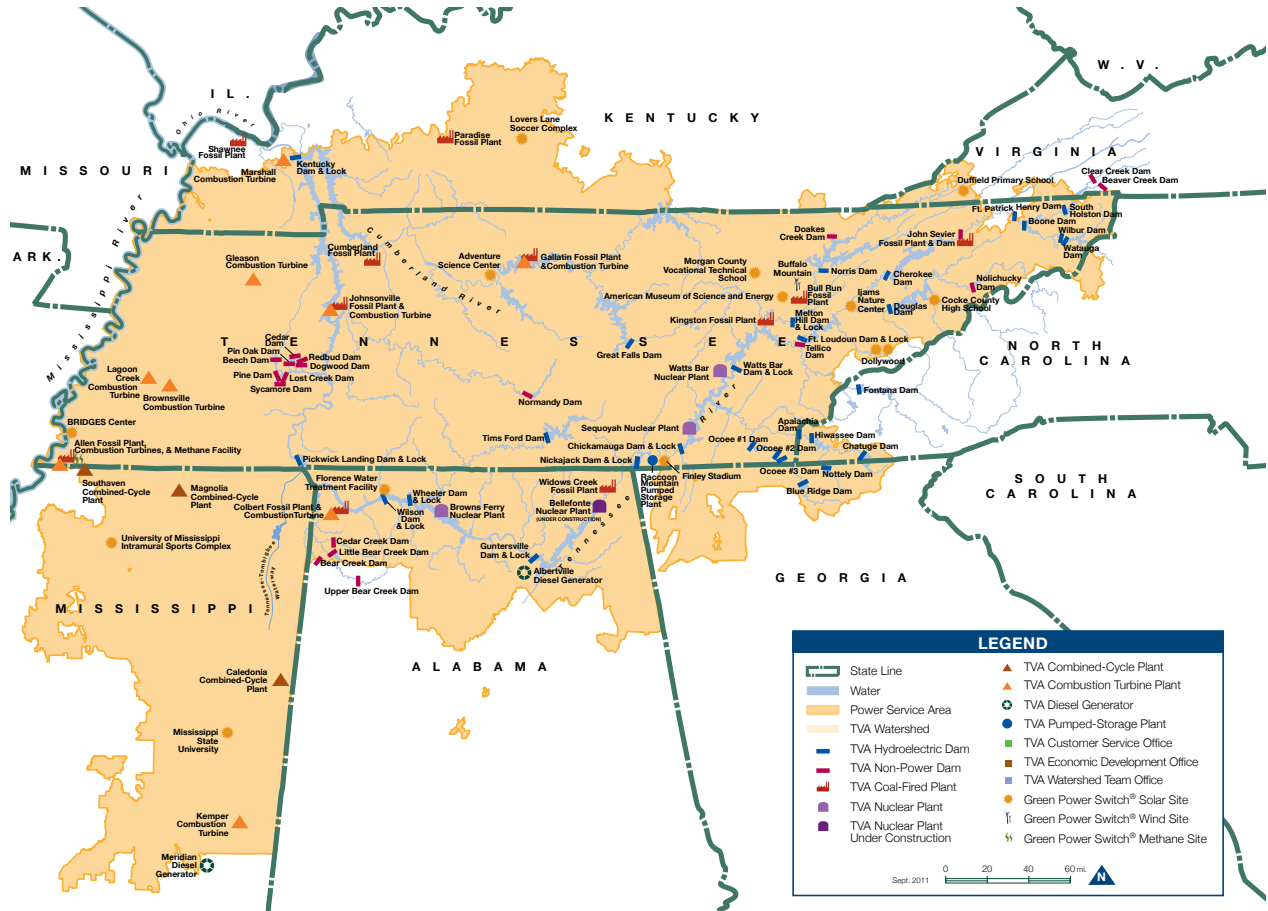


# MAKING TVA *Better*

Office of the Inspector General  
TENNESSEE VALLEY AUTHORITY  
*Semiannual Report*  
April 1, 2013 - September 30, 2013

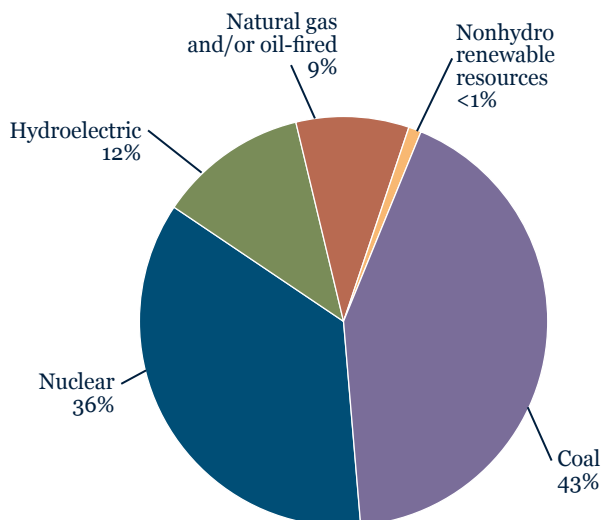


# TENNESSEE VALLEY REGION



## TVA POWER GENERATION FY 2013

(in millions of kilowatt hours)



- Coal-fired - 62,519
- Nuclear - 52,100
- Hydroelectric - 18,178
- Natural gas and/or oil-fired - 13,102
- Nonhydro renewable resources - 9\*

\*Operations and maintenance issues reduced the available renewable generation during 2013, 2012, and 2011 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 for the period April 1 to September 30, 2013. The fact that the Tennessee Valley Authority (TVA) is facing an environment of declining revenue and rising costs has been widely reported. TVA management and the TVA Board of Directors (Board) are making hard choices that involve cutting costs and at the same time becoming more efficient. Historically, the work of the Office of the Inspector General (OIG) has supported cost cutting and efficiency goals through our audits, evaluations, and investigations. In our feature for this semiannual report, entitled "Making TVA Better," we discuss how our work contributes to helping TVA save or recover money, reduce risks, and improve operations. We share a mutual purpose with the TVA Board and TVA management in making TVA better.



In this semiannual period, our audit, evaluation, and investigative activities identified more than \$42 million in funds to be put to better use, questioned costs, recoveries, savings, penalties, and other monetary loss as well as opportunities for TVA to improve its programs and operations. Some of the highlights include:

- Fifteen preaward reviews that identified more than \$36.5 million of potential savings opportunities for TVA to use in negotiations of contracts associated with valley-wide engineering services and work at hydro, fossil, and nuclear plants.
- A review of Bellefonte Nuclear Plant's (BLN) risk management program that found renewed emphasis has been placed on the risk management program.
- A review of the vehicle allowance and assigned vehicle programs that identified improvements to be made in the administration of both programs.
- A congressional request from the Bicameral Task Force on Climate Change regarding whether TVA was meeting applicable environmental requirements and directives.
- A review of the nuclear preventive maintenance program found reported metrics may not be accurate and that late and deferred preventive maintenance was negatively affecting system health.
- Information technology (IT) audits that found TVA modem access controls could be improved, protection of personally identifiable information (PII) on TVA computers and laptops could be enhanced, and Federal Information Security Management Act (FISMA) controls have improved.
- A product substitution investigation which resulted in a recovery of more than \$700,000 through a civil agreement.
- An allegation that the TVA Board violated the Sunshine Act in selecting the TVA Chief Executive Officer (CEO) and allegations of nepotism and conflict of interest involving the TVA Chairman of the Board





were investigated. There was no evidence to support either allegation.

- A former TVA Vice President pled guilty to conspiracy to violate the International Emergency Economic Powers Act (IEEPA) and Iranian Transactions Regulation and filing of false income tax returns.

On a personal note, I want to once again thank Jack Brennan for his many contributions to the OIG. Jack, our Assistant Inspector General for Investigations, retired on October 4, 2013, after a distinguished career in law enforcement of more than 40 years. Jack has been recognized both within our office and by other law enforcement agencies as a driving force in aggressive and productive investigative work on behalf of the OIG and TVA. Jack's retirement is significant also because he is

the last of four generations of Brennans from Ireland who found in the United States (U.S.) a natural niche in law enforcement. Jack's great-grandfather, Edward James Brennan, was one of the original Federal Bureau of Investigation (FBI) assistant directors who shaped the fledgling law enforcement's direction in the early years. Jack was an "agent's agent" with lots of credibility because he had "done it all" and he had "done it well." So, in many ways his retirement marks the ending of an era. Jack is the example of an employee who made TVA better. We salute you Jack.

I want to congratulate Paul Houston who has been selected as the new Assistant Inspector General for Investigations. Paul is an attorney and agent who joined our office in January 2007, most recently serving as a Special Agent in Charge, after serving more than 18 years with the FBI. Paul has strong leadership and technical

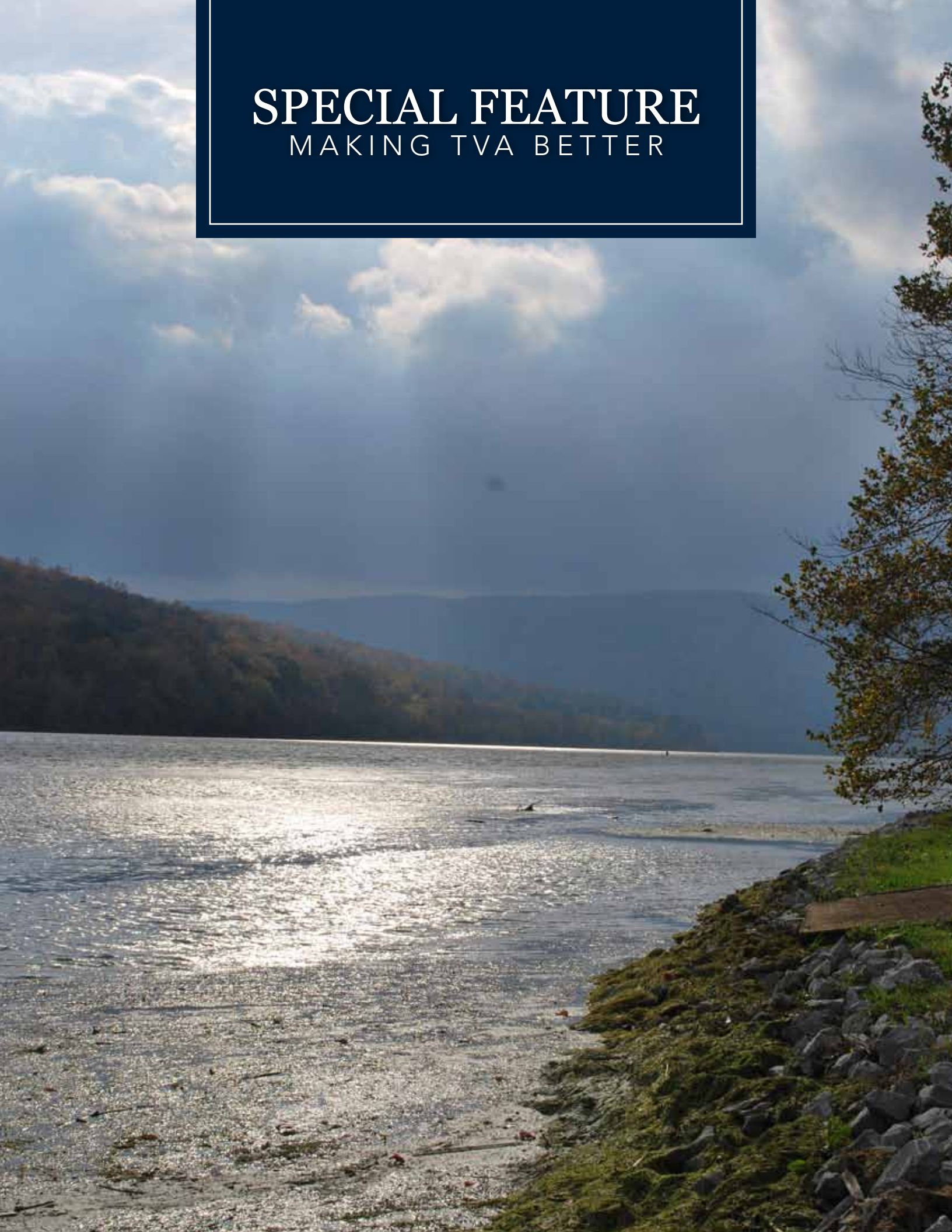
skills, and he will build on the tradition of excellence established by Jack Brennan.

Also, at the end of this congressional session in January, Neil McBride will end his service on TVA's Board. Director McBride has served on the TVA Board since October 2010 and as Chairman of the Board's Audit, Risk, and Regulation Committee. He has been an effective Chairman of this committee and has made TVA better by his service on the TVA Board. I want to extend my thanks for his support of the OIG and service to TVA. Finally, I want to welcome back TVA Board member Dr. Marilyn Brown. We look forward to working with Dr. Brown once again as she rejoins TVA in the middle of these challenging times.

**Richard W. Moore**  
Inspector General

# SPECIAL FEATURE

MAKING TVA BETTER





## *Special Feature* **MAKING TVA BETTER**

TVA faces eroding revenue due to slower economic times, milder weather, and loss of its largest industrial customer. Additionally, the fiscal year (FY) 2014 President's budget has called for a strategic review of options to sell or privatize the utility. Further, rate pressures are increasing due to rising costs to pay for environmental regulations; operation and maintenance of its aging infrastructure; and completion of Watts Bar Nuclear (WBN) Plant Unit 2. The key components of TVA's mission are to keep rates as low as feasible in the Valley for its customers and to promote economic development. To best serve the people of the Valley, TVA management is looking closely at how to cut costs and become more efficient. As we will discuss further in this article, through our audits, evaluations, and investigations, the OIG is committed to making TVA better by recommending ways to save or recover money, reduce risk to the company, and promote operational efficiency and effectiveness.

Today, TVA has a new CEO Bill Johnson and new Board members to lead this government corporation through its latest challenges. Johnson and his restructured management team are focusing on TVA living "within its means" so that TVA can continue to serve the people of the Valley. Living "within its means" will require TVA to make significant cost cuts and become more efficient in order to combat eroding revenue and increased costs to modernize its fleet.



The OIG focuses every day on finding ways for TVA to recover funds, save money, reduce risk, and improve operations. Simply put, our mission is to "Make

TVA Better." We must also carry out our mandate in an efficient and effective way and ensure our resources are focused on areas of high risk and strategic importance to TVA. In developing our Audits and Evaluations workplan each year, we review risks identified by TVA's Enterprise Risk Management program, review TVA's strategic plan, seek input from TVA management and other stakeholders, and use information on risks gathered during our reviews in the previous year. Our investigative team also performs investigations into areas of high risk which are generated from audit referrals, OIG-developed sources, TVA management, and tips from our fraud, waste, and abuse hotline, called the EmPowerline. Below we will discuss, from our perspective, how the OIG can and does make a difference.

Over the past five years, our reviews have helped TVA save and recover money. In addition, a significant number of reviews identified areas

to improve the efficiency and effectiveness of TVA operations. While the results from these reviews are difficult to quantify, the results impacted many areas of TVA including: (1) improving key business processes, (2) improving governance functions and regulatory activities; (3) improving the protection of critical infrastructure and privacy information; (4) improving the effectiveness of risk mitigation activities on areas of high risk; and (5) serving as a deterrent to misconduct and fraud.

Even without a monetary value attached, these reviews provide information to help TVA operate in the most efficient manner and keep TVA from incurring a liability from risks that are not properly mitigated.

### **Saving Money**

To support its operations, TVA spends about \$2.5 billion annually on labor and services, as well as materials and equipment contracts and purchase orders, and

\$1.5 billion a year under coal and coal transportation contracts. We provide oversight of TVA's contracting activities through the conduct of preaward, postaward (compliance), operational, and contracting process reviews. Over the years, our audit group that focuses on this area has gained the respect of TVA management for their expertise and has a strong working relationship with TVA procurement.

As TVA looks to make significant cost cuts to offset eroding revenue and to keep rates as low as feasible, the OIG continues to work hard to find ways to help TVA save and recover money. In FY 2013, our reviews resulted in more than \$43.5 million in questioned

costs, funds to be put to better use, recoveries, savings, fines, and penalties. Our reviews also identified more than \$.5 million in other monetary losses or waste. The box below shows the monetary results of our reviews for the past five years. The monetary impact from our reviews is primarily a result of our contract compliance audits, contract preaward reviews, and investigations; however, other operational reviews can also have monetary impact.

**Preaward Audits**—TVA management often requests assistance from the OIG in determining if contractor cost proposals are fairly stated prior to the award of large contracts or extensions on current

contracts. These reviews allow TVA management to understand where further negotiation could reduce costs. In FY 2013, the OIG conducted more preaward audits than in any other FY since its inception and identified more than \$36.5 million in funds that could be put to better use. Over the last five years, the OIG has identified more than \$157 million in funds that could be put to better use.

**Contract Compliance Audits**—The OIG routinely reviews contracts in place to ensure contractors are billing in accordance with contract terms. We use risk-based analysis to determine which contracts to review. In these reviews, we identify overbillings or improper payments so that TVA can recover the funds. In FY 2013, more than \$4 million was questioned and, in the last five years, we questioned more than \$31 million. We also identify improvements to the contracting process to help TVA become more efficient and effective. In FY 2011 and FY 2012, at the request of TVA management, the OIG provided training to TVA procurement officials on the trends found in contract reviews which could help contract managers better manage their contracts.



## STATISTICAL HIGHLIGHTS

October 1, 2008 – September 30, 2013

Audit Reports Issued	284
Evaluations Completed	68
Questioned Costs	\$38,831,439
Disallowed Costs	\$27,414,171
Funds Recovered	\$15,590,888
Funds to be Put to Better Use	\$157,303,493
Funds Realized by TVA	\$26,873,204
Investigations Opened	2,061
Investigations Closed	2,000
Recoveries/Savings/Fines/Penalties	\$29,562,874
Other Monetary Loss	\$506,795,827
Criminal Actions	78
Administrative Actions (No. of Subjects)	126





**Investigations**—We also help TVA recover funds and reduce future costs through our investigative work. For example, in the past five years, we have recovered \$11.31 million in civil recoveries from cases involving a TVA contractor, vendor, and medical provider, respectively: Stone & Webster Construction, Inc. (SWCI), in the amount of \$6.2 million; Signal Industrial Products, Inc. (Signal), in the amount of \$750,000; and Apex Medical Group, P.C., in the amount of \$4.36 million. Another example is our work in workers' compensation which reduces future costs as well as results in reimbursement of overpayments to TVA. In the past five years, our investigations overall have resulted in more than \$18 million in recoveries to TVA and other entities; projected costs avoided by TVA of nearly \$10 million; and fines,

penalties, and fees amounting to more than \$1.4 million for a total of more than \$29.4 million.

**Other Reviews**—We have also identified savings to TVA in other contract-related reviews or in our distributor reviews. For example, in 2012, an error by one distributor resulted in a \$3.6 million underpayment to TVA which was later credited back to TVA as a result of our work. In addition, in 2011, our office conducted an operational review of TVA's demurrage costs to determine why they were occurring and how they could be prevented. Demurrage is the fee charged by barge and rail companies for delays in the loading or unloading of coal from company-owned assets. In response to our review, TVA received a \$376,667 credit for origin demurrage and will receive approximately \$1 million in credits in upcoming years.

## **Increase Operational Efficiency and Effectiveness**

As mentioned previously, the majority of our reviews do not have monetary savings tied to them; however, these reviews have identified numerous opportunities to improve operational efficiency and effectiveness. In addition, the OIG and TVA jointly perform fraud risk assessments and culture risk assessments so identified risks can be proactively mitigated. More efficient and effective functions and appropriately mitigated risks are integral to TVA performing its mission in the most cost-effective manner possible.

Within the OIG, we have groups providing oversight of governance and regulatory activities, IT programs and security, and operational areas. Highlighted



below are some of the reviews that help TVA increase operational efficiency and effectiveness.

#### **Improving Governance and Regulatory Activities—**

Our reviews in this area have focused on how well TVA regulates the distributors of its power and other programs TVA offers distributors. These address not only potential reputational risks to TVA if regulatory responsibilities are not carried out appropriately, but also the risks that TVA may not be operating these programs in the most efficient manner. Some examples include:

- **Regulating Distributors –** TVA has 155 distributors

(municipalities and cooperatives) that resell TVA power to consumers across the Tennessee Valley. TVA's Board is responsible for regulating its distributors. In response to our reviews of TVA's role as a regulator, TVA clarified its role and made improvements in the oversight of the distributors. In addition, the OIG began performing reviews of distributors to provide assurance on compliance with the distributor's power contract and identified improvement opportunities for the distributor and TVA, including errors that impacted the amount of revenue TVA received from some distributors. In 2011,

TVA assumed responsibility for performing reviews of the distributor's compliance with the power contract.

- **Direct Load Control –** In the 1970s, TVA established the Direct Load Control program which allowed TVA to shift load from on-peak/high-priced periods to off-peak/low-priced periods for a participating distributor. In exchange, the distributor received credits on their power bill. A 2013 review identified significant issues with the equipment and monitoring of the program. For example, in certain cases inoperable equipment made it impossible for TVA to receive the peak

demand reduction it was paying for through the credits. TVA is working to improve or replace this program.

### **Protection of Critical Infrastructure and Privacy**

**Information**—As the largest public power producer in the country and a government corporation, TVA is a part of the nation's critical infrastructure. Like other companies, TVA faces evolving risks to its cyber assets and the information it maintains, especially PII. In this type of environment, collaboration and information sharing is integral to finding cost effective solutions to reduce TVA's risks.

Over the years, we have conducted many reviews of TVA in the cyber security area. These reviews may focus on security of specific technical areas or systems, protection of PII, the effectiveness of the IT security group and the IT organization as a whole, or be a mandated review such as those required by the FISMA. These reviews provide TVA with specific information on where controls need to be strengthened to lessen TVA's risks and provide recommendations to improve controls or increase the effectiveness of a group or program.

### **Risk Mitigation and Risk-Based**

**Reviews**—These reviews provide an independent look at how well

TVA is addressing known risks in specific areas. The results of the reviews help TVA make needed improvements that reduce the risk that a bad event or financial loss will occur. Some examples include reviews of:

#### ➤ **TVA's management of master keys in two large TVA organizations**

– These 2013 reports made recommendations that improved physical security by addressing significant weaknesses in the management and control over the master keys that grant access to certain critical assets and infrastructure.

➤ **Succession planning** – This 2013 review found that TVA had made significant progress in this regard, but opportunities for improvement remain. We recently initiated a related review of the effectiveness of "knowledge transfer" activities when key employees leave. These are areas of critical importance as TVA seeks to "right size" and cut costs. Having the right people, with the right knowledge, in place in a smaller and leaner TVA will be critical to the company achieving operational excellence while reducing costs.

#### ➤ **Preventive maintenance in TVA's Nuclear Power Group**

– In a 2013 review, we found

that metrics on scheduled maintenance were not reliable and, in many cases, scheduled maintenance was not being done. Further, we found that the lack of maintenance contributed to poor system health in many instances. The lack of proper maintenance could increase the risk of equipment failures and outages.

#### ➤ **The risk of a craft labor shortage**

– We noted in 2013 that TVA was lacking in strategies related to the risk of a shrinking labor pool. A shortage of craft labor could have detrimental impact on TVA's ability to perform operations, maintenance, modifications and construction work. In response to our report, TVA worked with the operating groups and the unions to gain acceptance of a standardized task evaluation program model and procured services of an outside labor consultant to help assess and monitor, on a quarterly basis, the supply and demand for craft labor. This allows TVA to proactively anticipate shortages and make adjustments as needed to ensure staffing is available.

#### ➤ **TVA's building and**

**infrastructure failure risks** – In 2013, we identified an elevated



risk exposure because the program had been consistently underfunded and identified risks excluded underutilized properties, which posed additional risk of liability from potential contamination or compromises to public safety. This resulted in additional focus on those properties and improvements to the system which will provide better management of TVA's portfolio of properties.

- **Cost and schedule performance on the WBN Unit 2 construction project –** This 2012 review identified serious weaknesses in oversight of the project that were hampering construction performance. The OIG recommendations resulted in better estimates of cost and schedule and better project oversight. This work was significant because it identified serious problems much earlier than they would have otherwise been discovered, thereby allowing the company to save money by getting the project on track and addressing the construction delays identified.
- **TVA's counterparty credit risk –** We found the process lacked a consistent, risk-based approach to managing credit and performance risk. Proper management of this risk is

important to reducing TVA's exposure to possible financial and operational losses.

**Deterrent to Misconduct and Fraud—**Another important way our office helps TVA is to provide deterrence to employee misconduct and potential fraud, including third party fraud by contractors. One deterrent can be the prosecution of those that defraud TVA. In the past five years, our investigations have resulted in 35 indictments, 37 convictions, and 6 pre-trial diversions. Other activities that also help deter or identify misconduct or fraud earlier include:

- **Debarments –** In 2010, TVA and the OIG worked collaboratively to develop a suspension and debarment process for contractors that defraud TVA. That same year, Holtec International, Inc. (Holtec), a dry cask storage system supplier for TVA nuclear plants, became the first contractor to be debarred in TVA history. Holtec's debarment lasted sixty days. Also, Holtec agreed to pay a \$2 million administrative fee and submit to a year-long monitoring program for its operations.
- **Fraud Risk Assessments –** In 2004, the OIG kicked off a TVA-wide initiative to help groups identify fraud risks for their

area. The assessments which are performed in conjunction with TVA business organizations identify (1) types of fraud that can occur, (2) the likelihood and significance of fraud occurring, (3) controls in place to prevent fraud, and (4) remediation needed to improve fraud prevention controls. While the primary purpose of the assessments is to reduce risks for TVA, the collateral benefit is the trust that is built between the OIG staff and TVA employees. Since the program inception, our office has performed more than 30 assessments.

- **Fraud Awareness Briefings –** Our agents conduct briefings of individuals and groups to educate them on what type of fraud schemes they may encounter, what to look for, and how to report it. An increased awareness can lead to earlier reporting of potential fraud.
- **EmPowerline –** Our hotline provides a mechanism for people to anonymously report misconduct and fraud to the OIG. Over the past five years, we have received 1,429 reports. Addressing the information received can lead to an investigation, audit, or management action which results in saving TVA money or identifying misconduct or fraud.



## Conclusion

Challenges are nothing new to TVA. TVA personnel have risen to the occasion many times in TVA's history to overcome the challenges at hand. The TVA Board, management, and OIG personnel have a mutual purpose—making TVA better. The OIG is committed to providing TVA with information regarding ways it can save and recover money as well

as constructive feedback on the efficiency and effectiveness of its programs. Additionally, while the dynamics can be tricky between the “watchdog” and the agency, we have learned over the years that a healthy working relationship where agency personnel feel comfortable in asking us to review an area or provide training on trends we see in a program, and where TVA and OIG personnel respectfully discuss

differing opinions on findings and recommendations is mutually beneficial to both parties. Healthy dialogue on the challenges and potential solutions between TVA and the OIG is integral to solving the challenges of today and tomorrow and, ultimately, in making TVA better.

# NOTEWORTHY UNDERTAKINGS





# NOTEWORTHY UNDERTAKINGS

This semiannual period, our office had two Noteworthy Undertakings to report. Two OIG teams received Council of the Inspectors General on Integrity and Efficiency (CIGIE) awards for a joint investigation and inspection of a Watts Bar Unit 2 construction project, as well as for an investigation leading to the conviction of a contractor company's nuclear plant safety manager. Additionally, OIG personnel and representatives from other law enforcement agencies visited WBN Plant as part of a tour hosted by TVA.

## OIG Teams Receive Two CIGIE Awards for Excellence

The CIGIE held a ceremony in Washington, D.C., to announce the winners of its annual Awards for Excellence. Two OIG teams won awards for:

### **A joint investigation and inspection identifying and notifying TVA that the WBN Unit 2 construction project was behind schedule and over budget**

In August 2007, the TVA Board approved the completion of WBN Unit 2, the only new nuclear generating plant under construction in the country, at a cost of \$2.5 billion and schedule for completion of 60 months. The TVA OIG, through a joint inspection and investigation, determined TVA's WBN construction was significantly behind schedule and grossly over budget, despite information released by TVA senior management to the contrary. After the OIG provided pertinent information to TVA, both the budget and schedule were revised considerably to a projected cost of completion between \$4 billion and \$4.5 billion, and the time



to completion was extended three years, with an estimated completion date between September and December 2015. The OIG inspection and investigation were integral in identifying that the project was significantly over budget and behind schedule. This allowed TVA to take corrective actions and properly report financial information to Congress, bond holders, and the general public. The TVA OIG worked as a team to provide a complete and thorough review of the project that previously had been erroneously reported. As a result, TVA replaced senior management on the project, performed a comprehensive review of the project, and publicly reported the revised schedule and budget numbers.

TVA OIG employees Melissa Conforti, Lisa Hammer, Greg Stinson, Nancy Holloway, Paul Houston, Angela Blackmon, and Kaylyn Moore received the WBN Unit 2 award.

### **An investigation leading to the conviction of a contractor company's nuclear plant safety manager who falsified injury rates at TVA nuclear plants to collect more than \$2.5 million in safety bonuses**

As previously reported, the TVA OIG Investigations recently completed the criminal jury trial of a former nuclear plant safety manager for TVA contractor SWCI, later named the Shaw Group. SWCI had a contract with TVA to provide maintenance and modifications to three TVA nuclear facilities and to provide construction for the Browns Ferry Nuclear Plant Unit 1 reactor restart. The plant safety manager was charged with and convicted of eight counts of major fraud as a result of a criminal investigation following a previously obtained civil fraud false claims settlement from SWCI in a parallel proceeding in January 2007.

The manager, age 55, of Metairie, Louisiana, was sentenced to serve 78 months in prison followed by two years of supervised release. He was convicted of providing false information about injuries

following a jury trial in November 2012, after being charged by a federal grand jury with eight counts of major fraud against TVA. The manager under-reported more than 80 injuries generating false injury rates that were used by the Shaw Group to collect more than \$2.5 million in safety bonuses from TVA. As part of a civil agreement filed with the U.S. in 2008, the Shaw Group paid back twice the amount of the unearned safety bonuses.

TVA OIG employees Beth Thomas, J.D. Shelton, Milea Bagwell, and Curt Hudson received this award.

### **TVA OIG Participates in WBN Plant Tour**

On May 15, our office participated in a tour of WBN. Inspector



General Richard Moore (left photo, first from the left); Deputy Inspector General Ben Wagner; Assistant Inspector General for Investigations Jack Brennan; Special Agents in Charge Paul Houston and Nancy Holloway; Evaluations Director Greg Stinson; Senior Auditor Melissa Conforti; Senior Special Agents J.D. Shelton, Beth Thomas, and Michelle Stafford attended.

The tour was hosted by Senior Vice President of Nuclear Construction



Mike Skaggs (right photo, third from the left) and WBN Site Vice President Tim Cleary (left photo, second from the left) and included representatives from the FBI; the Department of Homeland Security; and the U.S. Attorney's office, including the U.S. Attorney for East Tennessee William Killian. These organizations, along with the TVA OIG, have been instrumental in investigating and prosecuting illegal activities at TVA facilities.



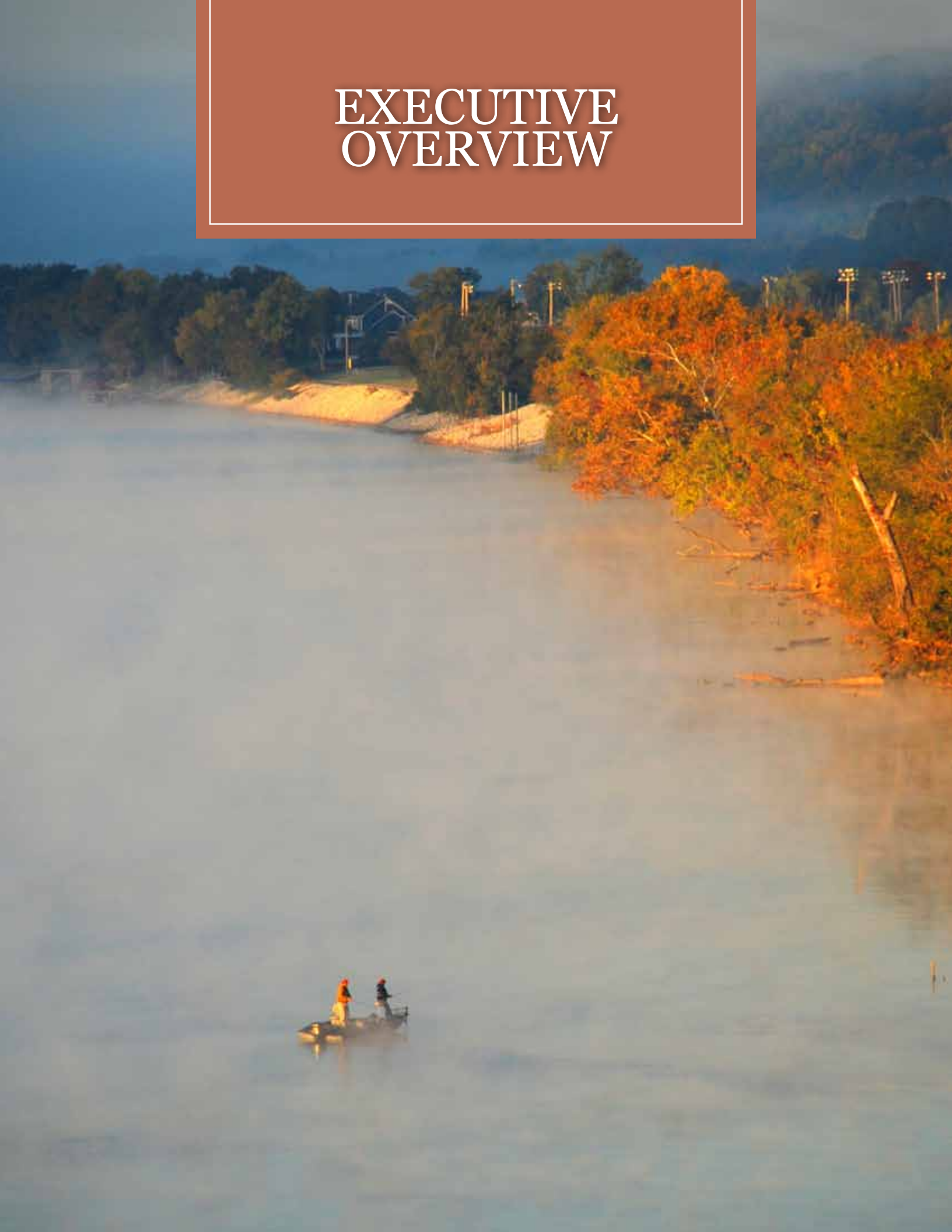


Watts Bar Nuclear Plant





# EXECUTIVE OVERVIEW



# EXECUTIVE OVERVIEW

In this semiannual report, our theme is reflective of our mission to make TVA better. We continue to focus on TVA's challenges in bolstering and maintaining its financial health at a time when TVA is faced with shrinking revenue, growing expenses, and the expectation to live within its means to keep rates low and jobs plentiful through its economic development program in the Tennessee Valley. Our work featured here exemplifies what we do every day to support TVA in achieving its mission, minimizing risk, and planning for a better tomorrow by focusing on the right priorities to help keep TVA performing optimally today.

## AUDITS

During this reporting period, the audit organization completed 30 audits, reviews, and agreed-upon procedures. In addition, Audits completed five other audit-related projects. Our work identified approximately \$2.9 million in questioned costs, helped TVA recover almost \$2.5 million, and identified more than \$36.5 million in funds to be put to better use. This work also identified several opportunities for TVA to improve its programs and operations.

### Contract Audits

To support TVA management in negotiating procurement actions, we completed 15 preaward reviews of cost proposals submitted by companies to provide (1) TVA valley-wide engineering services; (2) hydro modernization and unit rehabilitation services; (3) refueling services, steam generator services, and outage optimization services at TVA's nuclear operating units; and (4) a flexible membrane liner system and cap soil for the dredge cell closure at Kingston Fossil Plant.

Our audits identified \$36.5 million of potential savings opportunities for TVA to negotiate.

We also completed four compliance audits of contracts with expenditures totaling \$42.6 million related to (1) loading coal combustion by-products from the ash spill at TVA's Kingston Fossil Plant onto rail cars and/or trucks for off-site disposal; (2) hydroblasting services at TVA locations; (3) designing, furnishing, and installing hydrated lime injection systems for SO<sup>3</sup> mitigation at various TVA fossil plants; and (4) savings guaranteed to TVA by a contractor for work management improvement services. These audits 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 regulatory activities, compliance with applicable laws and regulations and financial reporting, we completed audits of TVA's

(1) vehicle allowance and assigned vehicle programs, which identified needed improvements in the administration of both the vehicle allowance and assigned vehicle programs; (2) Distributor Compliance assessments where we noted several positive attributes in Distributor Compliance's planning and performance of assessments as well as areas where improvements were needed; and (3) Valley Investment Initiative (VII) program, which found Economic Development (ED) personnel complied with TVA policies and procedures for oversight of program operations; however, TVA oversight of the VII program as a whole could be improved.

In addition to our audit work, we completed two quarterly reviews of the external auditor's compliance with generally accepted *Government Auditing Standards*, where our reviews noted no instances of noncompliance. The Corporate Governance and Finance Audits section begins on page 28 of this report.



## IT Audits

During this semiannual period, we completed four audits in the IT environment pertaining to TVA's (1) controls over modem access to certain transmission assets; (2) application controls for TVA's enterprise asset management software; (3) controls over PII stored on TVA desktop and laptop computers; and (4) IT security and privacy practices as required by the FISMA. We identified areas for improvement in all four reviews and noted that FISMA controls have improved. The IT Audits section begins on page 30 of this report.

## Operational Audits

Operational Audits completed one attestation engagement, three audits, and a congressional request. In the attestation engagement, we applied certain procedures determined by the Center for Resource Solutions (CRS) to TVA's Green Pricing Accreditation Program to provide assurance that TVA was in compliance with the annual reporting requirements of the

program. In the three audits, we identified improvements that could be made in BLN Plant's risk management program, the risk of significant equipment failures in TVA's transmission system, and WBN Unit 2's commodity tracking database. Finally, in response to a congressional request from the Bicameral Task Force on Climate Change, the team identified the existing requirements and directives relating to climate change in legislation, regulations, executive orders, and other directives that apply to TVA. The Operational Audits section begins on page 32 of this report.

## EVALUATIONS

During this semiannual period, Evaluations completed six reviews.

Due to the sensitive nature of one of the reviews, no further discussion is included. The team completed a review of the capital project approval process which identified areas for improvement related to the timeliness of Nuclear Power Group (NPG) project approvals and the forecasting of project schedules. Additionally, we completed a follow-up review of TVA's succession planning and found TVA has made improvements to succession planning; however, areas for improvement still exist. Evaluations also assessed nuclear plant preventive maintenance and the WBN Unit 2 quality assurance program. The review of nuclear preventive maintenance showed reported metrics may not be accurate and that late and

### STATISTICAL HIGHLIGHTS

April 1, 2013 – September 30, 2013

Audit Reports Issued	30
Evaluations Completed	6
Questioned Costs	\$2,915,673
Disallowed Costs	\$646,656
Funds Recovered	\$2,447,422
Funds to be Put to Better Use	\$36,521,892
Funds Realized by TVA	\$2,478,759
Investigations Opened	173
Investigations Closed	158
Recoveries/Savings/Fines/Penalties	\$2,054,100
Other Monetary Loss	\$519,264
Criminal Actions	2
Administrative Actions (No. of Subjects)	18





deferred preventive maintenance was negatively affecting system health. The review of WBN Unit 2 quality assurance found Nuclear Construction Quality Assurance (QA) has generally been effective in its oversight of the construction project; however, a breakdown in the QA program resulted in a lack of oversight in commercial grade dedication. Lastly, Evaluations completed a review of Coal and Gas Operations emergency

preparedness and determined that although progress has been made, improvements could have been implemented more effectively. The Evaluations section begins on page 37 of this report.

## **INVESTIGATIONS**

This reporting period, our investigations resulted in two individuals convicted in federal court on charges including theft of government property and

conspiracy to defraud the U.S. Five people were sentenced on federal charges including major fraud, wire/mail fraud, and workers' compensation fraud. Our investigations resulted in restitution, fees, and projected savings exceeding \$2 million. We opened 173 cases and closed 158. The Investigations section begins on page 43 of this report.

# TVA OIG ORGANIZATION

as of September 30, 2013

**Charles A. Kandt**  
Counselor to the IG

**Richard W. Moore**  
Inspector General

**Ben R. Wagner**  
Deputy Inspector  
General

**W. David Winstead**  
Legal Counsel

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

**Robert E. Martin**  
Assistant Inspector General, Audits & Evaluations

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

**Terri Beatty**  
Manager, Organizational  
Health

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

**David P. Wheeler**  
Deputy Assistant  
Inspector General,  
Audits

**Greg R. Stinson**  
Director, Evaluations

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

**Kathy H. Kirkham**  
Manager, Human  
Resources

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

**Paul B. Houston**  
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 mission. 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 saved TVA millions 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 or whether it is one of our virtual offices supported by Web cameras that allow our employees to telework from home or while traveling. We measure productivity, not where the work is done.

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

The OIG has a field office in the Edney Building in Chattanooga, Tennessee, where the Evaluations unit, members of the Corporate Governance and Finance team, and several Special Agents are located, as well as staffed field

offices in Nashville, Tennessee, and Huntsville, Alabama. We also have office locations at WBN Plant in Spring City, Tennessee; BLN Plant in Hollywood, Alabama; and Sequoyah Nuclear Plant in Soddy-Daisy, Tennessee. Staff work in these locations as needed.

As of September 30, 2013, the OIG had a total staff of 104. The number of personnel located at each staffed office is: Knoxville-82, Chattanooga-17, Nashville-1, and Huntsville-4.

## 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, conference planning, communications facilitation, and IT support.

## AUDITS AND EVALUATIONS

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

The group uses 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



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 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.

➤ Contract Audits has lead responsibility for contract compliance and preaward audits. In addition, this group

performs reviews of TVA contracting processes and provides claims assistance as well as litigation support.

➤ Corporate Governance and Finance Audits has lead responsibility for oversight of TVA's (1) financial statement audit and related services performed by TVA's external auditor and (2) regulatory activities. This group also conducts operational reviews to assess the results as well as the economy and efficiency of TVA's financial programs.

➤ IT Audits has lead responsibility for audits relating to the security of TVA's IT infrastructure, application controls, and general controls

associated with TVA systems. This group also performs operational reviews of the effectiveness of IT-related functions.

➤ 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*

## 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

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

### Evaluations

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

### Contract Audits

- Inflated Proposals
- Contract Overpayments
- Inferior Performance
- Fraud

# MAJOR CATEGORIES OF INVESTIGATIONS



*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 on page 24 shows some representative examples of issues our audit and evaluation projects are commonly designed to identify.

## INVESTIGATIONS

The Investigations team 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*. The Special Agents maintain liaisons with federal and state prosecutors and notify the U.S. Department of Justice (DOJ) 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 above 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.

# REPRESENTATIVE AUDITS



*Kingston Fossil Plant*



# SUMMARY OF REPRESENTATIVE AUDITS

During this reporting period, the TVA OIG completed 30 audits, reviews, and agreed-upon procedures. Our work identified approximately \$2.9 million in questioned costs, helped TVA recover almost \$2.5 million, and identified more than \$36.5 million in funds to be put to better use. This work also identified numerous opportunities for TVA to improve its programs and operations. Below is a discussion of reports issued this period in the following areas: (1) contract compliance audits and preaward reviews, (2) corporate governance and finance audits, (3) IT audits, and (4) operational audits.

## Contract Audits

### Preaward Contract Reviews

To support TVA management in negotiating procurement actions, we completed 15 preaward reviews of cost proposals submitted by companies proposing to provide (1) TVA valley-wide engineering services; (2) hydro modernization and unit rehabilitation services; (3) refueling services, steam generator services, and outage optimization services at TVA's nuclear operating units; and (4) a flexible membrane liner system and cap soil for the dredge cell closure at TVA's Kingston Fossil Plant. Our audits identified \$36.5 million of potential savings for TVA to negotiate. The savings opportunities were primarily related to overstated indirect cost recovery rates and excessive profit rates.

### Contract Compliance Reviews

During this semiannual period, we completed four compliance audits

of contracts with expenditures totaling \$42.6 million and identified potential overbillings of \$2.9 million. Highlights of our completed compliance audits follow.

- We audited \$19.3 million in costs billed by a contractor for loading coal combustion by-products from the ash spill at the Kingston Fossil Plant onto rail cars and/or trucks for off-site disposal. We determined the contractor overbilled TVA \$2,187,410 which included (1) \$2,123,694 in overbilled and unsupported standby costs (charges for time periods when equipment and/or personnel were idle and no other productive work could be performed) and (2) \$63,716 in overbilled tonnage costs due to excessive tons of coal combustion by-products billed.
- We audited \$2.3 million in costs billed by a contractor for hydroblasting services at TVA locations. We determined

the contractor overbilled TVA \$397,519 as follows.

- \$323,654 was overbilled for equipment and labor costs, including (1) \$212,443 for ineligible equipment and labor costs; (2) \$96,975 for excessive crew costs; and (3) \$14,236 in fuel surcharges, per diem, and labor escalation associated with the ineligible equipment and labor costs that were billed.
- \$73,865 of ineligible mobilization/demobilization costs were billed, including (1) \$64,307 in setup and breakdown costs not provided for by the contract and (2) \$9,558 in mobilization/demobilization costs billed for ineligible equipment.

Additionally, the contractor was overpaid \$38,066 because certain invoices were paid twice by TVA.

➤ We audited \$4.8 million in costs billed by a contractor to design, furnish, and install hydrated lime injection systems for SO<sup>3</sup> mitigation at various TVA fossil plants. We determined the contractor overbilled TVA \$292,678, including (1) \$150,147 of ineligible sales commissions, (2) \$89,155 of ineligible labor costs, (3) \$39,878 for a duplicate payment made by TVA, and (4) \$13,498 of ineligible subcontractor markup costs.

➤ We audited the savings guaranteed to TVA by a contractor for work management improvement services. The contractor guaranteed efficiency and productivity gains would result in a minimum total cost savings to TVA of \$17,971,760. Although we did not find evidence of noncompliance with the contract, we could not determine if the contractor achieved the guaranteed cost savings because TVA did not have appropriate controls in place to ensure the validity and

consistency of metrics used to measure improvements. Accordingly, we could not determine the value TVA received from the \$16.2 million paid to the contractor.

## Corporate Governance and Finance Audits

During this semiannual period, Corporate Governance and Finance Audits completed audits of TVA's (1) vehicle allowance and assigned vehicle programs, (2) Distributor Compliance assessments, and (3) VII program. In addition, the team provided oversight of the work of TVA's external auditor.

### Vehicle Allowance and Assigned Vehicle Programs

TVA provided biweekly vehicle allowances to eligible officers and key managers in accordance with TVA's Vehicle Allowance Program Guidelines that became effective April 1, 2006. Additionally, TVA maintains a light fleet of about 2,900 vehicles, which are available for assignment to any TVA employee with a business need. Business units with an assigned vehicle pay a monthly fee to TVA Fleet Services for use of the vehicle. In FY 2011, TVA paid \$648,050 in vehicle allowances to 65 employees. Also, business units paid approximately



\$9.7 million in monthly fees during FY 2011 to Fleet Services for use of assigned vehicles.

We reviewed TVA's vehicle allowance and assigned vehicle programs to determine (1) if TVA employees receiving vehicle allowances met established eligibility requirements and if proper controls were in place to determine eligibility criteria were met, (2) if TVA employees with assigned vehicles met established criteria for having an assigned vehicle and if proper controls were in place to determine eligibility criteria were met, as well as (3) the cost effectiveness of both the vehicle allowance and assigned vehicle programs.

Our audit determined TVA did not document how officers and key managers who were paid vehicle



allowances met the “business need” eligibility criteria specified in TVA’s Vehicle Allowance Program Guidelines. Based on the available data, it appeared a large percentage of the personnel who received vehicle allowances may not have met TVA’s stated criteria of significant business related travel. We also noted several administrative matters within the guidance that were not followed. Additionally, TVA’s Fleet Services management did not maintain adequate documentation to validate the adequacy of TVA controls over vehicle assignments.

Finally, we were unable to determine which program was more cost effective because data obtained during the audit indicated the cost differential between the two programs was small. However, overall cost savings may be available because there are individuals who either receive a vehicle allowance or have an assigned vehicle who do not appear to have a business need for the allowance or vehicle.

Based on the findings noted above, we made recommendations to TVA management to improve the programs. TVA management generally agreed with our findings and recommendations and the President and CEO approved elimination of the vehicle allowance program. Effective

September 22, 2013, TVA ended the vehicle allowance program and discontinued all vehicle allowance payments. TVA management also agreed to take corrective actions to address issues identified in the vehicle assignment program.

## Distributor Compliance Assessments

TVA established a distributor compliance department within TVA’s Compliance office in the spring of 2011 to perform assessments and assist TVA management and the TVA Board in determining whether distributor customers were in compliance with the TVA Wholesale Power Contract and other regulatory policy.

We performed an oversight audit of Distributor Compliance assessments completed through December 31, 2012, to determine if (1) the assessments were adequately planned and performed to verify distributors’ compliance with key provisions of the Wholesale Power Contract; (2) the assessments were performed in accordance with the Distributor Compliance Charter and applicable policies; and (3) there was adequate segregation between the groups charged with developing, interpreting, and implementing TVA’s retail regulatory policy (Retail Regulatory Affairs) and assessing distributor compliance with TVA’s regulatory

policies and procedures (Distributor Compliance).

Our audit of Distributor Compliance assessments issued through December 31, 2012, found several positive attributes in Distributor Compliance’s planning and performance of assessments, but we also noted areas where changes were needed to improve (1) planning and performance and (2) compliance with the Distributor Compliance Charter and other applicable professional standards and policies regarding the assessment reports. More specifically, we identified improvements could be made with scope statements in reports, sampling documentation, sampling methodologies, report recommendations that would help detect or prevent identified issues from recurring, areas tested, and ensuring distributors were made aware of all issues identified during assessments.

Finally, we determined there was adequate segregation between Retail Regulatory Affairs and Distributor Compliance. However, certain work that was being performed by each TVA group at the distributors was duplicative.

Based on the findings noted above, we made recommendations to TVA management to improve Distributor Compliance’s



assessments. TVA management generally agreed with our findings and recommendations and is taking corrective actions.

### Valley Investment Initiative Program

TVA introduced the VII program as a means to incentivize customers to invest in the economic development of its geographic area. The OIG included a review of the VII program on its annual audit plan as the budget for this program has significantly increased since its inception in 2009. Our objective was to determine if TVA was exercising adequate oversight over the VII program.

Our audit determined ED personnel complied with TVA policies and procedures for oversight of program operations; however, TVA oversight of the VII program as a whole could be improved. TVA has not established performance measures specific to the VII program nor performed an evaluation study to determine the effectiveness of the program. We also noted customer compliance audits could be improved by adding independent verification of customer reported information.

Based on the findings noted above, we made recommendations to TVA management to improve oversight of the VII program. TVA management generally agreed with

our findings and recommendations and is taking corrective actions.

## IT Audits

During this semiannual period, we completed four audits in the IT environment on modem access controls to certain transmission assets; application controls for TVA's enterprise asset management software; controls over TVA PII stored on TVA desktop and laptop computers; and IT security and privacy practices as required by FISMA.

### Modem Access Controls

The OIG performed this audit to determine the effectiveness of authentication controls for devices with modem access to certain transmission assets. In summary, we found TVA does not have a single source that tracks phone numbers and what is tracked is incomplete. Using the phone numbers which were available, we identified one device which was accessible using a default password which TVA management subsequently reconfigured. We recommended TVA management create a central repository for phone number assignments and develop policies/procedures to populate and update the repository, and take steps to ensure transmission assets are properly secured by performing a review of the current settings for

all revenue meters in service. TVA management agreed to implement our recommendations to improve the inventory control weaknesses identified.

### Enterprise Asset Management Software Tool Logical Controls

The OIG audited TVA's enterprise asset management software tool (EAM) to determine the adequacy of data processing and application controls ensuring data integrity and reliability and logical security controls allowing only authorized access to system resources and protection of sensitive information. In summary, the OIG determined EAM data processing and application controls to ensure data integrity and reliability were generally adequate. However, EAM logical security controls to ensure authorized access to system resources and protection of sensitive information needed improvement. TVA management agreed with our findings and recommendations for improvement.

### Data Protection Controls

In response to previous OIG audits of the Privacy Program, TVA has improved privacy review processes and increased the use of encryption for storage of data containing PII. As a follow up to the OIG's biennial review of TVA's



controls to protect PII, the OIG performed this audit to evaluate controls the TVA has in place to protect PII stored on corporate laptop and desktop computers. We tested compliance with TVA Standard Programs and Processes (SPP), Information Management Policy, on storing PII within the designated encrypted area on TVA-issued desktop and laptop computers. According to that policy, users should store PII in the user's "My Documents" folder on their assigned computer. In summary, we found:

- A large percentage of the computers we tested contained PII that was stored outside of the encrypted "My Documents" folder.

- TVA's inventory controls of active desktops and laptops need improvement.

During the audit, TVA management completed remediation actions to correct the discrepancies identified during our testing and improved the inventory controls. TVA agreed to review its options for improving security controls on TVA-issued desktop and laptop computers.

### **FISMA Controls**

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, TVA and the OIG are required to report on agency-wide IT security and privacy practices annually.

In our 2013 review of TVA's information security program, we determined the program met the requirements in the control areas of (1) continuous monitoring management, (2) configuration management, (3) incident response and reporting, (4) security training program, (5) plans of actions and milestones, (6) remote access management, (7) contingency planning, (8) contractors systems, and (9) security capital planning. Two of the control areas (identity and access management and risk management) are multiyear projects, and the actions completed to-date complied with FISMA requirements. Additionally, we identified a process improvement in the area of advanced security training. TVA agreed to implement the process improvement.

## Operational Audits

During this semiannual reporting period, Operational Audits identified improvements made in BLN's risk management program and identified opportunities to improve WBN's commodity tracking database. The team also assessed whether TVA was adequately addressing the risk of significant equipment failures in its transmission system and applied certain procedures to provide assurance that TVA was in compliance with the annual reporting requirements of the Green Pricing Accreditation Program. Finally, the team identified applicable requirements and directives related to climate change in response to a congressional request.

### Bellefonte Nuclear Plant Risk Program

The BLN site is located on a 1,600-acre peninsula on the western shore of Gunter'sville Reservoir near the town of Hollywood, Alabama. Construction on BLN Unit 1 was suspended in 1988 in response to declining growth in demand for electric power. Subsequently, in October 2005, at the request of TVA, the Nuclear Regulatory Commission (NRC) withdrew the BLN Unit 1 construction permit.

In August 2008, due to changes in the economics of power

generation, TVA requested the NRC reinstate the BLN construction permit so the engineering and economic feasibility of completing Unit 1 could be further evaluated. After the permits were reinstated in March 2009, TVA's Nuclear Construction (NC) organization (formerly Nuclear Generation Development and Construction) initiated a detailed scoping, estimating, and planning (DSEP) study with the objective to determine with a high level of confidence the scope, cost, and schedule to complete BLN Unit 1. As part of the DSEP effort,

totaling \$500 million or more were published in the final DSEP study dated August 20, 2010.

On August 18, 2011, the TVA Board approved the completion of BLN Unit 1. The project was approved with a cost not to exceed \$4.9 billion. The approved \$4.9 billion included a \$537 million contingency which included the \$500 million previously requested in addition to another \$37 million related to potential modifications required due to the nuclear disaster at Fukushima. Since then, TVA has announced its decision to review

*Bellefonte Nuclear Plant*



BLN project risk reviews and risk management activities were conducted, culminating in a project risk register which contained a list of risks, mitigation activities, and associated contingency amounts. Risk descriptions and associated contingency amounts for each risk

the estimates related to BLN, and the project estimates are expected to change. According to TVA, BLN's budget will be reduced from approximately \$182 million in FY 2013 to \$66 million in FY 2014. Activities to continue in FY 2014 include developing and validating



the estimate to complete construction, gathering information to support the integrated planning process, and protecting plant records and documents.

The audit focused on the adequacy of TVA's consideration of risks associated with the construction of BLN Unit 1 and included BLN construction risk management program activities in place from August 2009 through November 2011 and subsequent changes to the program. Other risks associated with the project that were not managed and mitigated by the project-specific construction risk management program included the risk that TVA would not need the power when construction was completed, and financing the project would cause TVA to bump up against its statutorily imposed debt ceiling. These risks were not managed in the project-specific construction risk management program and, therefore, were not included in our audit.

Earlier program failures indicated significant improvements were needed. Specifically, the program lacked strong continuity in the risk management process which affected program effectiveness, including ineffective guidance and oversight of BLN's risk program and documentation of key risk information necessary for

facilitation of the risk program. Our audit found a renewed emphasis on the risk management program and a new risk manager had been assigned to pilot and implement a new risk management process. As part of these renewed efforts, the new risk manager took steps to address needed improvements in guidance, oversight, and documentation. We verbally communicated additional actions that could be taken to ensure history does not repeat itself as the project moves forward, including clarification and clear communication of whether risk mitigation activities are to be included in the contingency estimate controlled at the project level, and the management reserve amount controlled at the corporate level, and what this means in terms of the project's estimated cost.

### **WBN Plant Unit 2 Construction Project Commodity Tracking Process**

In late 2011, TVA amended its engineering, procurement, and construction contract with Bechtel Power Corporation for WBN Unit 2 to ensure construction progressed in the most efficient and cost-effective manner possible. With this change, TVA became responsible for overall project management and direction, which included developing, monitoring, maintaining, and revising, as

needed, the overall resource-loaded project schedule. In April 2012, WBN Unit 2 management issued new estimates to complete the project which provided ranges for costs and schedule to finish the work at WBN Unit 2 in order "to control, monitor, and maintain the basis of the estimate." This included revising the "commodity charging and reporting practices to more accurately reflect the method in which final work is being completed" and linking the estimate to complete the project to the timeframe in "the work schedule and commodity performance indicators established." Commodity charging and reporting includes capturing and tracking progress of the installation, de-installation, and modification of components, such as hangars, conduit, cable, and welds. Accurate and timely tracking of commodities is important to the project for various reasons, including calculating the cost performance index and gauging the project's progress.

In July 2012, WBN Unit 2 developed and implemented a commodity tracking database (CTD) to capture and track progress on the installation of commodities. WBN Unit 2 management requested the OIG review the commodity tracking process implemented for the WBN Unit 2

construction project. We identified minor vulnerabilities in the commodity tracking process at the WBN Unit 2 construction project with regard to potential duplication of data entry and review and made recommendations for corrective action.

### **Significant Equipment Failure Risk – Energy Delivery**

In July 2010, TVA instituted an enterprise risk management (ERM) policy that provides guidance on risk management activities within TVA. The policy states the purpose of ERM at TVA is to protect the value of the enterprise and realize opportunities for stakeholders by promoting the efficient and effective management of risk across TVA. The policy also states strategic business units within TVA are responsible for managing risks within their business operations and should identify and assess risks associated with achieving their business objectives and develop risk management plans that mitigate risk based on TVA ERM guidelines.

As required by the ERM policy, TVA's Energy Delivery organization identified risks that may prevent the organization from achieving its objective of safe and reliable delivery of electric power to TVA customers. One risk identified by Energy Delivery was significant equipment failures which the

organization defined as equipment failure and forced outages due to aging transmission lines and substations. The mitigation plan was to reduce risk by focusing on long-term asset management to make failures less likely and more manageable. We noted that most assets were replaced due to obsolescence or failure, but Energy Delivery intended to work toward a replacement plan that considers the condition, age, and importance of assets to set replacement priorities. The fourth quarter, FY 2012, version of the ERM risk map included four specific actions to mitigate the risk: (1) reclaim the rights-of-way of high-voltage transmission lines, (2) establish a pilot project for an asset risk management system, (3) develop a system to prioritize transformer replacement, and (4) establish an asset preservation program for replacing equipment.

Because of the importance of a reliable transmission system to TVA, the OIG audited the risk of significant equipment failure in Energy Delivery to assess whether risk mitigation plans were established and properly designed to achieve the desired results and operating effectively as intended. We also planned to identify opportunities to improve mitigation strategies for reducing significant equipment failure risk in Energy Delivery.

The audit determined that while the identified mitigation strategy and supporting actions were generally designed to address the risk, the actions were not effective in reducing the risk. While the risk was not reduced, we determined Energy Delivery was managing the risk as funding permitted. Mitigating actions completed and no longer appearing on the risk map did not result in a reduction in the risk rating. In fact, the consequence rating and the projected trend have increased over time. The audit also identified opportunities to enhance the risk mitigation strategy documentation.

The report recommended that TVA management determine the level of financial risk it is willing to accept from aging transmission assets and either provide adequate program funding where possible to mitigate or accept the risk, and improve risk mitigation documentation.

### **Agreed-Upon Procedures for Green-e Energy Program FY 2012**

TVA's Green Power Switch Program produces electric power from renewable resources such as solar, wind and methane gas, and adds such sources to TVA's power mix. Both solar and wind power are produced in sufficient quantities to qualify for accreditation standards administered by the CRS. The OIG completed agreed-upon

procedures to assist the CRS in determining TVA's compliance with the annual reporting requirements of the CRS Green Pricing Accreditation Program for the year ended December 31, 2012. These procedures included steps to verify that the renewable energy supply was sufficient to meet sales; products met the Green-e criteria and stated product content; and marketing as well as product information was accurate and communicated to customers. The results of the procedures verified that TVA's Green Power sales were based on electricity generated or acquired from eligible renewable sources and otherwise met the above aspects. CRS was provided with results of the procedures applied.

## Congressional Request on Climate Change

In response to a congressional request from the Bicameral Task Force on Climate Change, we identified the existing requirements and directives relating to climate change in legislation, regulations, executive orders, and other directives that apply to TVA. To determine whether TVA was meeting the applicable requirements and directives, we compared planned and current action items in TVA's Climate Change Adaptation Action Plan and TVA's Strategic Sustainability Performance Plan to

the requirements and identified potential gaps.

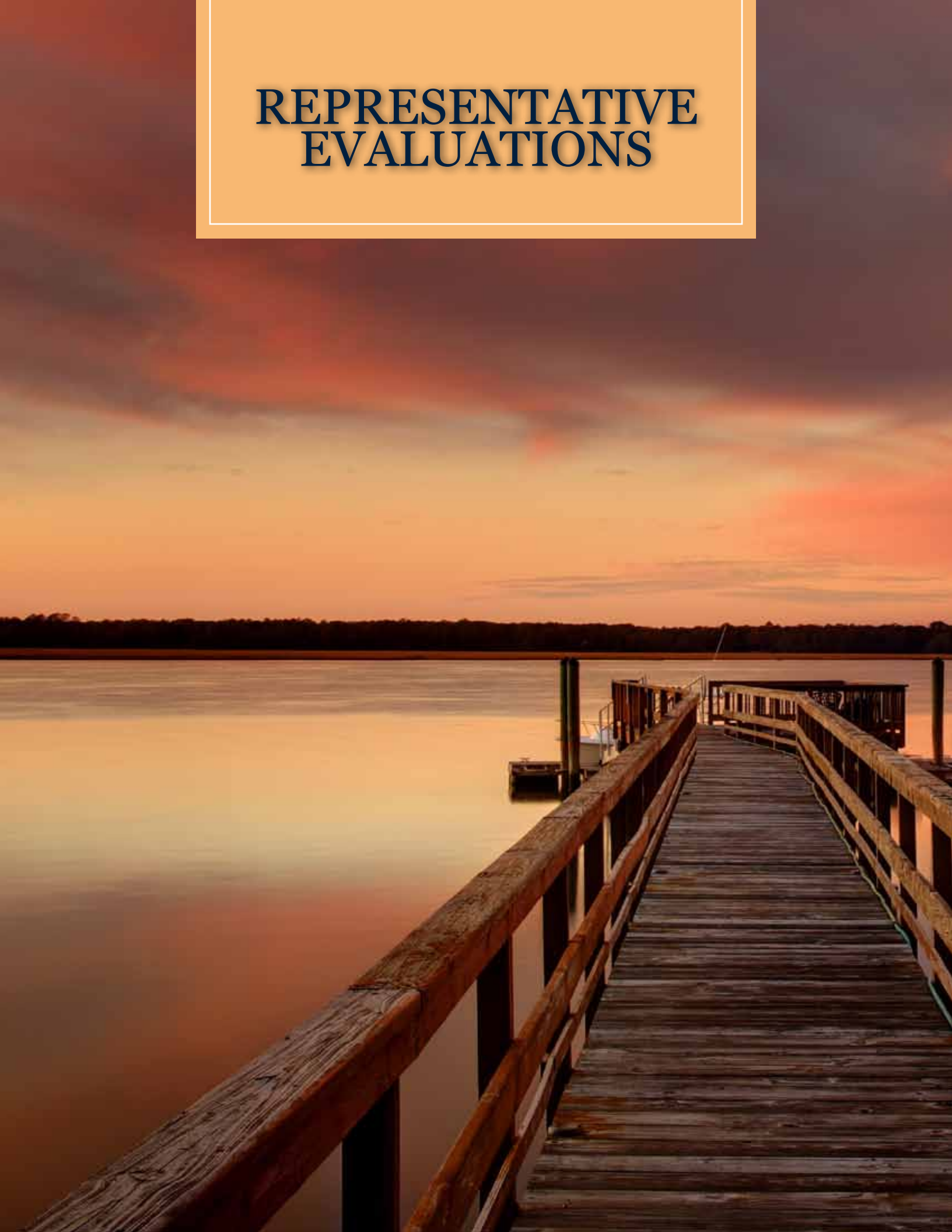
TVA demonstrated that appropriate actions and plans were in place to address all the requirements and directives we identified. TVA has sufficient authority to address potential impacts in the Southeast and especially to the Tennessee Valley river system. TVA was established by Congress in 1933 to address a wide range of environmental, economic, and energy issues in the region; and throughout its history, TVA has been able to manage its generation mix within the authorities Congress granted. With TVA's vision for 2020, greater focus is being placed on cleaner energy sources, reducing reliance on coal generation, and improving energy efficiency in facilities and

with customers. These and other efforts planned by TVA under the authorities granted by the TVA Act can reduce emissions and contribute to regional resilience from the effects of climate change. TVA incorporates plans, such as the Integrated Resource Plan, into ongoing business planning processes. TVA is implementing those plans and taking the steps to effectively meet the vision of a more balanced generation portfolio. These efforts can reduce TVA's carbon footprint in the Southeast and increase sustainability practices over time.





# REPRESENTATIVE EVALUATIONS



# SUMMARY OF REPRESENTATIVE EVALUATIONS

During this semiannual period, Evaluations completed six reviews. Due to the sensitive nature of one of the reviews, no further discussion is included. Evaluations completed a review of the capital project approval process. The team also completed a review of TVA's succession planning and two reviews of TVA's nuclear program—one of preventive maintenance and the other of the WBN Unit 2 quality assurance program. Additionally, the team completed a review of Coal and Gas Operations emergency preparedness and response. More information on each of the reviews can be found below.

## Capital Projects Approval Process

The OIG initiated this review as a follow up to the OIG's review of the project management software, PowerPlant. During that review, we identified several areas for further analysis related to timely project approvals, delegated approvals, and project charges allocated incorrectly. The objective of this review was to determine if the TVA capital project approval process was (1) efficient and timely, (2) performed in accordance with TVA policies, and (3) aligned with industry best practices.

Our review found the capital projects approval process was generally timely, performed in accordance with TVA policies, and TVA had incorporated best practices into the approval process. However, we found improvements needed in the timeliness of NPG project approvals and forecasting of project schedules. For example, we found the capital project approval process for NPG took

more than twice as long as the TVA average. We also found 31 percent of NPG projects reviewed came in more than 25 percent behind the forecasted schedule. While there were also projects that came in ahead of schedule, the degree to which schedules were missed indicated there was potential for more accurate planning related to forecasted schedules.

We recommended the Vice President of Nuclear Business Operations evaluate the approval process for NPG capital projects to identify opportunities to improve the timeliness of project approvals. We also recommended the Director of Capital Productivity and Economic Analysis evaluate the planning and forecasting process to identify improvement in these areas.

## Succession Planning

TVA has stated its future depends on effective succession planning and faces a potential workforce challenge due to retirement within

the next five years. Also, TVA has identified a risk of senior leadership attrition that could leave a gap in key positions. This review was conducted as a follow up to a previous OIG review of TVA's succession planning to further assess TVA's succession planning.

Our review found TVA has made improvements to succession planning; however, areas for improvement still exist. In addition, we found TVA could strengthen some best practices. Improvements include the use of a talent grid, implementation of succession planning metrics, and a more accurate attrition prediction model. Areas for improvement include: (1) the follow-up of action items identified in talent reviews including the development of organizational action plans; (2) cross-pollination of talent; (3) reduction of talent review preparation time; and (4) frequent revisions of the talent review and succession planning process, which have caused frustration among

TVA management. Additionally, TVA is working to address areas of concern regarding populating the succession plans with realistic candidates.

As part of this review, we identified succession planning best practices and compared them to the processes TVA currently has in place. Of ten best practices identified, we found TVA could strengthen executive ownership, onboarding of succession candidates, and transparency of the succession planning process. In addition to these findings, all TVA managers who were interviewed expressed concerns with the use of forced distribution for the talent grid.

We recommended the Vice President, Human Resources, (1) work in conjunction with TVA organizations to improve follow-up actions by developing organizational action plans as stated in SPP, Succession Planning; (2) evaluate options to incorporate cross-pollination of TVA organizations into the succession planning process, including a unified succession planning system that could also reduce talent review preparation; (3) determine if changes and initiatives to the talent review and succession planning process are working and intended results are achieved before additional changes are made;

(4) complete and implement the SPP, Strategic Workforce Management, including a unified definition for a mission critical position; (5) work with TVA management to develop a plan that promotes executive ownership of talent development; (6) consider developing formalized transition plans, similar to the NPG in other organizations; and (7) clarify the succession planning process by producing a high-level, TVA-wide communication that describes the talent review and succession planning process and considers the merits of communicating performance and staff potential.

### **Nuclear Power Group Preventive Maintenance**

Preventive maintenance (PM) is important to the reliable operation of assets. As a result of recent issues with nuclear performance, we conducted a review of NPG's PM program. The objective of our review was to determine if nuclear plant PM has been performed in accordance with established schedules and, if not, what effect the deviations are having.

Our review found that reported PM metrics may not be accurate. We were unable to determine the actual number of times PM was performed late or deferred for TVA's three nuclear plants. During our review, we identified several areas of concern that raised

questions about the validity of the reported PM metrics. For calendar year 2012, we were provided two sets of PM metrics for each site. There were differences in the data sets, and some were significant. TVA personnel were unable to reconcile the two sets of metrics. This made it impossible to determine actual PM performance and what should have been reported. These issues could impact the value of the NPG equipment reliability index that is part of NPG's Winning Performance Scorecard for FY 2013.

We found the deviations from PM schedules were negatively affecting system and component health. Sixteen of 34 system health reports and four of eight component health reports we reviewed listed PM as an issue. While PM program health has historically been rated poorly, there has been improvement recently.

TVA started a preventive maintenance optimization (PMO) program to bring its PM program in line with industry standards. Due to slow progress at all three plants, escalations were filed to raise the concern to a higher level. NPG SPP, Governance, Oversight, Execution, and Support Program, provides an escalation process to address performance weaknesses where sites are not implementing timely actions to improve performance.



We recommended the Executive Vice President and Chief Generation Officer, Generation, take steps to (1) define methods for consistent and accurate reporting of PM metrics across the nuclear fleet, including a step for verification and retention of documentation for items manually excluded; (2) address the issue with the “counts as deferral” flag used in PM tracking; (3) perform an analysis to determine what impact inaccurate PM data could have on the equipment reliability index calculation for FY 2013 winning performance; (4) reduce deviations from PM schedules; (5) take necessary actions to prevent recurring PMO implementation problems resulting from lack of site support; and (6) expedite PMO efforts. TVA management agreed with our findings and recommendations.

### WBN Unit 2 Quality Assurance Program

As a result of delays and overruns in the TVA WBN Unit 2 construction project, questions have been raised about the quality of the work performed. NC QA plays a key role in ensuring that work completed meets high-quality standards. Title 10, part 50, of the Code of Federal Regulations, Domestic Licensing of Production and Utilization Facilities, specifies 18 quality assurance criteria for nuclear power plants and fuel reprocessing plants. “Quality



assurance” comprises all those planned and systematic actions necessary to provide adequate confidence that a structure, system, or component will perform satisfactorily in service. The objective of our review was to determine if NC QA was effective in its oversight of the WBN Unit 2 construction project.

We found NC QA was generally effective in its oversight of the construction project; however, a breakdown in the QA program resulted in a lack of oversight in one area. With the exception of the breakdown in QA discussed in more detail that follows, no other significant issues were identified. In addition, we reviewed documentation that showed NC QA conducted oversight of the contractors’ QA activities. As issues were identified, problem evaluation reports were generated to address those issues.

The breakdown in the QA program which was related to the commercial-grade dedication program was identified by the NRC. Specifically, there was no oversight of the commercial-grade dedication program by QA since 2008. In response, TVA conducted an evaluation to see if problems existed in other areas. TVA’s evaluation found a few areas that required minor adjustments, and those adjustments were made. Furthermore, TVA assembled an independent, technical team to review commercial-grade dedication packages. As of May 2013, no significant issues had been identified.

While the turnover of one system had occurred, a process for transitioning the authority for the execution of the QA program from the contractor to NC QA had not been implemented, which could limit the effectiveness of

NC QA's oversight efforts. The process for transition of authority from the contractor to NC QA will provide evidence the construction phase QA requirements in the Nuclear Quality Assurance Plan have been met and will also help to prevent any steps or reviews from being missed. Therefore, we recommended the Senior Vice President, NC, make implementing the process for the transfer of authority for the execution of the QA program from the contractor to NC QA a priority. TVA management agreed with our findings and recommendation.

## Coal and Gas Operations Emergency Preparedness and Response

There have been a number of recent incidents requiring emergency response at TVA fossil plants, including the ash spill at Kingston Fossil Plant and fires at multiple plants. This review was initiated to assess TVA's coal and gas fleet's emergency preparedness. The objective of the review was to determine if Coal Operations and Gas Operations have made progress in their Emergency Preparedness and Response Program since the Kingston Fossil Plant ash spill. This review looked at the current status of emergency preparedness with respect to both Coal Operations and Gas Operations.

Our review found that although progress has been made in emergency preparedness and response, improvements could have been implemented more effectively. In addition, opportunities to improve the program still exist in the areas of site consistency and training. Through interviews and review of documentation, we found a lack of consistency in how emergency preparedness is handled between the sites. Also, training more personnel on the National Incident Management System and adding training opportunities could build a more in-depth emergency preparedness program. An additional concern was raised during interviews about the responsibilities of the Shift Operations Supervisors. The roles specified for Incident Commanders are generally in addition to their jobs as Shift Operations Supervisors, and there were concerns that the training required a significant time commitment in addition to the daily work load.

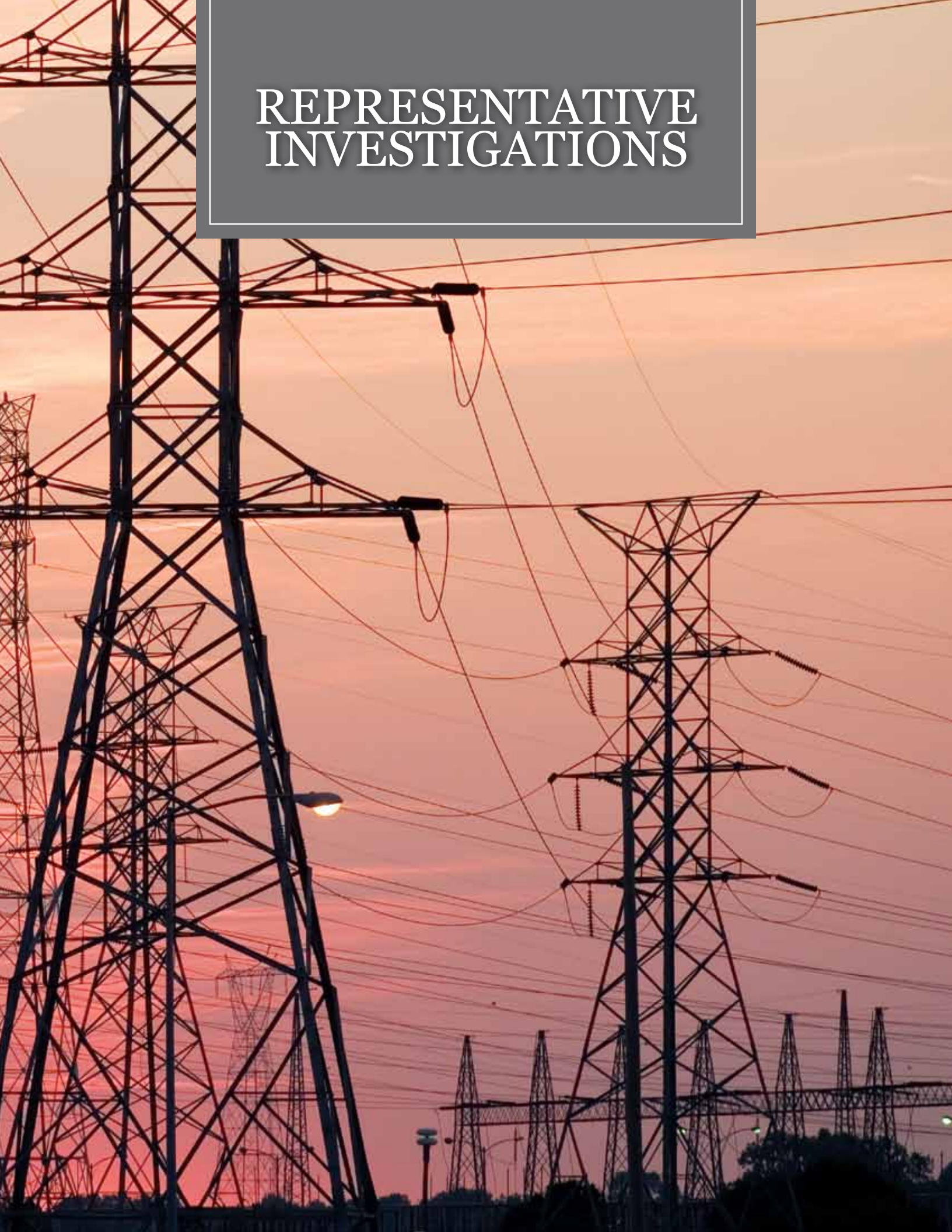
We recommended the Senior Vice President, Engineering, Environmental, and Support Services (1) take steps to increase the consistency of the Emergency Preparedness and Response Program including (a) revising emergency plans to include consistent information in a concise, easily accessible format, and (b) communicating with each site's

local responders to determine resource needs and assist with planning; (2) continue to work toward a more in-depth emergency preparedness program through the three-phase training program; and (3) work in conjunction with the sites to (a) consider adding the site-specific emergency response plan into training, drills, and/or tabletop exercises to provide more experience with emergency response plans, and (b) evaluate ways to balance the time commitments between the roles of Shift Operations Supervisor and Incident Commander or designate another position to serve as Incident Commander. TVA management agreed with the findings and recommendations in the report except for the finding regarding time commitment for the Shift Operations Supervisor. According to TVA management, this is a concern, but it appears to be an isolated comment and not a widespread condition. However, there are plans to investigate the time commitment for training and work-load balance of the Shift Operations Supervisor.





# REPRESENTATIVE INVESTIGATIONS



# SUMMARY OF REPRESENTATIVE INVESTIGATIONS

This reporting period, our investigations resulted in two individuals convicted in federal court on charges including theft of government property and conspiracy to defraud the U.S. Five people were sentenced on federal charges including major fraud, wire/mail fraud, and workers' compensation fraud. Our investigations resulted in restitution, fees, and projected savings exceeding \$2 million. We opened 173 cases and closed 158. Representative highlights of our activities follow.

## Guilty Plea of Former TVA Vice President

In February 2013, a federal grand jury returned an 11-count superseding indictment against Masoud Bajestani, former TVA WBN Unit 2 Vice President, charging him with conspiracy, violations of the IEEPA and the Iranian Transactions Regulations, making a false statement to a federal agency, international money laundering, and filing false income tax returns.

On September 4, 2013, Mr. Bajestani pled guilty to conspiracy to violate the IEEPA and Iranian Transactions Regulations, and two counts of filing false income tax returns. He also agreed to forfeiture of \$600,000 in U.S. currency, representing the funds used to promote the specified unlawful activity.

Sentencing is set for January 2014. Mr. Bajestani faces a maximum penalty of five years in prison for conspiracy to violate the IEEPA and three years for each count of filing

a false tax return. He also faces a maximum fine of \$250,000 on each count.

This investigation was conducted by TVA OIG, Homeland Security Investigations, and Internal Revenue Service's Criminal Investigation Division.

## Nepotism and Conflict of Interest Allegations Against TVA Board of Directors Chairman

We investigated allegations TVA Board Chairman William "Bill" Sansom had a relative working at TVA in violation of nepotism policy and, more critically, that Mr. Sansom's personal financial interests and position at TVA constituted a conflict of interest.

The nepotism claim was unfounded. An employee bearing the same name as a member of Mr. Sansom's immediate family is, in fact, unrelated.

Federal conflict of interest law prohibits federal officials and employees from acting in their official capacities on particular matters affecting personal financial interests. No evidence was found to support the allegation Mr. Sansom had done so.

In addition to the conflict of interest law, TVA has a policy prohibiting TVA Board members from owning investments in distributors, entities in the electricity business, and companies adversely affected by TVA's success. None of Mr. Sansom's financial interests fell into these categories.

## Hatch Act Violation

The Hatch Act (5 U.S. Code, Sections 73212-7326) was passed to protect federal employees from political pressures that might affect their careers as employees of the federal government and governs the types of political activities in which federal employees may participate. While most employees are permitted to engage in a



variety of political activities, they are prohibited from engaging in political activity while on-duty, or otherwise under the auspices of their official position, and from using federal resources for partisan political discourse. The U.S. Office of Special Counsel (OSC) has primary jurisdiction over Hatch Act violations.

We received information that, during the last presidential election period, two employees used TVA resources to send politically charged e-mail *en masse* that included references questioning Mormonism, Mitt Romney's tax promises, and questioning how "dumb" a person would have to be to belong to the Democratic Party, all in violation of the Hatch Act. Both individuals had previously undergone required TVA Ethics training, which includes information on the Hatch Act.

We referred this matter to the OSC. Its investigation determined the two violated the Hatch Act when they disseminated e-mails directed at the success or failure of a political party or partisan political candidate while on duty and in the federal workplace. The OSC declined to pursue disciplinary action at this time in lieu of warning letters being issued to the individuals. Following our Report of Administrative Inquiry, TVA management issued the two individuals written warnings for violating both the Hatch Act and TVA policy.

## Government in the Sunshine Act – Selection of President and Chief Executive Officer

We received a complaint alleging the TVA Board failed to give proper notice, as required by the Government in the Sunshine Act (Sunshine Act), when the TVA Board selected William D. (Bill) Johnson as TVA's President and CEO.

Our investigation found the following:

- As a general rule, the Sunshine Act requires public meetings by an executive agency to be open to the public. However, case law establishes that notational voting—a process in which matters to be decided are listed and circulated among eligible voters individually—does not constitute a meeting, and it does not constitute a violation of the Sunshine Act. Furthermore, because notational voting does not constitute a meeting as described in the Sunshine Act, notice is not required.
- In selecting a CEO, the TVA Board decided to use the notational process to protect the privacy of applicants and to address the difficulties of obtaining a quorum at that time.
- The evidence developed by our investigation shows the TVA Board followed notational procedure by not discussing the candidates' qualifications or otherwise deliberating with one another about the selection. TVA Board members voted separately.
- Because the Sunshine Act does not prohibit the notational procedure and the evidence demonstrates that the TVA Board properly used that procedure, the TVA Board did not violate the Sunshine Act.

## Civil Agreement Yields Payments to TVA Exceeding \$700,000

TVA OIG conducted an investigation of Signal Industrial Products, Inc. (Signal), a wholesaler of pneumatic and fluid seals, based on allegations received from the Defense Criminal Investigative Service that Signal routinely substituted products sold on contract to TVA. Subsequent investigation by TVA OIG revealed that in addition to substituting products, Signal also overcharged above contract terms for products supplied to TVA. On August 2, 2013, the DOJ entered into an agreement with Signal in which its principals agreed to pay \$750,000 for improper substitution of products without disclosing that information to TVA or Arnold Air Force Base (Arnold AFB),



submission of false records or statements to Arnold AFB, and overcharges to both TVA and Arnold AFB. The \$750,000, less payments to DOJ and the Department of Defense, yields \$727,201 to TVA.

### Prosecution Completed in Gas Card Fraud Case

During a prior reporting period, an investigation revealed a former TVA Materials Handler, Jason R. King, repeatedly allowed members of the general public to use his assigned TVA fuel card to purchase gas for their personal vehicles. The practice involved escorting a nearby fuel customer to a pump, swiping the TVA fuel card, and entering the personal identification number necessary to complete the transaction. Persons obtaining fuel

would then pay Mr. King in cash. Those he solicited to participate in this practice paid Mr. King a deeply discounted price for fuel, which he would keep, and TVA paid the full fuel expenses before it discovered the scheme to defraud.

On April 17, 2013, Mr. King pled guilty to one count of stealing public money by obtaining funds through the unlawful use of the TVA fuel card and was sentenced on September 13, 2013. Mr. King was ordered to pay TVA full restitution of \$10,206 and was sentenced to time served and three years' probation.

### More Than \$500,000 Projected Savings to TVA

Employees at TVA are eligible to receive U.S. Department of

Labor (DOL) Office of Workers' Compensation Program (OWCP) benefits as a result of on-the-job accidents ranging from minor incidents to permanently disabling injuries. Although OWCP manages the program, the benefits are paid by TVA. Permanent OWCP beneficiaries are obligated to report any employment to DOL.

Data mining revealed a former TVA employee, adjudged in the past to have suffered a full loss of wage-earning capacity, earned more than \$190,000 during a two-year period as a skilled technician at a medical supply company. Further investigation revealed the former employee reported his employment to DOL as required; however, his OWCP benefits continued uninterrupted.



We shared our findings with DOL, which reassessed the individual's status and determined him to be fully rehabilitated. TVA is projected to save more than \$500,000 as a result of the former employee's termination of benefits.

### **Waste Identified Exceeding \$500,000**

We investigated allegations that Gillbert Union Boiler-Morrison Knudsen Constructors (GUBMK), a TVA Partnership Alliance

contractor, falsified billing and inspection reports during a fall 2010 outage at Widows Creek Fossil Plant. Ultimately, no instances of falsification or fraud were found; however, various policy and procedural violations by GUBMK regarding access control and accountability were identified. Furthermore, TVA incurred \$519,264 in unnecessary costs associated with this outage, in part due to GUBMK workmanship and management decisions. We

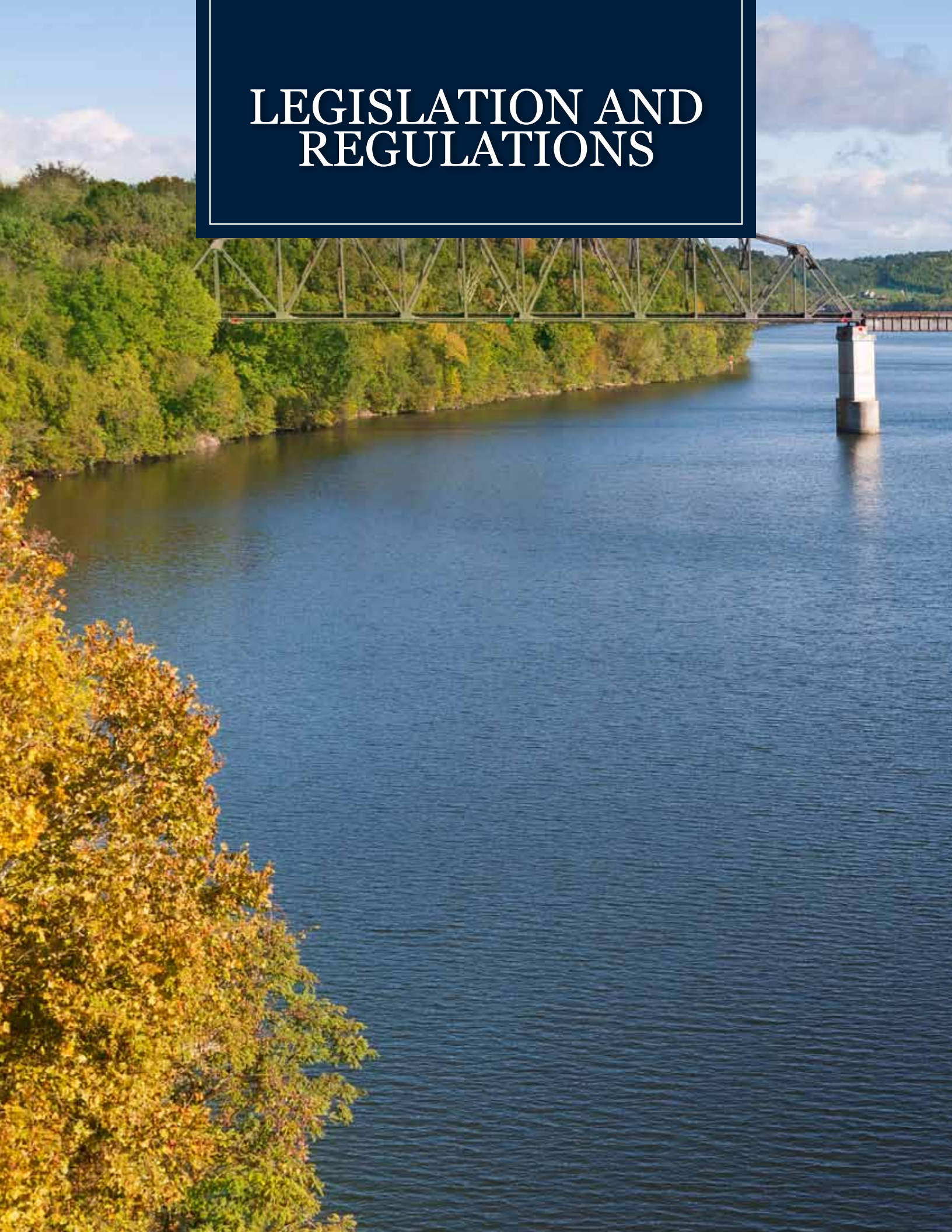
issued a Report of Administrative Inquiry to TVA management. As a result, TVA and GUBMK instituted practices to improve GUBMK performance and ensure ongoing policy compliance.



Kingston Fossil Plant



# 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.

*Fontana Dam*



# APPENDICES





## INDEX OF REPORTING REQUIREMENTS UNDER THE INSPECTOR GENERAL ACT

REPORTING	REQUIREMENT	PAGE
Section 4(a)(2)	Review of Legislation and Regulations	48
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	26-47
Section 5(a)(2)	Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	26-47
Section 5(a)(3)	Recommendations Described in Previous Semiannual Reports in Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4)	Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 5 42-47
Section 5(a)(5) and 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of Audit and Evaluation Reports	Appendix 2
Section 5(a)(7)	Summary of Particularly Significant Reports	26-47
Section 5(a)(8)	Status of Management Decisions for Audit and Evaluation Reports Containing Questioned Costs	Appendix 3
Section 5(a)(9)	Status of Management Decisions for Audit and Evaluation Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 3
Section 5(a)(10)	Summary of Audit and Evaluation Reports Issued Prior to the Beginning of the Reporting Period for Which No Management Decision Has Been Made	None
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions With Which the Inspector General Disagreed	None
Section 5(a)(13)	Information Under Federal Financial Management Improvement Act of 1996	Not Applicable
Section 5(a)(14)	Appendix of results of any peer review conducted by another Office of Inspector General during the reporting period and, if none, a statement of the date of the last peer review.	Appendix 8
Section 5(a)(15)	List of outstanding recommendations from any peer review conducted by another Office of Inspector General, including a statement describing the status of the implementation and why implementation is not complete.	None
Section 5(a)(16)	List of peer reviews conducted of another Office of the Inspector General during the reporting period, including a list of any outstanding recommendations made from any previous peer review that remain outstanding or have not been implemented.	None

## APPENDIX 2

### OIG AUDIT REPORTS ISSUED DURING THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2013

REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
<b>CONTRACT AUDITS</b>				
2013-14958 04/15/2013	Proposal for Flexible Membrane Liner System and Cap Soil for Dredge Cell Closure	\$0	\$0	\$93,549
2012-14775 05/22/2013	Dewolff, Boberg & Associates, Inc.	\$0	\$0	\$0
2013-15014 05/22/2013	Proposal for Engineering Services	\$0	\$0	\$254,000
2013-14951 05/31/2013	Proposal for Hydro Modernization and Unit Rehabilitation	\$0	\$0	\$3,460,000
2011-14276 06/10/2013	MPW Industrial Services	\$435,585	\$0	\$0
2013-15054 06/10/2013	Proposal for Engineering Services	\$0	\$0	\$4,210,000
2013-15011 07/03/2013	Proposal for Engineering Services	\$0	\$0	\$4,017,000
2013-15012 07/08/2013	Proposal for Information Management System – Bellefonte Nuclear Plant	\$0	\$0	\$1,754,300
2013-15098 07/12/2013	Proposal for Engineering Services	\$0	\$0	\$2,531,000
2013-15057 07/24/2013	Proposal for Engineering Services	\$0	\$0	\$1,652,000
2013-15055 07/26/2013	Proposal for Engineering Services	\$0	\$0	\$5,610,000
2013-14947 08/06/2013	Proposal for Hydro Modernization and Unit Rehabilitation <sup>1</sup>	\$0	\$0	\$5,758,943
2012-14741 08/20/2013	Nol-Tec Systems, Inc.	\$292,678	\$39,878	\$0
2013-15056 08/26/2013	Proposal for Engineering Services	\$0	\$0	\$374,900
2013-15203 08/29/2013	Proposal for Engineering Services	\$0	\$0	\$2,050,000
2013-15308 09/10/2013	Review of Existing Rates for a Contract Monetary Limit Increase	\$0	\$0	\$1,034,200
2012-14561 09/12/2013	AMEC Environment and Infrastructure, Inc.	\$2,187,410	\$2,098,775	\$0
2013-15215 09/26/2013	Proposal for Engineering Services	\$0	\$0	\$2,550,000
2013-15245 09/26/2013	Proposal for Engineering Services	\$0	\$0	\$1,172,000
<b>CORPORATE GOVERNANCE AND FINANCE AUDITS</b>				
2012-14669 05/03/2013	TVA's Vehicle Allowance and Assigned Vehicle Programs	\$0	\$0	\$0
2013-14966 08/28/2013	Oversight of Distributor Compliance	\$0	\$0	\$0
2013-14993 09/18/2013	TVA Valley Investment Initiative Program	\$0	\$0	\$0

<sup>1</sup> The contract was subsequently not awarded to this vendor and the \$5,758,943 in savings opportunities identified in the review was not realized by TVA.

REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
<b>OPERATIONAL AUDITS</b>				
2012-14594 05/08/2013	WBN Plant Unit 2 Construction Project Commodity Review	\$0	\$0	\$0
2011-13846 06/28/2013	Bellefonte Nuclear Plant Risk Program	\$0	\$0	\$0
2013-15221 07/01/2013	Agreed-Upon Procedures for CRS Green-e Energy Program Reporting Year 2012	\$0	\$0	\$0
2012-14745 08/28/2013	Significant Equipment Failure Risk – Energy Delivery	\$0	\$0	\$0
<b>INFORMATION TECHNOLOGY AUDITS</b>				
2013-14983 06/14/2013	Protection of Personally Identifiable Information on TVA Desktop and Laptop Computers	\$0	\$0	\$0
2012-14619 06/18/2013	Effectiveness of Substation Modem Access	\$0	\$0	\$0
2012-14859 07/11/2013	EAM Application Control Audit	\$0	\$0	\$0
2013-15175 09/30/2013	2013 Federal Information Security Management Act Evaluation	\$0	\$0	\$0
<b>TOTAL AUDITS (30)</b>		<b>\$2,915,673</b>	<b>\$2,138,653</b>	<b>\$36,521,892</b>

## OIG EVALUATION REPORTS ISSUED DURING THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2013

REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
2012-14523 05/14/2013	Coal and Gas Operations Emergency Preparedness and Response	\$0	\$0	\$0
2012-14623 06/27/2013	WBN Unit 2 Quality Assurance Program	\$0	\$0	\$0
2012-14636 08/28/2013	Master Key Program Management – Property and Natural Resources	\$0	\$0	\$0
2013-14950 09/19/2013	TVA's Succession Planning	\$0	\$0	\$0
2012-14845 09/24/2013	TVA's Nuclear Power Group Preventive Maintenance Program	\$0	\$0	\$0
2012-14789 09/27/2013	TVA's Capital Projects Approval Process	\$0	\$0	\$0
<b>TOTAL EVALUATIONS (6)</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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



## APPENDIX 3

TABLE I • TOTAL QUESTIONED AND UNSUPPORTED COSTS • AUDITS

AUDIT REPORTS	NUMBER OF REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the period	0	\$0	\$0
B. Which were issued during the reporting period	3	\$2,915,673	\$2,138,653
Subtotal (A+B)	3	\$2,915,673	\$2,138,653
C. For which a management decision was made during the reporting period	2 <sup>1</sup>	\$728,263	\$39,878
1. Dollar value of disallowed costs	2	\$646,656	\$39,878
2. Dollar value of costs not disallowed	1	\$81,607	\$0
D. For which no management decision has been made by the end of the reporting period	1	\$2,187,410	\$2,098,775
E. For which no management decision was made within six months of issuance	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
E. For which no management decision was made within six months of issuance	0	\$0	\$0

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

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	0	\$0
B. Which were issued during the reporting period	15	\$36,521,892
Subtotal (A+B)	15 <sup>1</sup>	\$36,521,892
C. For which a management decision was made during the reporting period	10 <sup>2</sup>	\$23,531,349
1. Dollar value of recommendations agreed to by management	10	\$23,100,032
2. Dollar value of recommendations not agreed to by management	3	\$431,317
D. For which no management decision has been made by the end of the reporting period	6	\$12,990,543
E. For which no management decision was made within six months of issuance	0	\$0

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
E. For which no management decision was made within six months of issuance	0	\$0

<sup>1</sup> The subtotal of reports (A+B) differs from the sum of C and D when the same report included recommendations for which a management decision was made and others for which a management decision was not made by the end of the semiannual period.

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

## APPENDIX 4

### AUDIT AND EVALUATION REPORTS WITH CORRECTIVE ACTIONS PENDING

As of the end of the semiannual period, final corrective actions associated with 13 audits and 5 evaluations reported in previous semiannual reports were not completed. Presented below for each audit and evaluation are the report number and date and a brief description of final actions planned to resolve the open recommendations and the date management expects to complete final action.

AUDIT REPORT NUMBER AND DATE	REPORT TITLE AND RECOMMENDATIONS ON WHICH FINAL ACTION IS NOT COMPLETE
2008-12127 09/24/2009	Hydroelectric Plant Automation – General, Physical, and Security Controls Review
	TVA agreed to implement the new access control system at all sites and further restrict access to key components. Management expects to complete final action by September 30, 2015.
2010-13366 04/05/2011	Information Technology Organizational Effectiveness
	TVA agreed to review and update application road maps, develop processes to better align technology projects with TVA's strategy, and define roles and responsibilities and the process for review in the service level management program. Management expects to complete final action by December 31, 2013.
2010-13132 06/15/2011	Review of 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 December 31, 2014.
2011-14177 04/23/2012	Regional Operations Center and System Operations Center Cyber Security Audit
	TVA agreed to (1) review the three servers without logon banners and, if technically feasible, add the logon banner, perform a comprehensive review of unnecessary services and protocols, implement restrictions on the basis of operations requirement, and research utilizing Secure Shell (version 2) for remote access with vendors and, if technically feasible, implement Secure Shell; and (2) monitor all production servers using the configuration management tool. Management expects to complete final action by December 31, 2014.
2012-14425 09/24/2012	TVA Protection of Private Information
	TVA agreed to provide awareness and training to all employees regarding protecting privacy information; perform quality checks on data entered into the electronic data management system; update the employee discipline policy to include mishandling of privacy information and inform all employees of the changes; increase the frequency of General File and Print Servers scans to monthly; perform after-hours clean desk reviews; and ensure proper controls are implemented in the new Enterprise Content Management solution. Management expects to complete final action by May 29, 2015.



AUDIT REPORT NUMBER AND DATE	REPORT TITLE AND RECOMMENDATIONS ON WHICH FINAL ACTION IS NOT COMPLETE
2011-14244 09/28/2012	TVA's Direct Load Control Program
	TVA agreed to (1) develop a replacement option strategy, including meeting with the "Cycle and Save" participants, and seek potential options, and (2) audit each distributor participating in the Direct Load Control Program, per the terms of the contract to determine the effectiveness of installed switches, and modify distributor credit calculations, accordingly, per the terms of the current contract. Management expected to complete final action by September 30, 2013.
2011-14477 09/28/2012	TVA's Financial Trading Program
	TVA provided its cost/benefit analysis, qualitative assessments of operational and reputational risk, and evaluation of new performance metrics to the OIG and agreed to generate a report periodically to comply with management oversight needs. After discussions with TVA management, the OIG informed management it planned to obtain the services of a consultant to provide a third-party review of the findings and corrective actions taken prior to closing the recommendations. Final action will be determined after completion of a third-party review, expected by December 31, 2013.
2012-14596 12/20/2012	River Forecast Center Cyber Security Audit
	TVA agreed to adhere to the TVA Continuous Monitoring Strategy and develop a backup and recovery process for the nonpower SCADA system and ensure necessary personnel are properly trained should the system fail. Management expects to complete final action by September 30, 2014.
2012-14576 01/18/2013	Cartus Corporation
	TVA agreed to pursue recovery of \$347,359 in overbillings. Management expects to complete final action by January 18, 2014.
2010-13627-01 01/18/2013	Risk of Significant Equipment Failures in River Operations
	TVA agreed to (1) evaluate requirements for updating the equipment condition assessment (ECA) database when configuration changes occur; (2) modify policies and procedures to standardize communication of condition assessments coded red; (3) resolve discrepancies between the ECA and system health report; (4) implement an access review process for the ECA; (5) modify policies and procedures to require review and concurrence by appropriate managers of all assessments coded red; and (6) update the ECA database to include River Operations' fire protection system health reports. Management expects to complete final action by November 18, 2013.
2012-14618 01/23/2013	Unix Operating System Security Audit
	TVA agreed to expand configuration monitoring for UNIX systems and use new tools to manage UNIX patches. Management expects to complete final action by January 30, 2014.
2012-14567 01/30/2013	Building and Infrastructure Failure Risks
	TVA agreed to (1) submit a risk-based budget request for additional funding in FY 2014, (2) reexamine TVA's approach to challenged properties under its Strategic Real Estate Plan, (3) meet with executives and operating unit leaders to improve communication of Facilities Asset Management plans and projects, (4) enhance Tririga functionality for building asset information, and (5) address weaknesses in the Tririga production database. Management expects to complete final action by March 31, 2015.
2012-14886-01 03/13/2013	TVA Compliance with the Improper Payment Improvement Act for FY 2012
	TVA agreed to consolidate current spreadsheets used to calculate improper payments into a single spreadsheet. This spreadsheet will be reconciled to TVA's annual improper payment report and reviewed and approved by the Manager, Accounts Payable or his designee. TVA management intends to have this completed for FY 2013 improper payment reporting. Management expects to complete final action by November 15, 2013.

## APPENDIX 4

EVALUATION REPORT NUMBER AND DATE	REPORT TITLE AND RECOMMENDATIONS ON WHICH FINAL ACTION IS NOT COMPLETE
2008-11829 06/02/2010	Review of 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.
2009-12991 06/21/2011	Review of TVA Groundwater Monitoring at Coal Combustion Products Disposal Areas
	TVA agreed to continue with the assessment plan and initiate corrective actions for Cumberland and Gallatin fossil plants. Management expects to complete final action by June 21, 2014.
2011-13839 11/05/2012	Coal Terminals Supplying TVA
	TVA agreed to (1) continue plans to implement monitoring of terminal inbound shipments from the mine to the terminal, (2) require a review of single shipment weight variances when warranted, (3) implement a solution to correct the flyover process inaccuracies, (4) require a reconciliation of differences between TVA and terminal inventory records be performed on a routine basis, (5) require a review of the individual stockpiles for inventory flyover adjustments to determine if an investigation is necessary, (6) take actions to decrease the time between when the adjustment is booked by TVA and notification is made to the terminals, and (7) certify the scales at the TVA plants that receive coal from terminals. Management expects to complete final action by November 5, 2013.
2012-14506 12/13/2012	Physical Assaults Risk
	TVA agreed to develop a procedure for individuals who receive workplace-violence incident reports detailing which workplace-violence incidents should be reported to TVA Security and Emergency Management, along with a uniform way of submitting that information. Management expects to complete final action by December 13, 2013.
2012-14535 03/21/2013	Master Key Program Management - Energy Delivery
	TVA agreed to secure facilities protected by master access keys to minimize the risk posed by keys outside TVA's control. Management expects to complete final action by March 21, 2014.

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

REFERRALS	
Subjects Referred to U.S. Attorneys	18
Subjects Referred to State/Local Authorities	0
RESULTS	
Subjects Indicted	0
Subjects Convicted	2
Pretrial Diversion	0
Prosecution Declined (No. of individuals)	16

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



# APPENDIX 6

## HIGHLIGHTS - STATISTICS

	SEPT 30, 2013	MAR 31, 2013	SEPT 30, 2012	MAR 31, 2012	SEPT 30, 2011
<b>AUDITS</b>					
<b>AUDIT STATISTICS</b>					
Carried Forward	38	32	35	34	46
Started	21	23	28	23	16
Canceled	(1)	(1)	(6)	(2)	(2)
Completed	(30)	(16)	(25)	(20)	(26)
In Progress at End of Reporting Period	28	38	32	35	34
<b>AUDIT RESULTS (Thousands)</b>					
Questioned Costs	\$2,916	\$1,262	\$11,708	\$5,110	\$1,327
Disallowed by TVA	\$647	\$2,039	\$9,153	\$5,695	\$655
Recovered by TVA	\$2,447	\$559	\$4,168 <sup>1</sup>	\$1,143 <sup>2</sup>	\$326
Funds to Be Put to Better Use	\$36,522	\$0	\$10,204	\$6,702	\$4,945
Agreed to by TVA	\$23,100	\$0	\$1,235	\$9,558	\$20,005
Realized by TVA	\$2,479	\$145	\$1,235	\$2,441 <sup>3</sup>	\$1,162
<b>OTHER AUDIT-RELATED PROJECTS</b>					
Completed	5	7	10	9	19
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$0	\$0	\$0
<b>EVALUATIONS</b>					
Completed	6	6	6	1	8
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$0	\$0	\$0
<b>INVESTIGATIONS<sup>4</sup></b>					
<b>INVESTIGATION CASELOAD</b>					
Opened	173	134	148	178	190
Closed	158	105	157	202	228
In Progress at End of Reporting Period	179	160	128	146	163
<b>INVESTIGATIVE RESULTS (Thousands)</b>					
Recoveries	\$899.9	\$0	\$4,416.4	\$17.5	\$8
Savings	\$550.4	\$770.2	\$1,454.7	\$0	\$0
Fines/Penalties	\$603.8	\$0	\$0.3	\$1.7	\$1
Other Monetary Loss	\$519.3	\$0	\$83.4	\$496,500	\$9,693 <sup>5</sup>
<b>MANAGEMENT ACTIONS</b>					
Disciplinary Actions Taken (# of Subjects)	18	16	11	19	23
Counseling/Management Techniques Employed (# of cases)	20	14	20	24	18
Debarment	0	0	0	2	0
<b>PROSECUTIVE ACTIVITIES (# of Subjects)</b>					
Referred to U.S. Attorneys	18	13	12	14	22
Referred to State/Local Authorities	0	0	7	1	3
Indicted	0	2	1	5	6
Convicted	2	4	1	4	5
Pretrial Diversion	0	0	0	1	1

<sup>1</sup> Includes \$109,054 recovered in excess of amounts decided by management.

<sup>2</sup> Includes \$198,352 recovered in excess of amounts decided by management.

<sup>3</sup> Excludes \$18,474 in savings realized in excess of amounts decided by management.

<sup>4</sup> These numbers include task force activities and joint investigations with other agencies.

<sup>5</sup> Category added in semiannual period ended September 30, 2011.



### **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.



## PEER REVIEWS OF THE TVA OIG

### Audits Peer Review

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

### Investigations Peer Review

Investigative operations undergoes an external peer review, Quality Assessment Review (QAR), at least once every three years. During the semiannual period ended September 30, 2010, the Office of Personnel Management (OPM) OIG conducted a QAR of the TVA OIG Investigative Operations. The OPM OIG found the "...system of internal safeguards and management procedures for the investigative function of the TVA OIG in effect for the year ending August 1, 2010, is in compliance with the *Quality Standards for Investigations* and the Attorney General guidelines. These safeguards and procedures provide reasonable assurance of conforming with professional standards in the conduct of investigations." The QAR report can be found on our Web site at <http://oig.tva.gov/peer-review.html>.

**Note:** During this semiannual period, the Department of Commerce OIG is conducting a QAR of the TVA OIG Investigative operations. The results will be posted to our Web site when the review has been completed.

# 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 & ACRONYMS

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

Arnold AFB.....	Arnold Airforce Base
BLN.....	Bellefonte Nuclear
BOARD.....	TVA Board of Directors
CEO.....	Chief Executive Officer
CIGIE.....	Council of the Inspectors General on Integrity and Efficiency
CRS.....	Center for Resource Solutions
CTD.....	Commodity Tracking Database
DSEP.....	Detailed Scoping, Estimating, and Planning
DOJ.....	U.S. Department of Justice
DOL.....	U.S. Department of Labor
EAM.....	Enterprise Asset Management Software Tool
ED.....	Economic Development
Education.....	U.S. Department of Education
ERM.....	Enterprise Risk Management
FBI.....	Federal Bureau of Investigation
FISMA.....	Federal Information Security Management Act
FY.....	Fiscal Year
GUBMK.....	Gilbert Union Boiler-Morrison Knudsen Constructors
Holtec.....	Holtec International, Inc.
IEEPA.....	International Emergency Economic Powers Act
IT.....	Information Technology
NC.....	Nuclear Construction
NRC.....	Nuclear Regulatory Commission
NPG.....	Nuclear Power Group
OIG.....	Office of the Inspector General
OPM.....	Office of Personnel Management
OWCP.....	Office of Workers' Compensation Programs
PII.....	Personally Identifiable Information
PM.....	Preventive Maintenance
PMO.....	Preventive Maintenance Optimization
QA.....	Quality Assurance
QAR.....	Quality Assessment Review
OSC.....	U.S. Office of Special Counsel
Signal.....	Signal Industrial Products, Inc.
SPP.....	Standard Programs and Processes
Sunshine Act.....	Government in the Sunshine Act
SWCI.....	Stone & Webster Construction, Inc.
TVA.....	Tennessee Valley Authority
U.S.....	United States
VII.....	Valley Investment Initiative
WBN.....	Watts Bar Nuclear



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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](http://www.oigempowerline.com)). You may report your concerns anonymously or you may request confidentiality.

Report concerns to the OIG Empowerline.





# 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  
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