Office of Management and Budget
OSHA	Occupational Safety and Health Administration
OWCP	Office of Workers' Compensation Programs
PII	Personally Identifiable Information
PM	Preventive Maintenance
QAR.....	Quality Assessment Review
SBU.....	Strategic Business Unit
SEC.....	Securities and Exchange Commission
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SPPs.....	Standard Policies and Procedures
TLA	Temporary Living Allowance
TLE.....	Temporary Living Expenses
TVA.....	Tennessee Valley Authority
TVAP.....	Tennessee Valley Authority Police
U.S.	United States of America
UT	The University of Tennessee
VOM	Variable Operations and Maintenance
WP	Winning Performance



OFFICE of the *INSPECTOR GENERAL*

400 West Summit Hill Drive
Knoxville, Tennessee 37902

The OIG is an independent organization charged with conducting audits, evaluations, 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 (1-855-882-8585) or over the Web (www.oigempowerline.com). You may report your concerns anonymously or you may request confidentiality.



BE A HERO

REPORT FRAUD

Contact the OIG EmPowerline® at 855-882-8585
or online at www.OIGempowerline.com



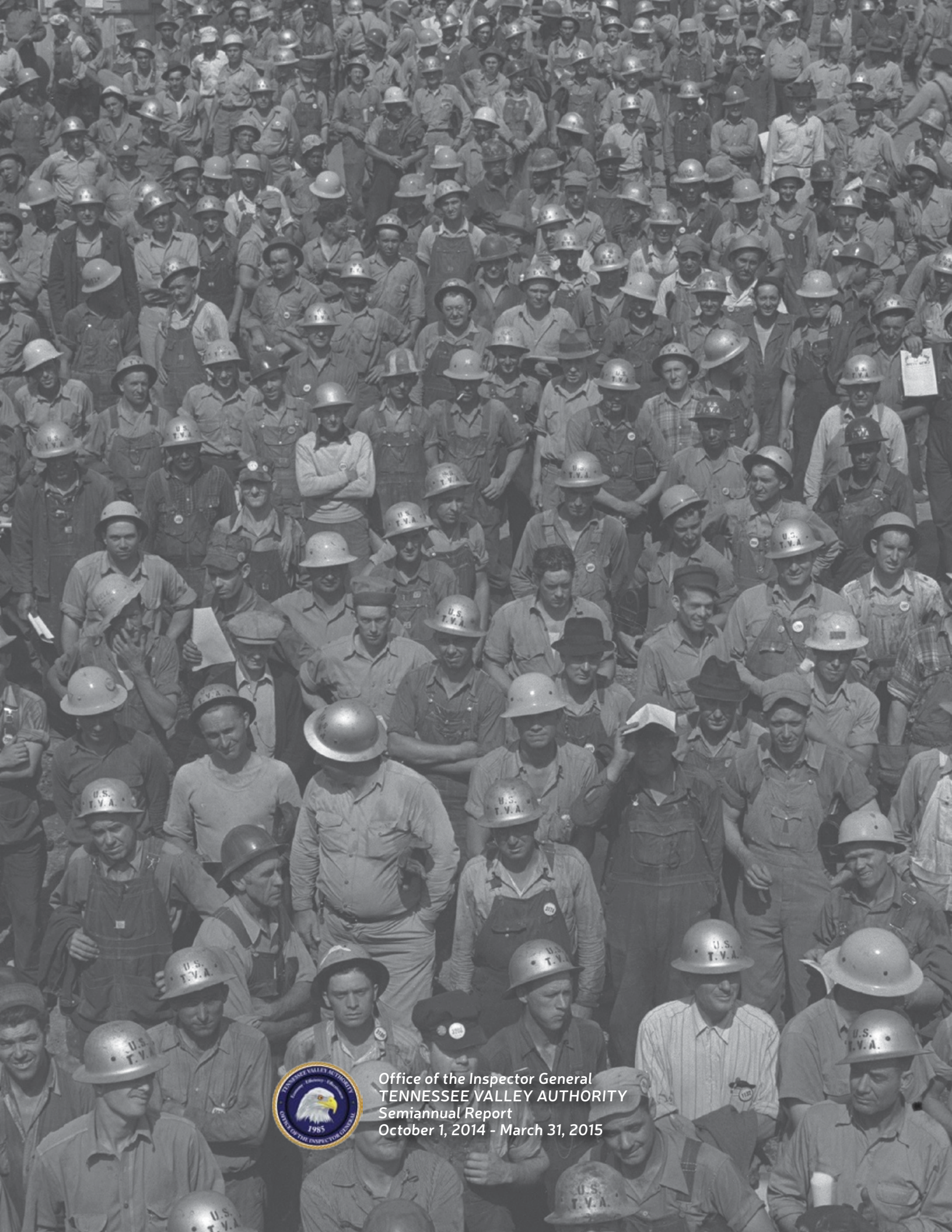
YOU CAN MAKE A DIFFERENCE

If you see or suspect wrongdoing, say something. TVA may be able to recover money and you could receive a cash reward from the TVA Office of the Inspector General. Visit our EmPowerline® Web site at www.oigempowerline.com or call toll-free at 855-882-8585.

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.



Office of the Inspector General
TENNESSEE VALLEY AUTHORITY
Semiannual Report
October 1, 2014 - March 31, 2015