

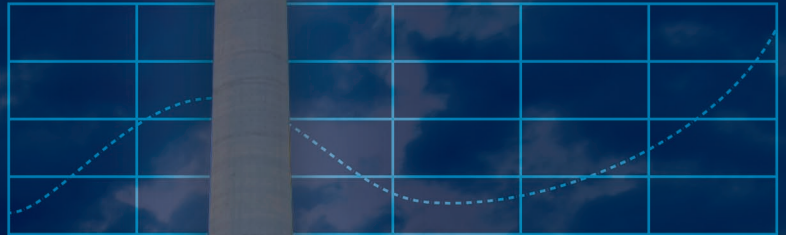
## CHALLENGING TIMES

OFFICE OF THE INSPECTOR GENERAL

TENNESSEE VALLEY AUTHORITY

SEMIANNUAL REPORT

OCT 01, 2008 — MAR 31, 2009



Tennessee Valley Region

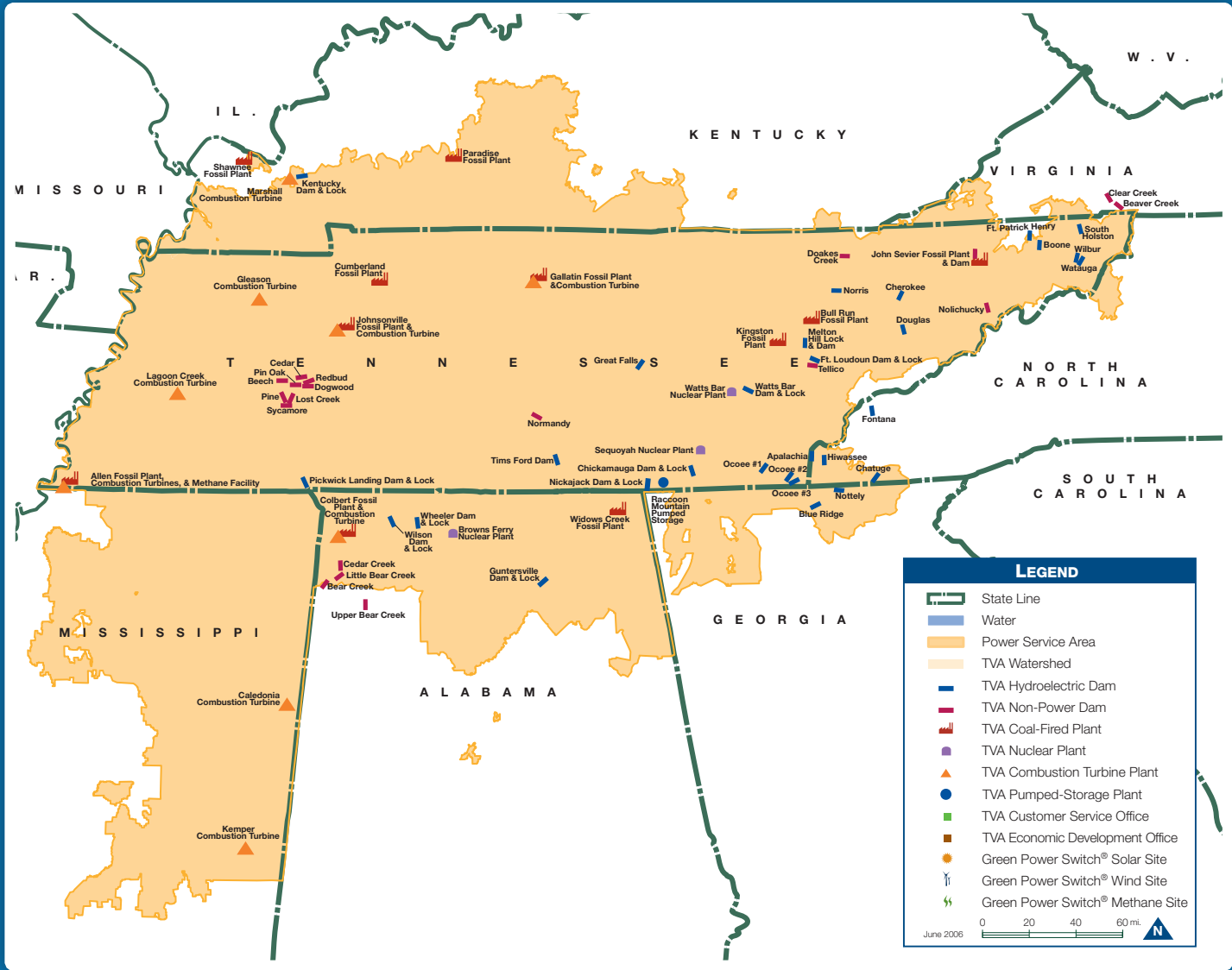


Table of Contents

Message from the Inspector General . . . . . 5

Executive Summary . . . . . 6

Office of the Inspector General . . . . .10

Special Feature . . . . .16

Noteworthy Undertakings . . . . .19

Audits . . . . .22

Inspections . . . . .28

Investigations. . . . .32

Legislation and Regulations . . . . .36

Appendices . . . . .38

Appendix 1 – Index of Reporting Requirements  
Under the Inspector General Act . . . . .39

Appendix 2 – Audit and Inspection Reports Issued . . . . .40

Appendix 3 – Audit and Inspection Reports Issued with Questioned  
Costs and Recommendations for Better Use of Funds . . . . .41

Appendix 4 – Investigative Referrals and Prosecutive Results . . . . .42

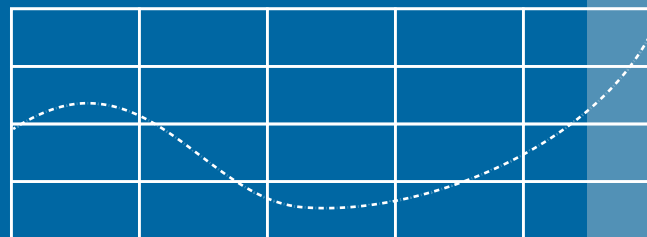
Appendix 5 – Audit and Inspection Reports  
with Corrective Actions Pending. . . . .43

Appendix 6 – Highlights . . . . .44

Glossary, Abbreviations, and Acronyms. . . . .45



MESSAGE from the  
INSPECTOR  
GENERAL



*This report to Congress and the TVA Board comes at a time of historic challenges for TVA. We chronicle some of those recent challenges in the “Special Feature” on page 16 of our report. In many ways, a “perfect storm” has developed that has changed the landscape of TVA forever. As we note, a federal district court in Asheville, North Carolina, has ruled that a number of TVA’s fossil fuel plants have created a “public nuisance” that must be abated in short order. This has significant implications for the composition of TVA’s energy fleet and requires rethinking how TVA will meet the demand for power across the Valley.*

Perhaps the darkest of clouds for TVA came on the night of December 22, 2008, when a coal ash pond at Kingston, Tennessee, spilled five million cubic yards of water and coal fly ash onto approximately 300 acres including about 8 acres of privately owned property. This incident (compared in the

## Message From The Inspector General

media to the Exxon Valdez spill) precipitated intense Congressional scrutiny at two public hearings as well as a barrage of media coverage. Congress has vowed to provide more oversight of TVA and the ensuing litigation from residents of Roane County, Tennessee, promises to keep TVA in the spotlight for years to come. As one TVA executive aptly put it...“this event—painful and uncharacteristic as it may be—is now part of our history as well” despite the laudable contributions of TVA to the Valley and the Nation in years past.

These events with significant adverse economic consequences for TVA are compounded by an economy that has driven down revenues for TVA due to business constrictions across the Tennessee Valley region. TVA’s rates to its wholesale customers have fluctuated with the sharp increases drawing fire from retail residential customers while reductions in rates by TVA receive scant attention. Thus, TVA finds itself seemingly embattled on almost every front.

We raise the question in the Special Feature article, “How is TVA doing?” While this question is of particular relevance today, the OIG started posing the question before TVA was beset with the current crisis. We had previously committed to doing assessments that would relay to TVA’s stakeholders how TVA was doing with regard to finances, customer relations, environmental stewardship, and operational effectiveness.

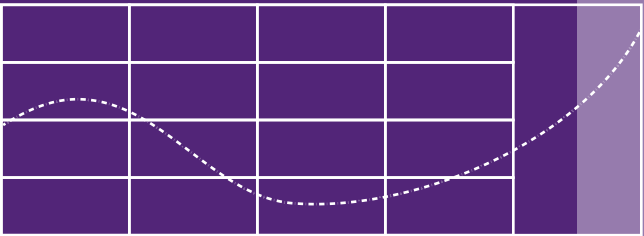
Our reports provide an independent perspective of TVA operations in key strategic areas. We issued the customer relations report during the prior OIG semiannual period, and the remaining reports will be issued during the next semiannual period.

The work of the OIG for this reporting period spans a broad gamut of risk areas for TVA. Our goal is to help TVA reduce those risks as they address the gaps that we identify. TVA management’s response has been positive and commitments have been made to make the necessary corrections.

Finally, we are grateful that our work is understood and fully supported by the TVA Board which enables us to fulfill our mission.

Richard W. Moore  
Inspector General

EXECUTIVE  
SUMMARY



Representative Audits and Inspections

*In these challenging times for individuals and businesses, government corporations such as the Tennessee Valley Authority (TVA) are not immune to the wide-spread liquidity and credit pressures of the troubled economy. It is times such as these that greater need for and reliance on the Office of the Inspector General (OIG) to ferret out waste, fraud, and abuse is sought by the company’s stakeholders. This report describes the initiatives of our office in these regards: a brief synopsis of the more significant audits, inspections, and investigations performed during this semiannual period follows.*

IT AUDITS

Our audit of general computing controls at a vendor which hosts a TVA system significant to TVA financial reporting found the vendor needs to: (1) strengthen account management procedures to ensure accountability; (2) develop a standard configuration baseline for all systems on the production network; (3) implement sufficient security to detect attempted or successful system intrusions; and (4) strengthen physical security controls.

A review of TVA’s practices for tracking and disposing of surplus computer equipment found TVA needs to improve its processes for: (1) updating inventory records for computer equipment taken out of service and placed in surplus; (2) recording all computer

equipment placed in surplus and subsequently disposed of; (3) packing and labeling monitors in surplus to ensure disposals comply with environmental requirements; (4) certifying hard drives on resold, donated, or redistributed equipment are wiped; and (5) ensuring current procedures are followed.

INTERNAL CONTROL  
REVIEWS

The OIG continued its support of TVA initiatives to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX). During the period, business process and information system controls were tested again for operational effectiveness. This included follow-up testing of controls to provide TVA management assurance of continued effectiveness or successful remediation of controls where initial tests showed improvements were needed.

CONTRACT AUDITS

TVA spends billions of dollars annually for goods and services provided by contractors. TVA needs assurance it is not contracting with those parties or entities that have been debarred or suspended from doing business with the federal government or found unsatisfactory by TVA as a result of prior relations. An audit of TVA’s contracting process found TVA: (1) lacked formal procedures to assure the company does not knowingly contract with parties previously debarred or suspended

from business with the federal government; (2) could improve its process by including certain requirements from the Federal Acquisition Regulations in its procedures; and (3) lacked a formal process for identifying parties that have been found unsatisfactory by TVA and preventing them from transacting future business with TVA.

Audits of nearly \$350 million of contract expenditures identified potential overbillings and waste of up to approximately \$1.2 million. The questioned costs were discovered during contract compliance audits of the TVA medical benefits plan administrator and vendors providing nuclear engineering and asbestos abatement services to TVA. TVA is taking or has taken action to recover these dollars.

MONITORING OF EXTERNAL  
AUDITORS’ WORK

The OIG is responsible for all audits of TVA, whether performed by federal or nonfederal auditors, to assure the work is performed in accordance with generally accepted government auditing standards. TVA contracted with an independent registered accounting firm for the audit of its fiscal year (FY) 2008 financial statements and the review of its interim reports filed with the Securities and Exchange Commission (SEC). In addition, TVA contracted with another independent registered accounting firm for the audit of its restated FY 2007 and FY 2006 financial statements. The OIG

monitored the work of these firms and found no instances of noncompliance with standards by either firm.

OPERATIONAL AUDITS

A review of TVA’s telework initiatives found: (1) the company has a framework for telework, but there was little evidence of compliance with the policy, especially with regard to training and approval of teleworking; (2) some teleworking occurs, but TVA has no system for identifying those who telework or for tracking the extent of teleworking; (3) approvals are demonstrated by granting remote access to TVA systems instead of following the approval process; and (4) there are no additional plans for the program at this time.

INSPECTIONS

A review of qualifications of contractor and subcontractor employees assigned to the nuclear unit construction project found the need to: (1) include minimum requirements for each position in the job requisitions; (2) document the rationale for accepting any candidate who does not meet the minimum requirements for a position; (3) evaluate the qualifications of employees who do not meet minimum qualifications and determine if they are qualified to perform the work; and (4) assure resumes are thoroughly reviewed and any discrepancies resolved prior to hiring the individual.

Evaluation of controls to account for

tools used in the nuclear unit construction project showed improvements were needed to: (1) ensure the accuracy of data in the contractor tool tracking system; (2) define value criteria for bulk items; (3) ensure compliance with small tool and equipment procedures; and (4) safe-keep tools in unlocked sea/land containers.

A review of TVA’s purchasing card program found: (1) key controls were not functioning in the review of transactions; (2) purchases were made that were disallowed by TVA policy; (3) certain best practices were not in place; and (4) known or suspected instances of waste, fraud, and abuse were not reported to the OIG as required by TVA’s accepted business practices. ■

Statistical Highlights

October 1, 2008 ~ March 31, 2009

Audit Reports Issued . . . . .	14
Inspections Completed . . . . .	4
Questioned Costs . . . . .	\$1,225,713
Disallowed Costs . . . . .	828,697
Funds Recovered . . . . .	\$643,525
Funds to be Put to Better Use . . . . .	\$0
Funds Realized by TVA . . . . .	\$0
Investigations Opened . . . . .	171
Investigations Closed . . . . .	91
Fines/Recoveries/Restitution . . . . .	\$11,077,996
Criminal Actions . . . . .	7
Administrative Actions (No. of Subjects) . . . . .	3

Administrative inquiries during this semiannual period include actions taken following the discovery of three alleged hangman’s nooses. In one, a noose was found at the Kingston Fossil Plant (KFP) in September 2008, hanging approximately 20 feet from a stairway. During the investigation of this

We also investigated a matter in which a contractor at the John Sevier Fossil Plant had threatened a TVA employee. TVA terminated the contract with the individual. ■

matter, a second was reported which had purportedly been hanging approximately 30 feet in the air on structural steel outside of the Selective Catalytic Reduction (SCR) for more than four years. The third alleged noose was located at the Widow’s Creek Fossil Plant (WCF). The TVA OIG’s investigation determined, however, that the “noose” was actually a looped tie-off rope used to suspend vacuum tubing for fly ash removal.

Another administrative inquiry involved an incident of unauthorized computer port scanning at a TVA facility. We recommended that TVA review: (1) the pertinent contract to determine the need for contractors to have TVA log-on access and (2) the contractors’ ability to operate independently of direct TVA supervision. Additionally, we recommended TVA look further into this matter to determine relevant Information Technology (IT) security concerns and weaknesses of TVA systems.

investigation of environmental crimes initiated during the semiannual period. In November 2008, an operator at a Tennessee wastewater treatment plant was sentenced to a term of 18 months probation, 40 hours of community service, and a \$100 special assessment after he pled guilty to a felony count under the Clean Water Act. The case, worked jointly with the Environmental Protection Agency (EPA) Criminal Investigation Division (CID), involved the operator falsifying reports relating to fecal coliform and chlorine tests for discharge that flowed into a creek ending in the Tennessee River, which is part of the TVA Watts Bar Watershed area. A second case ended in a guilty plea in January 2009, and it involved Heraeus Metal Processing, Inc., located in Wartburg, Tennessee, which made false statements in and omitted information from a document required by the Clean Air Act. The corporation was sentenced to pay a \$350,000 fine and serve 18 months probation.

Representative Investigations

Although a significant amount of Investigative resources have been focused on the recent environmental events at TVA, our focus remains on major fraud investigations. During this reporting period, final actions were taken in two major investigations resulting in two criminal convictions and restitution of more than \$4.5 million in one case and a civil settlement of \$6.2 million in the other. Efforts also continue in the investigation of environmental crimes, which resulted in a guilty plea to a Clean Water Act violation and a guilty plea under the Clean Air Act. Additionally, the number of investigations opened from calls to our complaint line, Empowerline, has been consider-

ably higher than in previous reporting periods.

Two Kentucky men were convicted of bank fraud, mail fraud, and nine counts of money laundering. They were

ordered to pay more than \$4.5 million in restitution after they diverted funds from two loans obtained for specified business purposes to unrelated uses. Lloyd Aaron Smith was sentenced to 30 months incarceration, and co-defendant Neal Gordon Wall was sentenced to 28 months confinement.

TVA contractor Stone & Webster Construction, Inc. (SWCI), agreed to pay \$6.2 million to resolve a contract fraud investigation. The settlement amount reflects double dam-

ages negotiated in view of the False Claims Act violations involving understated injury reporting. Significantly, the company also agreed to enter into the first Corporate Integrity and Monitoring Agreement in TVA history between the OIG and a TVA contractor. TVA OIG also pressed forward in the



**EMPOWERLINE™**

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

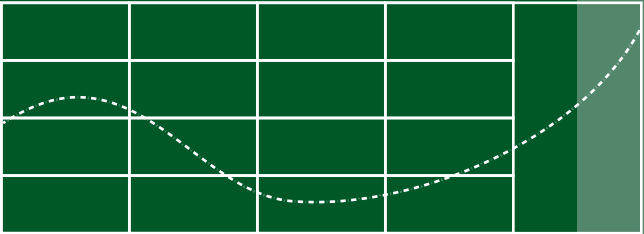
[www.OIGempowerline.com](http://www.OIGempowerline.com)  
1-877-866-7840

EmPowerline™ is sponsored by the Office of the Inspector General and operates independently of TVA.



>> CHALLENGING TIMES

OFFICE *of the*  
INSPECTOR  
GENERAL



OFFICE RESPONSIBILITIES  
AND AUTHORITY

- Created by the TVA Board of Directors in 1985, the TVA OIG became statutory under the Inspector General Act Amendments of 1988 (IG Act). The authority to appoint the TVA Inspector General (IG) was transferred to the President in November 2000 by Public Law No. 106-422.

OIG RESPONSIBILITIES

- Promote economy and efficiency while preventing and detecting fraud, waste, and abuse
- Conduct and supervise audits, inspections, and investigations relating to TVA programs and operations
- Keep the TVA Board and Congress fully and currently informed concerning fraud and other serious problems, abuses, and deficiencies relating to TVA programs and operations
- Recommend corrective actions concerning problems, abuses, and deficiencies, and report on the progress made in implementing such actions
- Assure work performed by nonfederal auditors complies with Government Auditing Standards
- Issue semiannual reports to TVA Board and the Congress

OIG AUTHORITY

- Conduct any audit, inspection, or investigation the IG deems necessary or desirable
- Access all TVA records or other material
- Issue subpoenas and administer oaths
- Receive complaints and grant confidentiality
- Have direct and prompt access to the TVA Board
- Hire employees and contract for services as necessary

OIG STRATEGIC PLAN

Mission

Promote excellence in TVA’s operations through the conduct of investigations, audits, inspections, and advisory services designed to promote economy, efficiency, and effectiveness and prevent and detect fraud, waste, and abuse

Vision

To be a highly effective organization that promotes positive change by identifying opportunities for improvements in the performance and efficiency of TVA’s programs and operations

Core Values

- Independence
- Integrity
- Innovation
- Initiative
- Quality
- Results
- Leadership
- Teamwork
- Communication
- Respect for Individual

Goals & Objectives

Performance

Perform timely reviews that address stakeholder concerns and areas of highest risk

- Focus efforts on areas of highest impact and risk
- Ensure processes are efficient and effective
- Stay abreast of emerging issues and industry trends
- Stay abreast of stakeholder concerns
- Produce work that is timely, relevant, and of high quality

Workforce

Cultivate and retain a highly skilled, productive, and fully engaged workforce

- Hire and retain a well-qualified workforce
- Maintain competitive pay and award programs that allow for rewarding team and individual contributors
- Develop leadership, team and technical skills of each employee
- Ensure accountability in individual performance
- Promote effective communications within OIG

Stakeholder

Communicate effectively with stakeholders and deliver services that meet their needs

- Improve stakeholder awareness of OIG
- Ensure stakeholders are kept informed
- Ensure stakeholders have an opportunity to provide input in the annual audit planning process and each individual review, as appropriate

ORGANIZATION

The OIG is headquartered in the TVA East Tower in Knoxville, Tennessee, across from the TVA headquarters, which is in the West Tower. The OIG has a major satellite office in the Edney Building in Chattanooga, Tennessee, where the Inspections unit and several investigators are located. There also is a staffed field office at Watts Bar Nuclear Plant, Tennessee, to which an auditor and investigator are assigned. In addition, the Investigations unit has staffed field offices in Nashville, Tennessee; Huntsville, Alabama; and Mayfield, Kentucky.

As of March 31, 2009, the OIG was composed of 104 individuals. This includes: (1) 62 individuals with the Audit and Inspections units; (2) 32 individuals with the Investigations unit; and (3) 10 individuals with the Administrative unit.

The number of personnel located at each staffed office is as follows: Knoxville - 76, Watts Bar Nuclear Plant - 2, Chattanooga - 18, Nashville - 3, Huntsville - 4, and Mayfield, Kentucky - 1.



OFFICE OF INSPECTOR GENERAL—TENNESSEE VALLEY AUTHORITY



RICHARD W. MOORE  
INSPECTOR GENERAL



BEN R. WAGNER  
DEPUTY INSPECTOR GENERAL



CHARLES A. KANDT  
LEGAL COUNSEL



STEFANIE D. HOGLUND  
COMMUNICATIONS SPECIALIST

AUDITS & INSPECTIONS



JILL M. MATTHEWS  
DEPUTY ASSISTANT INSPECTOR  
GENERAL, AUDITS AND SUPPORT



ROBERT E. MARTIN  
ASSISTANT INSPECTOR GENERAL  
AUDITS AND INSPECTIONS



GREGORY C. JAYNES  
DEPUTY ASSISTANT INSPECTOR  
GENERAL, INSPECTIONS



LISA H. HAMMER  
DIRECTOR, FINANCIAL AND  
OPERATIONAL AUDITS



LOUISE B. BECK  
MANAGER, AUDIT QUALITY



DAVID P. WHEELER  
DIRECTOR, CONTRACT AUDITS



PHYLLIS R. BRYAN  
DIRECTOR, IT AUDITS  
AND SUPPORT

ADMINISTRATION & GOVERNMENT RELATIONS



RONALD WISE  
ASSISTANT INSPECTOR GENERAL  
ADMINISTRATION AND  
GOVERNMENT RELATIONS



KAY T. MYERS  
MANAGER, HUMAN RESOURCES

INVESTIGATIONS



JOHN E. (JACK) BRENNAN  
ASSISTANT INSPECTOR GENERAL  
INVESTIGATIONS



NANCY J. HOLLOWAY  
SPECIAL AGENT IN CHARGE



PAUL B. HOUSTON  
SPECIAL AGENT IN CHARGE

ADMINISTRATION

The administrative section 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. Responsibilities include operations for personnel administration, budget and financial management, purchasing and contract services, facilities, conferences, and government relations.

INVESTIGATIONS

Investigations conducts and coordinates investigative activity related to fraud, waste, and abuse in TVA programs and operations. The activities investigated include possible wrongdoing by contractors, employees, economic development loan recipients, and others who commit crimes against TVA. Investigations maintains liaison with federal and state prosecutors and reports to the Department of Justice whenever the OIG has reason to believe there has been a violation of federal criminal law. Investigations works with other investigative agencies and organizations on special projects and assignments, including interagency law enforcement task forces on terrorism, the environment, and health care.

AUDITS AND INSPECTIONS

The Audits and Inspections group performs a wide variety of engagements designed to promote positive change and provide assurance to TVA stakeholders. Based upon the results of the engagements, the Audits and

Inspections group makes recommendations to enhance the effectiveness and efficiency of TVA's programs and operations. The group uses an impact- and risk-based approach to developing an annual work plan. The group's plan considers TVA's strategic plans, major management challenges, enterprise risk management process, and other input from TVA management. The planning model also evaluates each potential engagement from the standpoint of materiality (i.e., costs or value of assets), potential impact, sensitivity (including public and/or congressional interest), and likelihood it will result in recommendations for cost savings or process improvements. The result of the OIG audit and inspections planning process is a focus on those issues of highest impact and risk of fraud, waste, abuse, or in regards to IT, malicious, or other intrusion.

The Audits group, based in Knoxville, conducts and/or supervises comprehensive financial and performance audits of TVA programs and operations.

It consists of four departments—Contract Audits, Distributor Audits, Financial/Operational Audits, and IT 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 and litigation support.
- Distributor Audits has lead responsibility for contract compliance reviews of TVA's distributors. This group assesses compliance with the terms of the power contracts



between TVA and its distributors. These audits are a first for the IG, and our first-year plans include developing and refining a sustainable audit approach and sampling plan.

- Financial/Operational Audits has lead responsibility for: (1) oversight of TVA's financial statement audit and related services performed by TVA's external auditor; (2) reviews of TVA's internal controls related to financial reporting, operational efficiency, and compliance with laws and regulations; and (3) operational reviews to assess the results and economy and efficiency of TVA programs.
- IT Audits has lead responsibility for audits relating to the security of TVA's IT infrastructure, application controls, and general controls associated with TVA systems. This group also performs operational reviews of the effectiveness of IT-related functions. In addition to its audit mission, IT Audits is responsible for developing and supporting an independent OIG computer network.

The Inspections group, based in Chattanooga, Tennessee, seeks to ensure that program objectives and operational functions are achieved effectively and efficiently. It performs both comprehensive reviews and more limited scope policy and program reviews. In accordance with the Quality Standards for Inspections, the objectives of the Inspections group include providing a source of factual and analytical information, monitoring compliance, measuring performance, assessing the efficiency and effectiveness of operations, and/or conducting inquiries into

allegations of fraud, waste, abuse, and mismanagement.

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



# SPECIAL FEATURE: Challenging Times

**T**VA is facing challenges of historic proportions. Some of these challenges include decreasing revenues due to a national economic crisis, fluctuating rates for TVA customers due to changing fuel costs, an adverse federal environmental judgment in North Carolina with severe financial ramifications for TVA, and finally but not least, an unprecedented environmental spill publicly compared to the Exxon Valdez spill. This puts TVA squarely in the crosshairs. So, does any of that impact the way the TVA OIG does its work?

“More than ever, our job is to provide some level of assurance to our stakeholders that there is an objective ‘watchdog’ evaluating all of the current challenges TVA is facing,” says Inspector General Richard Moore. “We have a heavier burden to fairly report the facts than ever before.”

During this reporting period, TVA’s public scrutiny was magnified due to a dike failure near Kingston, Tennessee, that allowed approximately 5 million cubic yards of water and coal fly ash to flow out onto approximately 300 acres, including about 8 acres of privately owned land. Some of this material flowed into the nearby Watts Bar Reservoir, and the spill rendered three homes uninhabitable because of structural damage.

The spill received international attention and sparked visits to the area from renowned environmentalist Erin Brockovich who met with Kingston residents impacted by the spill. Numerous lawsuits were filed against TVA in regard to the spill.

TVA has retained an independent engineering firm to perform an analysis to determine the cause of the release.

Additionally, the OIG has launched an independent assessment of the cause.



The spill, coupled with a ruling in a North Carolina lawsuit that judicially established emissions from four of TVA’s coal-fired plants constituted public nuisances, brought even more intense focus on TVA’s use of coal as a source to generate power.

Before TVA’s onslaught of public plights, Moore had already launched a strategic initiative to evaluate TVA and answer the very basic question of, “How is TVA doing?” in a series of audit reports. These reviews benchmark the largest U.S. power provider against other comparable power providers in the country in the areas of customer





KINGSTON ASH SPILL

relations, finance, environmental stewardship and operations. They also evaluate how well TVA achieves the goals it sets for itself.

“I thought it was important to create a format that would allow us to effectively answer one basic question: ‘How is TVA doing?’” Moore notes. “This seems to me to be a question that an IG’s office, which is congressionally charged with providing oversight to an agency, should be able to answer about that agency. While all of our work should cumulatively answer that question, compiling data in four basic reports per year informs stakeholders about TVA’s performance in a clearer way. If the IG’s office can’t answer the basic question of ‘How is TVA doing?’ then I am not sure that we are truly doing our job. We are in a uniquely qualified position to be able to provide this information as our mission is always fact-finding in nature and our independent authority demands that we report these facts in a

fair and an impartial manner.”

The first benchmarking report on customer relations assessed key performance measures and their alignment with the key strategic objectives, evaluated TVA’s results relative to targets and available benchmark information, and identi-

fied key management challenges that could affect how successful TVA is in achieving these strategic objectives.

The second report on finance will be released this spring, followed by a report on environmental stewardship and operations. Financial performance is a prime determinate of sustainable success. The strategic challenges facing TVA require a sound, long-term financial plan and vision, which this report will evaluate.

The report on environmental stewardship has the potential to generate significant interest in light of the current Presidential Administration’s focus on utilizing renewable energy sources to generate power while drastically reducing reliance on coal-powered plants. President Barack Obama has stated, “To finally spark the creation of a clean energy economy, we will make the investments in the next three years to double our nation’s renewable

energy capacity.... We will put Americans to work in new jobs that pay well—jobs installing solar panels and wind turbines; constructing energy-efficient buildings; manufacturing fuel-efficient vehicles; and developing the new energy technologies that will lead to even more jobs and more savings, putting us on the path toward energy independence for our Nation and a cleaner, safer planet in the process.”

This Presidential initiative will present TVA with yet another challenge following the intense scrutiny the agency is undergoing as a result of the Kingston ash spill on December 22. The TVA OIG’s benchmarking report will naturally highlight TVA’s response to the Kingston ash spill, but the report will also analyze TVA’s overall environmental record prior to the coal ash spill at Kingston, Tennessee. The OIG will issue several reports on the Kingston spill in the coming months that will focus on its cause, TVA’s response to it, and efforts to prevent such a spill in the future. ■

## Noteworthy Undertakings

### OIG CONDUCTS COOP DRILL

It’s 8:30 a.m. on February 25, 2009, and the disaster response team for the OIG is summoned to the Emergency Operations Center. In a room flanked by computers, seven members of the Inspector General’s staff have gathered to hear an announcement by Deputy Inspector General Ben Wagner. “A train carrying toxic chemicals on board derailed in downtown Knoxville at 3 a.m. The subsequent chemical leak has rendered the Knoxville office space uninhabitable. All Knoxville employees will be required to work from home until the situation is resolved,” says Wagner.

The Deputy IG’s report hushes the room, setting off a flurry of activity as the team shifts into response mode. In reality, there was not a train derailment or chemical leak. This was only part of a drill the OIG devised to test its continuity of operations plan (COOP) and identify technology challenges associated with the entire workforce working from remote locations. Prior to this daylong exercise, the OIG employees knew they would be participating in a drill. However, they weren’t told the exact nature of the “emergencies” they would face.

While telework is an everyday occurrence at the TVA OIG, with approximately 30 to 50 percent of the OIG Knoxville workforce teleworking on a given day, this was the first occasion where everyone in the Knoxville office

was placed in telework status on the same day.

For the OIG, this scenario was the initial test of the COOP and recent telework-related information technology (IT) upgrades. During the post-drill meeting, the first response team provided the following lessons learned.

- ➔ The COOP was executed smoothly. The core team was assembled by 8:30 a.m. and, by 9 a.m., the team had accounted for all affected Knoxville employees.
- ➔ The IT issues encountered were generally minimal, primarily in the area of user assistance for those employees who (1) had not previously teleworked and (2) had not used the internal virtual private network. However, the laptop for one core team member malfunctioned during the test. All IT issues arising throughout the day were successfully resolved.
- ➔ The OIG recognized there needed to be provision for spare IT equipment added to the supplies provided at the alternate site. No other changes to the COOP were identified.

The COOP test provided the OIG a valuable experience that will help the OIG respond to real emergencies in a more effective and efficient manner.

### ETHICS – GOING BEYOND PAPER

How much should federal agencies or any business know about their contractors? Do we need to know anything beyond their written code of ethics or their financials? Would it help to know

if their corporate culture discourages fraudulent acts by their employees and that their ethics goes beyond a poster on the wall? We think so.



The OIG encouraged TVA Ethics and Compliance officer Peyton Hairston to bring in TVA’s key contractors to start the process of “talking culture.” At TVA, the belief is that good ethics equals good business, and TVA strives to drive that belief throughout the organization. Employees are expected to adhere to more than the Office of Government Ethics rules. They are to embody a culture of honesty and accountability that outstrips rules about the dollar limits on gifts. TVA took the admirable step of creating an Ethics and Compliance Office that seeks to drive the corporate ethics of the business throughout the organization.

The OIG questioned, however, how effective any agency’s ethical firewall can be if it doesn’t have a like commitment from its contractual partners. The





CFO KIM GREENE LAYS OUT TO CONTRACTORS TVA'S EXPECTATIONS.

first step is simply getting to know who you do business with on more than a superficial level. What if we could get our contractors to train their employees on our ethical standards? What if we demonstrated that TVA's ethics are more than skin deep? These questions prompted TVA to invite its largest contractors (those with contracts of \$25 million and more) to meet in Knoxville, Tennessee, to start the first in a series of "cultural exchanges."

Richard Moore, TVA's Inspector General, told of his own personal experience of seeing for the first time representatives of a major TVA contractor in a federal district courtroom. "I thought to myself that was a poor way to do business. I knew nothing about the company's culture and whether we were dealing with 'rogue employees' or a company that winked at fraud."

Twenty-three representatives from 17 of TVA's largest contractors responded to the challenge to start a process of

TVA OIG to find the best ways to ensure that honesty and fairness are present in our business relationships and to smooth the way for self-reporting of issues that may arise. The expectation is that self-reporting will result in addressing and resolving issues before they turn into major problems, and less litigation will occur as a result.

The contractors attended a reception and dinner where they had the opportunity to meet key TVA officials as well as the Inspector General's staff. The next day, TVA officials presented TVA's code of conduct and stressed TVA's expectations for both TVA employees and the contractors' employees. In opening the program, TVA Chief Financial Officer (CFO) Kim Greene pointedly stated that when it comes to ethical integrity, "Close is good enough is not acceptable . . . it has to be pristine, it has to be perfect."

Senior Vice President Peyton Hairston described his role as TVA's Ethics and

Compliance Officer. He stressed TVA's current outreach program to ensure TVA's contractors and vendors were aware that TVA's ethical conduct standards, processes and the OIG's initiative go beyond paper. They're part of the contracting and communication processes of TVA.

Conference attendees benefited from the participation of Eric Feldman, a former inspector general and now the Senior Advisor for Procurement Integrity at the National Reconnaissance Office. Feldman, who has 30 years of experience in federal audit work, provided an in-depth review of the new mandatory fraud disclosure rule recently added to the Federal Acquisition Regulations.



ERIC FELDMAN EXPLAINING THE FRAUD DISCLOSURE RULE.

TVA Vice President Terrell Burkhart discussed TVA's contracting process, and TVA's contractors were made aware of the strictures pertaining to TVA employees by Ralph Rodgers, TVA's Assistant General Counsel for Procurement & Corporate Contracts as well as the Designated Agency Ethics Official. Rodgers also provided an

overview of the legal and regulatory framework of TVA. At the end of the day, the contractors' representatives were asked if they felt that the experience was helpful. There was widespread agreement that this kind of exchange was healthy, and many expressed appreciation that TVA



officials had initiated the process. There was interest by the contractors to have TVA officials and the OIG go on-site to the contractors' locations to become acquainted with the contractors' ethics and compliance programs. ■

## THE TVA OIG RELEASES NEW FRAUD VIDEO

The TVA OIG's latest video release addresses the thought, "If only it were easy to spot fraud." The four-minute video showcases what it might look like if this were easy, but because it's not, a message from the Inspector General highlights what employees can do if they suspect fraud.

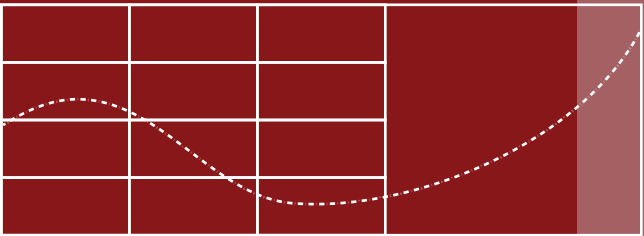


Our office initiated this effort to encourage TVA employees, contractors, and the public to report possible instances of fraud, waste, abuse, and mismanagement to the office's hotline, the Empowerline, which allows users to report anonymously if they choose.

To view the video, visit [www.oig.tva.gov](http://www.oig.tva.gov), and click on the video link. ■



SUMMARY of  
REPRESENTATIVE  
AUDITS



During this reporting period, we completed 14 audits, reviews, and agreed-upon procedures, which identified more than \$1.2 million in questioned costs. We also identified opportunities for TVA to strengthen its system of internal control. These projects included IT audits, financial-related engagements, operational audit, and contract reviews. In addition, we completed eight other audit-related projects.

IT AUDITS

“With technology advancement and changes in the associated risks, we are challenged more than ever before to promote security effectiveness.”

PHYLLIS R. BRYAN  
DIRECTOR  
IT AUDITS & SUPPORT

During this semiannual period, we completed three audits in the IT environment pertaining to: (1) general computing controls for a financially significant application; (2) controls over TVA’s process used to dispose of computer equipment; and (3) pre-implementation review of controls for a new access request system. We also completed two audits in support of TVA’s FY 2008 efforts to comply with SOX. Highlights of these audits follow.



General Computing Controls Need Improvement for Financially Significant System

We reviewed general computing controls relating to servers at a vendor hosting one of TVA’s financially significant systems. We found the vendor had not: (1) implemented adequate account management procedures to ensure accountability; (2) adequately configured systems on the production network; and (3) implemented sufficient security to detect attempted or successful attacks. In addition, weaknesses were identified related to physical access to the processing facility. The vendor agreed with our findings.



Control Improvements Needed for Surplus Computer Equipment

We performed a review to determine whether TVA’s: (1) process used to surplus and dispose of computer equipment is adequate and ensures TVA information is not improperly disclosed and (2) disposal process meets environmental regulations. We found TVA’s process for the disposal of surplus computer equipment does not adequately protect TVA resources or track the disposition of surplus equipment. Specifically, we determined: (1) the equipment inventory was not correctly updated when equipment was removed from service; (2) equipment transferred to surplus was not tracked to prevent unnecessary storage, loss, or theft; (3) monitors transferred to surplus were not packaged and labeled to meet environmental requirements; (4) the organization responsible for surplus equipment did not maintain an inventory of equipment received for disposal or reconcile equipment received with equipment indentified as surplus; and (5) the disposition records maintained did not account for the disposition of 6,631, or 63.9 percent, of the computers identified as surplus.



Pre-implementation Review Concludes New Access Request System Controls Were Adequate

We performed a pre-implementation review of TVA's new automated access request system. We found: the (1) approval process worked as documented and restricted users from approving any request for which they were the requestor or the initiator; (2) application maintained adequate approval information to allow for audit of ac-

cess requests; (3) database containing approval information was regularly backed up; and (4) application's Web page program code had adequate input checks to prevent unauthorized manipulation or disclosure of data.

FY 2008 IT SOX Testing Identified Opportunities for Improvement

During the first half of the semiannual period, we completed (1) compliance testing of controls for one application

and (2) roll-forward, remediation and nonoccurrence testing for 18 IT general controls and 31 application controls, which were initiated at the end of the previous FY. Overall, we noted opportunities to improve SOX documentation, operating effectiveness of controls, and areas where control gaps existed.

TVA management generally agreed with our findings and has taken or is in the process of taking corrective action to remediate issues noted in these audits.

FINANCIAL AND OPERATIONAL AUDITS

"Our group strives to provide management with information regarding the effectiveness of TVA's financial reporting and operational controls."

LISA H. HAMMER  
DIRECTOR  
FINANCIAL &  
OPERATIONAL AUDITS



During this semiannual period, we completed two audits related to our monitoring of TVA's external auditor; performed agreed-upon procedures related to TVA's 2008 Winning Performance; tested financial reporting controls for various business processes to assist with TVA's initiative to comply with SOX; and conducted one operational audit related to telework. Highlights of these projects follow.

FY 2008 Financial Statement Audit Complied with Standards

TVA contracted with the independent public accounting firm of Ernst & Young LLP (Ernst & Young) to audit TVA's balance sheet as of September 30, 2008, and the related statements of income, changes in proprietary capital, and cash flows for the year then ended. In addition, the contract called for the review of TVA's fiscal year 2008 interim financial information filed on Form 10-Q with the SEC. The contract required the work be performed in accordance with generally accepted government auditing standards. Our monitoring of this work disclosed no instances where Ernst & Young did not comply, in all material respects, with generally accepted government auditing standards.

Audit of TVA's Restatement of FY 2007 and 2006 Financial Statements Complied with Standards

TVA contracted with the independent certified public accounting firm of PricewaterhouseCoopers LLP (PricewaterhouseCoopers) to audit the restated balance sheets and the related statements of income, changes in proprietary capital, and cash flows as of September 30, 2007, and 2006, and the results of its operations and cash flows for each of the three years in the period ended September 30, 2007. The contract required the audit be done in accordance with generally accepted government auditing standards. Our monitoring of this work disclosed no instances where PricewaterhouseCoopers did not comply, in all material respects, with generally accepted government auditing standards.

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 1,100	\$ 1,100
Accounts receivable	1,100	1,100
Inventory	1,100	1,100
Prepaid expenses and other current assets	1,100	1,100
Property, plant, and equipment (net)	1,100	1,100
Intangible assets	1,100	1,100
Goodwill	1,100	1,100
Investments	1,100	1,100
Deferred tax assets	1,100	1,100
Other assets	1,100	1,100
Liabilities		
Current liabilities		
Accounts payable	1,100	1,100
Accrued liabilities	1,100	1,100
Deferred tax liabilities	1,100	1,100
Other liabilities	1,100	1,100
Equity		
Capital stock	1,100	1,100
Retained earnings	1,100	1,100
Accumulated other comprehensive income	1,100	1,100
Other equity	1,100	1,100

Agreed-Upon Procedures Applied to 2008 Winning Performance Payouts

We performed agreed-upon procedures, which were requested solely to assist management in determining the validity of the Winning Performance payout awards for the FY ended September 30, 2008.

In summary, we found:

- The FY 2008 Winning Performance goals were properly approved.
- Actual year-to-date inputs for the sampled metrics agreed with the respective supporting documentation.
- Actual inputs for the three incentivized TVA-wide metrics agreed with the underlying support provided by the Strategic Business Units with one exception related to the equivalent availability factor metric. This one exception did not affect the payout.
- The payout percentages were mathematically accurate after noted exceptions were corrected.

SOX Testing Identifies Improvement Areas

We completed testing of 56 control activities within 21 key TVA business processes designated by TVA's Financial Compliance & Regulatory Controls Group as requiring supplemental testing for SOX compliance purposes. We noted that 45 of the controls were operating effectively, eight controls were not operating as intended, and three were not tested because no events occurred to trigger the associated control in the relevant period.

TVA Telework Initiatives

We reviewed TVA's efforts to implement telework, as well as any planned telework initiatives. Our review determined:

- TVA's Business Practice 20, Off-site Use of Business Equipment (BP 20), provides a framework for telework; however, we found little evidence of compliance with the policy, especially as related to required training and method of approval.
- Pockets of teleworkers exist throughout TVA. However, TVA has no system for tracking individuals who telework or the extent to which they telework.
- Employees are approved to telework by being granted remote access to TVA systems instead of following the BP 20 approval process.

We did not identify any planned telework initiatives. However, telework is being considered by Facilities Management in its space-reduction plans. Any decisions made would require buy-in from management. In addition, should the number of concurrent remote users increase, TVA may need to increase its remote access capabilities.

We also reviewed TVA's COOP and Pandemic plan and determined both adequately included the use of telework in those programs. However, the COOP does not require essential employees to take their laptop computers home in the evenings to ensure continuity of operations in the event they are unable to move to the alternate location during an emergency.

We recommended TVA management:

- Work with other TVA organizations to determine which jobs and functions in TVA are conducive to telework.
- Consider a pilot program that would be informative in future decisions concerning telework and identify ways to use telework to facilitate COOP planning and responding to emergency situations such as pandemics or natural disasters.
- Implement a telework policy that provides a method for approving employees to telework, appropriate training to supervisors and all employees authorized to telework, a tracking system for individuals who telework, and effective communication of TVA's telework policy to TVA employees.
- Consider designating a Telework Managing Officer.
- Consider requiring that essential employees take their laptop computers home at the end of their workday in the event an emergency occurs and they are unable to move to the alternative location.

The Chief Administrative Officer (CAO) and Executive Vice President (EVP), Administrative Services, agreed to work with other TVA organizations to determine which jobs and functions in TVA are conducive to telework. Upon completion of that assessment, the CAO and EVP, Administrative Services, will take appropriate actions regarding our other recommendations.



CONTRACT AUDITS

“During this period of economic uncertainty, it is more important than ever that we provide an objective analysis of the contract dollars being spent by TVA.”

DAVID P. WHEELER  
DIRECTOR  
CONTRACT AUDITS



Review of  
TVA’s Vendor  
Debarment  
and Suspension Process

We reviewed TVA’s process for ensuring it does not knowingly contract with vendors that have been: (1) debarred or suspended by the federal government and/or (2) found unsatisfactory within TVA. In summary, we determined:

- TVA does not have formal procedures for ensuring TVA does not knowingly contract with vendors that have been debarred or suspended by the federal government. However, Procurement requires its Contract Managers/Procurement Agents to review the Excluded Parties Listing System (EPLS), which is the federal government’s database of debarred and suspended vendors, before awarding contracts more than \$100,000. Although we found TVA had not awarded contracts to vendors that were included in the EPLS during our review period (2005-2008), TVA’s process was not always followed and/or documented.
- The Federal Acquisition Regulations include certain requirements that, if implemented by TVA, could improve TVA’s process and further ensure that TVA does not do business with contractors and subcontractors that are debarred or

have committed a civil or criminal offense.

- TVA does not have a formal process for internally identifying vendors that have been found unsatisfactory within TVA. The lack of such a process could result in TVA not being aware of problems it has had with vendors prior to awarding contracts to them.

We recommended TVA Procurement develop written procedures detailing its vendor debarment process. In addition, TVA should improve its process by requiring

more verification of the debarment status of contractors and subcontractors as prescribed by the Federal Acquisition Regulations, including certifications and notifications by contractors regarding debarment and/or civil or criminal actions. TVA also should develop a process for: (1) identifying TVA vendors that should be on a “watchlist” based on certain serious offenses committed by the vendor and (2) reporting any significant misconduct by contractors to the federal government.

In response to our report, TVA Procurement stated it is developing online documentation of its vendor debarment process and working with TVA’s Office of the General Counsel to: (1) determine that the best procedure for ensuring the performance history of contractors is appropriately communicated with contracting personnel for consideration in procurement actions; and (2) assess the appropriate methods to share information with other federal agencies regarding contractor performance.

Contract Compliance  
Audits

We completed audits on \$350 million of contract expenditures and found potential overbillings and waste of up to approximately \$1.2 million during this semiannual period.

Medical Benefits Plan  
Administrator

We audited \$211.6 million of costs billed to TVA by a contractor from January 1, 2006, through December 31, 2007, for the administration of TVA’s medical benefit program and found TVA had potentially been overbilled an estimated \$473,024. The overbilling included: (1) \$327,513 in potentially duplicate line item charges; (2) \$71,518 for unallowable procedures and services; (3) \$4,659 for claims that exceeded plan limits; (4) \$61,840 of audit recoveries that had not been credited to TVA; and (5) \$7,494 of miscalculated claim payments. In addition, we found TVA had been billed an additional \$1 million due to payment provisions the contractor had negotiated with some of the providers in its preferred provider organization network. These provisions, referred to as stop loss provisions, effectively offset discounts TVA would have otherwise received when providers’ costs exceeded specified amounts.

TVA management generally agreed with the audit findings and stated it planned to recover the overbilled costs with the exception of about \$55,304 in costs billed for the treatment of eating disorders and certain claims that exceeded plan limits.

Nuclear Engineering  
Services

We audited the costs billed to TVA by a contractor for providing professional engineering and technical support services associated with the restart of Browns Ferry Nuclear Plant (BFN) Unit 1. Our audit, which included \$110 million of payments TVA made to the contractor from June 2004 through October 2007, found the contractor had overbilled or not credited TVA an estimated \$276,484 for: (1) home office labor and related costs that should have been covered by the contractor’s overhead rate; (2) certain miscellaneous labor costs and markups that were not allowable; (3) unspent employee recognition costs; (4) home office computer and facility charges for some employees who did not meet the contract eligibility requirements; and (5) overbilled provisional payroll taxes and insurance. Additionally, we found that changes TVA made to the contract resulted in TVA

paying \$343,548 in excessive paid time off costs for certain contractor personnel assigned to the BFN Unit 1 project.

The contractor subsequently credited or agreed to reimburse TVA \$284,000, including \$254,700 of the overbilled costs and \$29,300 related to the excessive paid time off costs.

Asbestos Abatement  
Services

We audited \$25.24 million of costs billed to TVA by a contractor for subcontract services between September 30, 2002, and December 31, 2007. The subcontractors provided personnel to perform asbestos abatement and sampling, along with removal and installation of other insulation material at TVA nuclear plants and subsequently in support of the BFN Unit 1 Recovery Project. In summary, we found that TVA had been overbilled \$132,657 as a result of: (1) craft labor costs that were not provided for or were in excess of TVA’s Proj-

Other Projects

During this reporting period, we also provided: (1) advice to Procurement regarding commercial terms on several planned contract awards; (2) litigation support services to TVA’s Office of the General Counsel regarding a claim filed against TVA by a coal vendor; and (3) litigation support services for the United States Attorney’s Office regarding an investigation of unrecorded and lost-time injuries by a TVA contractor. ■

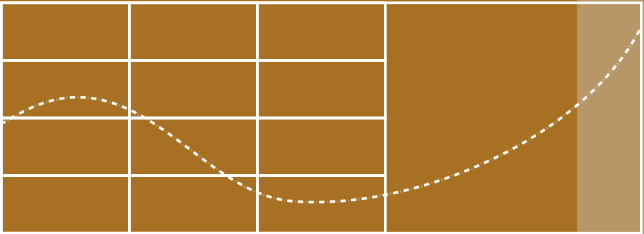
ect Maintenance and Modification Agreement; (2) duplicate billings for some materials; and (3) inaccurate insurance cost adjustments. TVA management is reviewing our findings to determine the appropriate action to take.



BROWNS FERRY



SUMMARY of  
REPRESENTATIVE  
INSPECTIONS



“With increased challenges pertaining to the Kingston Fossil Plant ash spill, the economic downturn, potential environmental regulation, and rate regulation, Inspections works to provide assurance on TVA operational excellence, accountability, and transparency.”

GREGORY C. JAYNES  
DEPUTY ASSISTANT  
INSPECTOR GENERAL,  
INSPECTIONS



Review of Contractor Qualifications for Bechtel Employees Assigned to the Watts Bar Nuclear Plant Unit Two Construction Project

We reviewed the qualifications for contractor and subcontractor employees working on the WBN Unit 2 (U2) construction project. Our objective was to assess the hiring process and determine if the contractor employees being hired met

the minimal qualifications for their designated labor category (grades). In summary, we determined:

- TVA’s engineering, procurement, and construction contract with the contractor does not include minimum requirements for any of the 20 specified labor categories. The contractor also does not have corporate criteria specifying minimum requirements for any of the categories to use as criteria for hiring at WBN U2. To establish the hiring requirements for positions at WBN U2, the contractor has relied on the job requisition process. This has resulted in varying and inconsistent minimum job position requirements.
- Requirements established through the requisitions process sometimes were not met. For example, when we compared employee qualifications to requirements in the applicable job requisitions, we found that eight of the 56 individuals reviewed, or 14.3 percent, did not meet the requirements outlined in the requisitions. However, when questioned, the contractor provided explanations and asserted that all individuals are qualified for the work being performed.

To address the issues cited in this report, we recommended TVA management:

1. Require that job requisitions include minimum requirements for each position and that they be reviewed and approved by the contractor’s human resources personnel to ensure consistency among job classifications and eliminate errors.
2. Document the rationale for acceptance of any candidates that do not meet the minimum requirements, but are deemed qualified for the position.
3. Evaluate the qualifications of the employees that do not meet the qualifications listed in their job requisitions and determine if they are qualified to perform their assigned work.
4. Take steps to ensure resumes are thoroughly reviewed and identified discrepancies are resolved prior to individuals being hired.

Management has completed actions which address our recommendations.



Contractor Tool Program for the Watts Bar Nuclear Plant Unit Two Construction Project

The objective of our review was to assess the procedures and key control activities used to track and account for tools on the WBN U2 Construction Project. Our review of the WBN U2 Project tool program found: (1) nothing to indicate significant discrepancies in the tool inventory at this time; (2) data entry errors in the Tool Hound System; (3) opportunities to improve controls based on our review of the contractor’s Small Tools and Small Capital Equipment Procedure; and (4) some noncompliance with the contractor’s Small Tools and Small Capital Equipment Procedure. We recommended the contractor: (1) ensure accuracy of data entry in the Tool Hound system; (2) consider modifying the contractor’s WBN U2 Project small tool procedure to include the additional control opportunities identified and the value criteria for bulk items; (3) ensure compliance with the contractor’s Small Tools and Small Capital Equipment Procedure; and (4) enhance controls over inventory contained in unlocked sea/land containers. Management agreed with our findings and has initiated or plans to initiate corrective action.

TVA Worker’s Compensation Program

We conducted a review of the TVA workers’ compensation (WC) program to determine whether TVA’s WC program was: (1) complying with applicable laws and regulations and (2) adequately support-

ing TVA organizations. We reviewed 30 claims and found that TVA’s WC program was generally complying with applicable laws and regulations. However, we did note the following when reviewing claim documentation:

- Of the 30 claims reviewed, 12 were disputed by TVA, and for two of these 12, the dispute letter was not submitted within 30 days after the notice of injury as required by the Code of Federal Regulations (CFR).
- One claim did not include the supervisor’s signature on the form.
- There was one instance where the claim was not submitted to the Office of Workers’ Compensation Programs (OWCP) within 10 business days due to a supervisor not forwarding his/her completed portion of the form within the allotted eight days as required by CFR and Benefits Practice 9, respectively.

The prescribed services for TVA’s WC department and assigned site personnel go beyond the Federal Employees’ Compensation Act WC requirements. However, when we interviewed selected managers, nurses, TVA site WC contacts, and other staff at seven TVA sites, we were told the WC program support could be improved. Areas cited included:

- Increasing the expertise in the WC department, including the medical knowledge of personnel.
- Improving education and training for personnel responsible for facilitating the WC process at TVA sites.
- Enhancing communications from the WC department.



- Addressing the abundance of hearing loss claims.
- Management generally agreed with the findings and recommendations and has initiated or plans to initiate corrective action.

TVA Purchasing Card Program

We reviewed TVA’s VISA purchasing card program to: (1) identify and assess the operating effectiveness of controls over the program; and (2) determine if they incorporate identified best practices. The charts below show trends in purchasing card use over a 12-year horizon. The scope of the project covered all transactions from October 1, 2005, through December 31, 2007. Our review determined the following:

- Key internal controls were not functioning as intended with regard to: (1) the review of purchasing card transactions and their supporting documentation and (2) transaction limits.
- Certain purchases were made that were disallowed by TVA policy or questionable in nature.
- TVA’s purchasing card program incorporates some best practices, but key best practices are absent.
- TVA employees were not reporting all instances of known or suspected waste, fraud, and abuse or violation of law to the OIG as required by Business Practice 2.

Management agreed with most findings and recommendations and has initiated or plans to initiate corrective action.

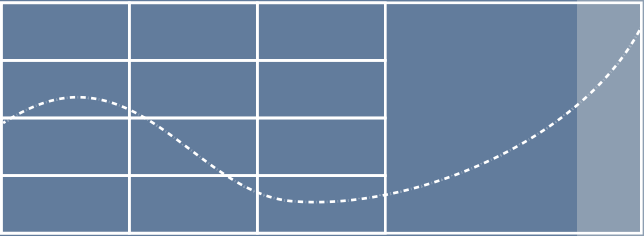
HISTORY OF PURCHASING CARD TRANSACTIONS WITH TRANSACTION AMOUNTS GREATER THAN \$5,000



TVA VISA PURCHASING CARD TRANSACTION HISTORY



SUMMARY of  
REPRESENTATIVE  
INVESTIGATIONS



*During the past six months, we closed 91 cases. While our emphasis remains on major fraud investigations, we have redirected the necessary resources to meet the challenges presented by recent environmental events. Our cases resulted in 4 indictments; 3 convictions; more than \$4.8 million in fines and restitution orders; and a civil settlement of \$6.2 million. Our administrative cases were referred to management, and responses were tracked. We have continued our support of and engagement in an Environmental Crimes Task Force, an Electronic Crime Task Force, a Health Care Fraud Task Force, and two Regional Procurement Fraud Working Groups. We hired a new Special Agent for our Nashville, Tennessee office, and reallocated onboard support personnel to our Huntsville, Alabama office.*

**Actions in Criminal Investigations - Convictions**

“The OIG is uniquely tasked with distilling complex, interrelated issues and providing objective, unbiased reporting. In difficult times like these, we are reminded of our commitment to independence.”

**PAUL B. HOUSTON**  
SPECIAL AGENT IN  
CHARGE  
INVESTIGATIONS



**Civil Settlement for \$6.2 million Reached with Contractor**

TVA contractor SWCI agreed to pay \$6.2 million to resolve a contract fraud investigation. SWCI, one of TVA’s largest contractors during the period under review, provides maintenance and modification work at TVA’s nuclear power plants. The United States Attorney’s Office in Knoxville, Tennessee, working with TVA OIG and the Department of Justice in Washington D.C., reached a settlement with SWCI as a result of a lengthy investigation into alleged false claims and contract fraud against TVA. The settlement agreement addresses the contention by the United States that SWCI presented false or fraudulent claims to TVA for reimbursement in violation of the False Claims Act for certain performance fee bonuses SWCI claimed for meeting safety goals at the three TVA nuclear plants located in Alabama and Tennessee. The false claims totaled nearly \$3.1 million. SWCI records understated the number and severity of work related injuries during the years 2004 through 2006. The settlement provides that SWCI will pay the United States \$6.2 million, the equivalent of double damages. Out of this settlement, TVA will receive reimbursement of the amount paid on the false claims plus the cost of the investigation. In addition to payment of the \$6.2 million, SWCI has entered into a comprehensive two-year Corporate Integrity and Monitoring Agreement with the OIG to ensure that SWCI im-

plements a Compliance and Ethics Program applicable to all work or service provided to TVA and that SWCI fully complies with TVA’s policies and directives related to its contracts. This is the first Corporate Integrity and Monitoring Agreement in TVA history between the OIG and a TVA contractor.

**Two Convicted on Economic Development Loan Fraud**

Lloyd Aaron Smith and Neal Gordon Wall each pled guilty to bank fraud, mail fraud, and nine counts of money laundering relating to the misuse of loan proceeds from loans obtained from TVA and the Citizens Bank of Hickman, Kentucky. The two loans restricted the use of loan proceeds to expenditures related to the operation of a textile plant that Smith and Wall opened in Hickman, Kentucky. Despite the restrictions, Smith and Wall used approximately \$134,000 of a \$5 million Citizens Bank loan to pay off a debt owed on an unrelated business venture using fraudulent invoices. The two men also obtained a \$500,000 loan from TVA in November 2003 for the purchase of equipment at the Hickman Mills plant, but they diverted the funds to pay an overdraft on an unrelated business account. Smith pled guilty mid-trial in October 2008 and Wall pled guilty in November 2008. On February 11, 2009, Wall and Smith both were sentenced in the U.S. District Court in Paducah, Kentucky. Smith received 30 months incarceration, and Wall received 27 months carcera-



tion. They were jointly and severally ordered to pay restitution in the amount of \$420,733.37 directly to TVA and \$4,104,562.51 to the Citizens Bank of Hickman or USDA, and assessed \$1,100.

CRIMINAL ACTIONS  
IN ENVIRONMENTAL  
VIOLATIONS

Operator of Tennessee  
Wastewater Treatment  
Plant Sentenced in Clean  
Water Act Violation

In November 2008, an operator at a Tennessee wastewater treatment plant was sentenced to a term of 18 months probation, 40 hours of community service, and a \$100 special assessment after he pled guilty to one felony count under the Clean Water Act. The operator was sentenced in the United States District Court, Eastern District of Tennessee, in Knoxville, Tennessee. TVA OIG special agents are members of the Environmental Crimes Joint Task Force, Eastern District of Tennessee, which initiated this investigation after an anonymous complaint was received alleging falsification of monthly operating reports. The investigation was worked jointly with EPA CID. The complaint alleged the operator falsified reports specifically regarding the fecal coliform and chlorine tests for discharge that flowed into a creek ending in the Tennessee River, which is part of the TVA Watts Bar Watershed area. The operator falsely indicated that the requisite E. coli bacteria testing had been performed when it had not.

Heraeus Metal Processing,  
Inc., Pleads Guilty

Heraeus Corporation pleaded guilty in January 2009 to a one-count Information, charging it with making false statements in and omitting information from a document required to be maintained pursuant to the Clean Air Act. The corporation was sentenced to pay a \$350,000 fine and serve 18 months of probation. Heraeus Corporation, located in Wartburg, Tennessee, reclaims silver and other precious metals through the use of furnaces in a high-temperature reclamation process. The resultant emissions are filtered using wet scrubbers. Environmental Crimes Joint Task Force, Eastern District of Tennessee, initiated this investigation based on allegations that operating logs had been falsified and discovered that HCF had possibly violated the Clean Water Act.

ADMINISTRATIVE  
INVESTIGATIONS

“TVA is facing the most difficult financial and environmental challenges I have seen in 25 years. Now, more than ever, we must protect TVA’s assets. By continuing to fight fraud and to prevent waste and abuse, the OIG can help TVA maintain the quality of life of the people in the Tennessee Valley.”

NANCY J. HOLLOWAY  
SPECIAL AGENT IN  
CHARGE  
INVESTIGATIONS



Hangman’s Noose  
Investigations at  
Kingston Fossil Plant  
(KFP) and Widow’s Creek  
Fossil Plant (WCF)

A hangman’s noose was found at KFP in September 2008, hanging approximately 20 feet from a stairway. In conjunction with TVA Police, interviews were conducted of witnesses and individuals who might have been in the area of the location of the noose. TVA Fossil Power Group management issued a memorandum to KFP employees stating this behavior would not be tolerated. In addition, TVA offered a \$5,000 reward for information leading to the confirmed positive identification of the person(s) responsible for the placement of the hangman’s noose. During this investigation, another hangman’s noose was found by KFP personnel hanging approximately 30

feet in the air on structural steel outside of the Selective Catalytic Reduction (SCR). According to plant personnel, this hangman’s noose had been hanging from the SCR since it was built more than four years ago. The noose was removed. There was no indication this noose was related to the noose found in September. As of March 31, 2009, no information has been developed to identify the person(s) responsible for the hangman nooses.

In a separate matter, an alleged noose was found at the WCF on the morning of August 22, 2008, by a TVA employee performing a plant walk-down inspection of the A side pulverizer basement. While performing the inspection, he discovered a length of rope, approximately 30 feet in length, suspended from the catwalk, with a knot and loop at the end of the rope which had the possible appearance of a hangman’s noose. TVA Police was notified and responded, and the rope was removed and confiscated. TVA HR reported the incident to the OIG. A detailed TVA OIG investigation determined that the rope was, in fact, a tie-off rope used to suspend vacuum tubing for fly ash removal.

Port Scanning Incident  
at Allen Fossil Plant

We received a report from TVA Management regarding an incident of computer port scanning at a TVA facility. According to TVA’s Information Services, an external port scan was conducted on a source computer at Allen Fossil Plant, located in Memphis, Ten-

nessee. The source computer was assigned to a TVA contractor. Our investigation revealed a Cyber Security contractor performed work outside the scope of his contract in conducting the port scan from an external Web site to an internal TVA computer. The contractor admitted that he was aware this was not within his project role. However, this unauthorized diagnostic scan identified issues for TVA to remediate. We recommended TVA review the contract to determine the relevance and necessity of contractors having TVA log-on capability and their ability to operate independently of direct TVA supervision. Additionally, we recommended TVA look further into this matter to determine relevant IS security concerns and weaknesses of TVA systems. TVA has informed us that they took the necessary corrective actions.

Employment Restriction  
Placed on Contractor  
for Threatening  
Physical Violence at  
TVA Fossil Plant

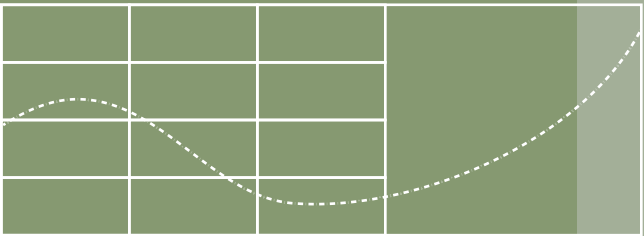
We conducted an investigation into the allegation that a mowing contractor at TVA’s John Sevier Fossil Plant had threatened a TVA employee and plant personnel were concerned for their safety. During our investigation,

we became aware of other related behavior that required action by local law enforcement. TVA terminated the contract with this individual, and a personnel restriction was issued to require review of this information before future employment. ■



ALLEN FOSSIL PLANT

LEGISLATION *and*  
REGULATIONS



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

Major pieces of legislation being followed by the TVA OIG during the past six months include:

**H.R. 478 – Federal Agency Performance Review and Efficiency Act**

This would amend the IG Act by adding a requirement to make it the “principal duty and responsibility” of IGs to conduct annual performance reviews of every agency program to identify which are inefficient, ineffective, duplicative, or mismanaged. Under the IG Act, IGs already have general, broad authority to recommend policies to promote economy and efficiency and to recommend corrective action concerning “fraud, and other serious problems, abuses, and deficiencies relating to the administration of agency programs and operations.” 5 U.S.C. App. 3, § 4(a)(3) and (5). The Legislation Committee of the Council of the Inspectors General on Integrity and Efficiency is closely following this legislation and representing the IG community on this matter.

**H.R. 854 – Over-Classification Reduction Act**

The stated purpose of this legislation is to increase government-wide information sharing and the availability of information to the public by applying standards and practices to reduce improper classifications. This act requires the Inspector General of each federal agency that employs an individual with original or derivative classification authority to randomly audit classified information from each agency component with employees who have classification authority, in order to assess whether applicable classification policies, procedures, rules, and regulations have been followed.

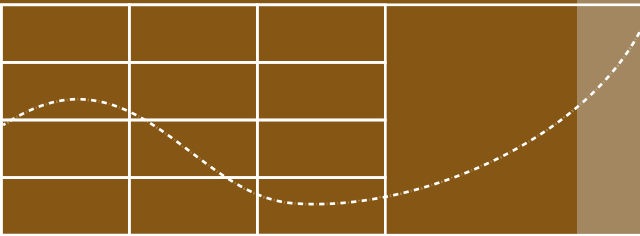
**H.R. 493 – Coal Ash Reclamation, Environment and Safety Act of 2009**

This act imposes uniform federal design, engineering, and performance standards on new coal ash impoundments; and directs the conduct of an inventory of existing coal ash impoundments and the risks each poses to groundwater, human health and the environment. It also requires monitoring and inspection regimes for both existing and future coal ash impoundments.

**S.141 – Protecting the Privacy of Social Security Numbers Act**

The thwarting of fraud, identity theft, and stalking by placing additional constraints on the access to social security numbers is the goal of this piece of legislation. The act prohibits the sale or display of social security numbers to the general public without an individual’s consent. The bill also requires government agencies to take steps to protect social security numbers from being displayed or accessed. ■

APPENDICES



Appendix I

INDEX ON REPORTING REQUIREMENTS UNDER THE IG ACT

REPORTING	REQUIREMENT	PAGE
Section 4(a)(2)	Review of Legislation and Regulations	36-37
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	22-35
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, and Deficiencies	22-35
Section 5(a)(3)	Recommendations Described in Previous Semiannual Reports in Which Corrective Action Has Not Been Completed	Appendix V
Section 5(a)(4)	Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix IV
Section 5(a)(5) and 6(b)(2)	Summary of Instances Where Information was Refused	None
Section 5(a)(6)	Listing of Audit and Inspection Reports	Appendix II
Section 5(a)(7)	Summary of Particularly Significant Reports	22-35
Section 5(a)(8)	Status of Management Decisions for Audit and Inspection Reports Containing Questioned Costs	Appendix III
Section 5(a)(9)	Status of Management Decisions for Audit and Inspection Reports Containing Recommendations That Funds Be Put to Better Use	Appendix III
Section 5(a)(10)	Summary of Audit and Inspection Reports Issued Prior to the Beginning of the Reporting Period for Which No Management Decision Has Been Made	None
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	None
Section 5(a)(13)	Information under Federal Financial Management Improvement Act of 1996	None



Appendix II

AUDIT AND INSPECTION REPORTS ISSUED — AUDITS

Report Number and Date	Title	Questioned Costs	Unsupported Costs	Funds to be Put to Better Use
CONTRACT				
2007-11078 11/21/2008	Bechtel Power Corporation	\$ 620,032	\$ 343,548	\$ 0
2008-11504 11/21/2008	Vulcan Insulation (Shook & Fletcher)-Subcontract with Stone & Webster Construction, Inc.	132,657	16,569	0
2008-11985 02/19/2009	TVA Vendor Debarment and Suspension Process	0	0	0
2008-11674 02/24/2009	BlueCross BlueShield of Tennessee	473,024	61,840	0
FINANCIAL/ OPERATIONAL				
2008-12062 10/24/2008	Agreed-Upon Procedures for TVA Fiscal Year 2008 Performance Measures	\$ 0	\$ 0	\$ 0
2008-11942 11/20/2008	TVA Telework Initiatives	0	0	0
2008-12076 12/11/2008	Monitoring of PricewaterhouseCoopers’ Audit of the Restatement of TVA’s Fiscal Years 2006 and 2007 Financial Statements	0	0	0
2008-11528 12/16/2008	Monitoring of Ernst and Young’s Audit of TVA’s Fiscal Year 2008 Financial Statements	0	0	0
2008-12043 01/07/2009	Sarbanes-Oxley 404 Testing – Business Processes	0	0	0
INFORMATION TECHNOLOGY				
2008-11984 11/14/2008	eFMS Application – SOX 404 Testing	\$ 0	\$ 0	\$ 0
2008-12034 01/15/2009	Sarbanes-Oxley 404 Testing – IT General Controls and Application Excep- tion Narratives	0	0	0
2008-11965 02/04/2009	Contractor Workforce Management – Access and General Controls	0	0	0
2008-11714 02/11/2009	Surplus and Disposal of Computer Equipment	0	0	0
2009-12402 03/25/2009	IT Access Request System Pre-Implementation Evaluation	0	0	0
TOTAL:	14	\$ 1,225,713	\$ 421,957	\$ 0

AUDIT AND INSPECTION REPORTS ISSUED — INSPECTIONS

Report Number and Date	Title	Questioned Costs	Unsupported Costs	Funds To Be Put To Better Use
2008-11591 10/01/2008	Qualifications of Contractor Employees Assigned to Watts Bar Nuclear Plant Unit 2 Construction Project	\$ 0	\$ 0	\$ 0
2008-11911 12/11/2008	Contractor Tool Program for Watts Bar Nuclear Plant Unit 2 Construction Project	0	0	0
2007-11481 01/20/2009	TVA Purchasing Card Program	0	0	0
2007-11474 03/02/2009	TVA Worker’s Compensation Program	0	0	0
TOTAL:	4	\$ 0	\$ 0	\$ 0

Appendix III

TABLE I: AUDITS — TOTAL QUESTIONED AND UNSUPPORTED COSTS

Audit Reports	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the period	1	\$ 110,429 <sup>1</sup>	\$ 0
B. Which were issued during the reporting period	3	1,225,713	421,957
Subtotal (A+B)	4	1,336,142	421,957
C. For which a management decision was made during the reporting period	4 <sup>2</sup>	1,336,142	421,957
1. Dollar value of disallowed costs	4	828,697	107,747
2. Dollar value of costs not disallowed	3	507,445	314,210
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> This amount has been restated from the prior semiannual report. The amount for which no management decision was made by the end of the reporting period was incorrectly reported in the prior semiannual report in this table as \$1,193,194.

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

TABLE I: INSPECTIONS — TOTAL QUESTIONED AND UNSUPPORTED COSTS

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	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

Appendix III (Continued)

TABLE II: AUDITS — FUNDS TO BE PUT TO BETTER USE

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	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

TABLE II: INSPECTIONS — FUNDS TO BE PUT TO BETTER USE

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	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

Appendix IV

INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

Referrals		
Subjects Referred to U.S. Attorneys		18
Subjects Referred to State/Local Authorities		1
Results		
Subject Indicted		4
Subjects Convicted		3
Referrals Declined		10

Appendix V

AUDIT AND INSPECTION REPORTS WITH CORRECTIVE ACTIONS PENDING

As of the end of the semiannual period, final corrective actions associated with one audit and three inspections were not completed within one year of the final report date. The report number and date, along with a brief description of the open recommendation(s) and target completion date for final action where available, are presented below.

Audit Report Number and Date	Report Title And Recommendation(s) For Which Final Action Is Not Complete
2007-11348-01 03/26/2008	<b>IT Security Organizational Effectiveness</b>  Recommendations were made for the improvement of strategy, planning and coordination, organization design, staffing and development, policies, and performance measurement. TVA management agreed with the OIG findings and has completed actions on the strategy aspect of the recommendations. Management is in the process of implementing program and organizational improvements, and action plans are scheduled for completion by June 30, 2009.

Inspection Report Number And Date	Report Title And Recommendation(s) For Which Final Action Is Not Complete
2005-518I 08/31/2005	<b>Physical and Environmental Controls for the Chattanooga Data Center</b>  The voice communication project was delayed by the Information Systems (IS) organization due to other projects of higher priority impacting the organization’s schedule. According to IS, project approval has been obtained and work has started to assess the current infrastructure as it relates to the voice communication system and the appropriate direction for future implementations. This work should be completed in three months. Once the plan is complete, a firm date for final action will be determined. However, the best estimate for completion of final action at this time is December 2010.
2005-522I 06/13/2006	<b>TVA’s Role as a Regulator</b>  We recommended the Chief Financial Officer: (1) continue to evaluate TVA’s role as regulator as the issues of deregulation and customer choice evolve; (2) formalize procedures to ensure consistent review of (a) distributor financial information, including whether additional guidance should be developed to ensure the public interest of low rates is achieved, and (b) business plans which propose the use of electric system revenues for non-electric system purposes; and (3) ensure that contract modifications are executed for any distributors approved to use electric system revenues for nonelectric system purposes. Management in collaboration with the Board is addressing the findings in the report and developing corrective action. A TVA Regulatory Committee comprised of officers of the company has been established to implement corrective actions. The TVA Board is keenly interested in this topic and has requested and received additional information on TVA regulatory authority and scope.
2006-513I 09/14/2006	<b>TVA’s Succession Planning</b>  We recommended TVA management ensure complete implementation of the Knowledge Retention Initiative, which supports compliance with and the success of the Integrated Staffing Plan Principle and emphasizes the importance of pipeline hiring to move TVA more towards being a developmentally oriented business. TVA management is currently reviewing this inspection and actions already taken in response to the report to determine what, if any, additional actions are warranted. Management said it will soon provide additional information regarding this recommendation.

Appendix VI

	Mar 31, 2009	Sept 30, 2008	Mar 31, 2008	Sept 30, 2007	Mar 31, 2007
Audits					
Audits In Progress					
Carried Forward	28	47	35	36	16
Started	59	53	52	72	42
Canceled	(3)	(2)	(2)	(7)	(4)
Completed	(14)	(70)	(38)	(66)	(18)
In Progress At End Of Reporting Period	70	28	47	35	36
AUDIT RESULTS (THOUSANDS)					
Questioned Costs	\$1,226	\$3,609	\$774	\$4,635	\$1,252
Disallowed By TVA	829	1,802	370	3,324	1,429
Recovered By TVA	644	676	3,339	1,274	695
Funds To Be Put To Better Use					
Agreed To By TVA	0	28,120	53,987	8,529	4,534
Realized By TVA	0	26,460	53,987	948	3,603
OTHER AUDIT-RELATED PROJECTS					
Completed	8	7	6	17	12
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$0	\$0	\$103
INSPECTIONS					
Completed	4	16	8	16	7
Cost Savings Identified/Realized (Thousands)	\$0	\$0	\$0	\$15	\$15
Investigations <sup>1</sup>					
INVESTIGATION CASELOAD					
Opened	171	161	155	113	73
Closed	91	135	121	121	50
In Progress At End Of Reporting Period	280	200	174	140 <sup>2</sup>	148 <sup>2</sup>
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$10,725.3	\$632.6	\$25,262	\$27	\$332
Savings	0	0	4,137	575	88
Fines/Penalties	352.7	1.6	206	1	10
MANAGEMENT ACTIONS					
Disciplinary Actions Taken (# Of Subjects)	3	15	9	8	4
Counseling/Management Techniques Employed (# Of Cases)	1	6	16	3	7
PROSECUTIVE ACTIVITIES (# Of Subjects)					
Referred To U.S. Attorneys	18	7	19	5	6
Indicted	4	14	4	6	2
Convicted	3	3	3	2	2

<sup>1</sup> These numbers include task force activities and joint investigations with other agencies.  
<sup>2</sup> Adjusted from previous semiannual report.

Glossary

Disallowed Cost

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

Final Action

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

Funds Put To Better Use

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

Management Decision

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

Questioned Cost

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

Unsupported Costs

A cost that is questioned because of the lack of adequate documentation at the time of the audit.

Abbreviations and Acronyms

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

BFN .....	Browns Ferry Nuclear Plant
CAO .....	Chief Administrative Officer
CFO .....	Chief Financial Officer
CFR.....	Code of Federal Regulations
COOP .....	Continuity of Operations Plan
CID.....	Criminal Investigation Division
E&Y .....	Ernst & Young, LLP
EPA .....	Environmental Protection Agency
EVP .....	Executive Vice President
FY .....	Fiscal Year
IG .....	Inspector General
IG Act.....	Inspector General Act Amendments of 1988
IS.....	Information Services
IT.....	Information Technology
KFP .....	Kingston Fossil Plant
OIG .....	Office of the Inspector General
OWCP .....	Office of Workers’ Compensation Programs
SCR .....	Selective Catalytic Reduction
SEC.....	Securities and Exchange Commission
SOX .....	Section 404 of the Sarbanes-Oxley Act of 2002
SWCI.....	Stone & Webster Construction, Inc.
TVA .....	Tennessee Valley Authority
WBN U2 .....	Watts Bar Nuclear Plant Unit 2
WC .....	Workers’ Compensation
WCF.....	Widows Creek Fossil Plant



## 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. ■

## Web Page

We invite you to take a tour of our Web site at [www.oig.tva.gov](http://www.oig.tva.gov). From this site you can sign up for automatic notification when new audits or inspections are posted. You also will find a news release section with the latest OIG information released to the media.

Come visit us at [www.oig.tva.gov](http://www.oig.tva.gov). ■

## Tennessee Valley Authority Office Of The Inspector General

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

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

If you would like to report to the OIG any concerns about fraud, waste, or abuse involving TVA programs or violations of TVA's Code of Conduct, you should contact the OIG Empowerline system. The Empowerline is administered by a third-party contractor and can be reached 24 hours a day, seven days a week, either by a toll-free phone call (1-877-866-7840) or 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. ■



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