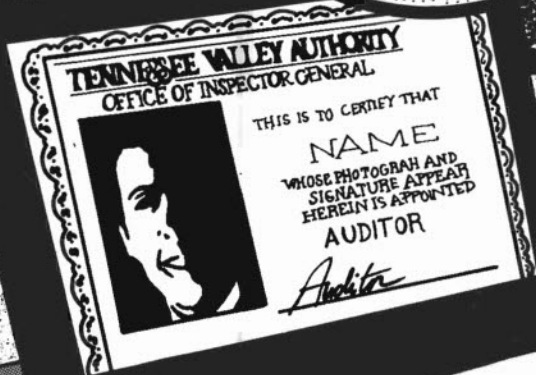


**TENNESSEE  
VALLEY AUTHORITY  
OFFICE OF THE  
INSPECTOR GENERAL  
SEMIANNUAL REPORT**

April 1, 1987 through  
September 30, 1987



**TENNESSEE VALLEY AUTHORITY**  
Office of the Inspector General  
**REPORT OF ADMINISTRATIVE INQUIRY**

Title of Case :

Report of Audit  
TENNESSEE VALLEY AUTHORITY  
Office of the Inspector General

Date of Report

Audit Period

Division of Audit

File Number

Auditee

Number 3  
October 30, 1987

# TENNESSEE VALLEY AUTHORITY

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400 West Summit Hill Drive, E4 A14  
Knoxville, Tennessee 37902

October 30, 1987

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS:

This is the third "Semiannual Report" of the Office of the Inspector General. It describes our significant audit and investigatory activities from April through September 1987.

During this period, we audited and investigated matters of critical importance to TVA and the public. We investigated bomb threats, drug abuse, concerns by employees about TVA's nuclear program, and allegations of fraud and misconduct. At the request of the Office of Government Ethics, we have monitored TVA's compliance with the guidelines TVA adopted to help prevent conflicts of interest from occurring in its nuclear program.

We have reviewed management's guidelines for developing information for the TVA Board of Directors, as well as other management processes. We have audited claims by contractors seeking millions of dollars from TVA, and we are currently reviewing TVA's financial processes.

One matter which we identified in our last semiannual report continues to be unresolved. The TVA Retirement System Board of Directors objects to a full-scope OIG review of the economy, efficiency, and effectiveness of the system's operations. However, the TVA Board of Directors has recently received an opinion from TVA's General Counsel which describes the Board's rights and obligations with respect to the Retirement System, including advice on the Board's authority to require the system to submit to a comprehensive audit.

The last six months have been productive. The first year of organizing and staffing the office is returning benefits. To the advantage of the ratepayers and the public, we are affecting the reasonableness of costs, assurances of safety, fairness of practices, and accountability processes.

Since the OIG's inception, we have been supported by the TVA Board of Directors, senior TVA managers, TVA employees, Members of Congress, and the public. We draw strength from this strong support and will continue to work to justify the confidence that has been placed in us.

Sincerely,

Norman A. Zigrossi  
Inspector General

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## EXECUTIVE SUMMARY

The Office of the Inspector General's third semiannual report describes audit and investigative activities during the period April through September 1987. New information is provided on two regulatory oversight issues which were discussed in the last semiannual report. They concern the Nuclear Regulatory Commission and the Office of Government Ethics.

In coordination with the Nuclear Regulatory Commission, we selected 685 "employee concerns" alleging misconduct that appeared to relate to nuclear safety. A private contractor identified these concerns in 1985. During this period, 80 additional concerns have been received from TVA's Office of Nuclear Power. Investigations disclosed that 25 percent were related to safety policies and practices (see Chapter Two). The other 75 percent related only indirectly to safety: 15 percent related to ethical conduct (see Chapter Three), and 60 percent to personnel practices (see Chapter Four).

Ninety-three of the selected concerns have been substantiated, 65 during this period. Of the 65 concerns, 16 alleged misconduct related to safety, 11 related to ethics, and 38 related to personnel practices. TVA is taking corrective action.

The Office of Government Ethics asked us to monitor TVA's efforts to prevent and detect conflicts of interest in contracts for nuclear management. OGE required TVA to restructure the contracts and to establish guidelines for preventing conflicts of interest.

Allegations have been received through the monitoring program, but evidence did not substantiate them. To improve monitoring capability, we recommended that TVA promptly and accurately report any reassignments of loaned managers and advisors who are under contract. TVA has improved reporting controls.

Audits and investigations have focused on five important assurances which cover TVA's accountability to the public and the ratepayers. These assurances concern economical rates, safe operations, ethical conduct, fair personnel practices, and fair reporting.

### **Assurances of Fair Rates**

Audits of 16 contractors questioned claims of over \$5 million; \$2.7 million has been recovered to date. Another \$1.3 million was avoided during negotiations for a new contract. Three audits had been requested by TVA's Office of the General Counsel to assist in litigation of claims.

Improved contracting policies and procedures, including the adoption of standardized cost principles, could have prevented unnecessary costs. Audits identified questionable contractor rates, workhours, fringe benefits, overhead costs, and profits.

Full compliance with existing policies and procedures would have assured more economy and efficiency in contracting. Approved contracts or supplements should precede contract performance, competition should be used when appropriate, and cash advances to contractors should be limited to cash needs.

An investigative project identified 89 questionable claims for workers' compensation benefits. Investigations of four claims resulted in cost avoidance of over \$1 million and two referrals to the U.S. Attorney—one for \$90,000 and another for \$6,500.

Eleven bomb threats were made against a TVA headquarters building, resulting in evacuation costs to TVA totaling over \$500,000. The suspect has been indicted by a Federal Grand Jury, and there have been no subsequent bomb threats. TVA has increased security at the building that was involved.

#### **Assurances of Safety**

Twenty-eight employees at two TVA nuclear plants were tested for the presence of either marijuana, cocaine, or amphetamines. The results of 16 tests indicated drug use.

Management should improve controls and procedures to assure prompt resolution of environmental compliance audit findings. Also, the environmental audit section should be supervised by a unit without environmental compliance responsibilities.

Investigators have reviewed allegations of misconduct and falsification of records. The investigations have resulted in 26 referrals to the U.S. Attorney and two resignations. We recommended 60 disciplinary actions. TVA terminated employment of nine people, suspended 15, and took other corrective actions.

#### **Assurances of Ethical Conduct**

TVA provides health insurance to salary policy employees at reasonable premiums as compared to other Federal agencies. Our audits determined that the operating results for the trades and labor and salary policy insurance plans were reported fairly for claim years 1982 through 1986.

#### **Assurances of Fair Personnel Practices**

TVA management does not have complete guidelines for offices to use in developing information for the TVA Board of Directors. We recommended a framework for management to use when improving guidelines for: (1) identifying appropriate decision levels, (2) ensuring information quality, (3) recording and communicating decisions, and (4) evaluating and reporting performance.

#### **Assurances of Fair Reporting**

Responsibility for nuclear plant security was shifted from the central Public Safety Service to the Office of Nuclear Power. We recommended that TVA rescind this action and clarify the Public Safety Service's law enforcement authority.

For more than a year, the TVA Retirement System's Board of Directors has denied the OIG complete audit access to retirement system records. The retirement system has nearly \$2 billion in assets not fully protected by oversight provisions of Federal pension laws, and asset management has not been subjected to regular governmental or TVA review. The TVA Board recently obtained a legal opinion including advice on its authority to review the operations of the retirement system.



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## INTRODUCTION

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TVA decisionmakers are accountable to the ratepayers and the public. This semi-annual report summarizes the results of OIG audits and investigations in context of five aspects of accountability: economical rates, safe operations, ethical conduct, fair personnel practices, and fair reporting.

### The Five Chapters

TVA power and natural resource programs must be equitable and economical. This chapter addresses the reasonableness of selected costs which eventually must be borne by the ratepayers and taxpayers. During the last six months, we reviewed certain activities to determine whether operations were efficient and costs claimed by contractors were reasonable.

#### **Assurances of Fair Rates**

TVA must assure that its practices are safe to individuals and the environment. Safety is a right of everyone and therefore deserves special attention.

#### **Assurances of Safety**

This chapter addresses selected management processes affecting the health of TVA employees and Tennessee Valley residents. During the last six months, investigations have focused heavily on interests of TVA management and the Nuclear Regulatory Commission and on allegations of drug abuse by TVA employees.

Actions of TVA employees and contractors must be ethical. This chapter addresses compliance with codes and laws governing behavior. During the last six months, the OIG has investigated alleged unethical actions and has evaluated selected systems for preventing such actions.

#### **Assurances of Ethical Conduct**

TVA personnel practices must be fair to employees and contractors. This chapter addresses audits of selected practices affecting fair treatment of employees and investigations of alleged violations of individual rights.

#### **Assurances of Fair Personnel Practices**

TVA activities must be reported fairly under accepted standards. Fair reporting is essential to accountability. This chapter addresses selected evaluations of reporting activities and the need for TVA guidelines to clarify decision levels, control information quality, communicate decisions, and evaluate and report results.

#### **Assurances of Fair Reporting**

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## INTRODUCTION

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### OIG Operations

During this reporting period, there were 1,264 active OIG projects which included 1,187 investigations and 77 audits.

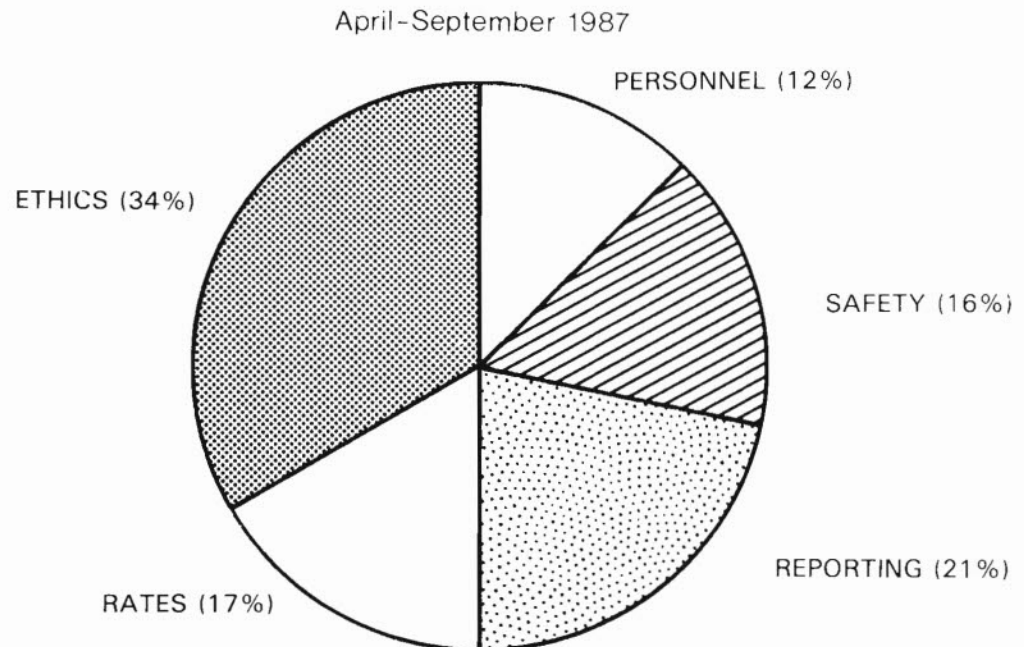
Investigators have completed 511 cases. Appendix A includes a table describing the investigative caseload. Appendix B lists cases pending opinions of the U.S. Attorney and summarizes investigative reports issued during the past six months.

Nearly all allegations were received from three sources: a private contractor hired by TVA to document employee concerns, the OIG Hotline, and other direct referrals. (See Appendix C for information on the Hotline.)

We have completed 26 audits—16 related to contractor activities and 10 related to internal TVA operations. Appendix D includes a list of audit reports issued.

During this period, the OIG had 58 auditors, 35 investigators, and 19 contract personnel. Their efforts were allocated to issues affecting rates, safety, ethics, personnel practices, and reporting.

### ALLOCATION OF AUDIT AND INVESTIGATIVE EFFORTS



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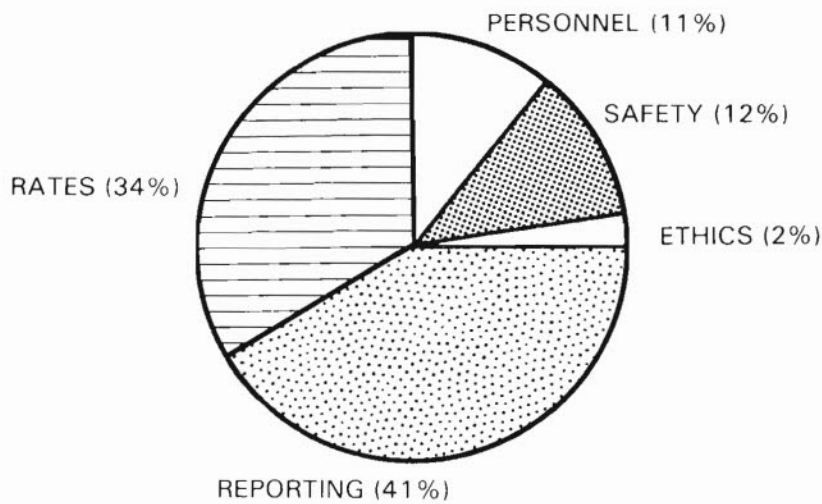
## INTRODUCTION

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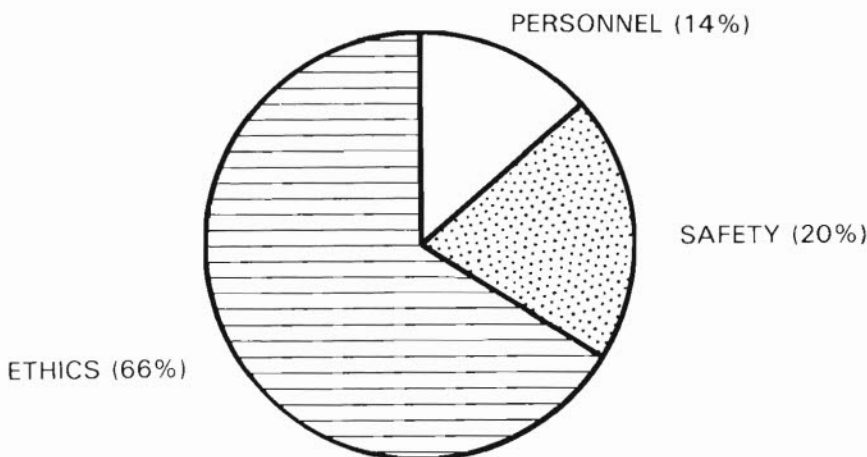
We invested over 10 percent of our efforts in this period toward investigating the concerns of interest to the NRC, including 685 documented by a private contractor.

Audit and investigative activities had a complementary effect during the past six months. Audits focused primarily on fair reporting and economy questions while investigations focused on ethical conduct, fair personnel practices, and safety processes. Many investigations were related to concerns of interest to the Nuclear Regulatory Commission.

### ALLOCATION OF AUDIT AND INVESTIGATIVE EFFORTS



**Audit Efforts**  
April-September 1987



**Investigative Efforts**  
April-September 1987



# CHAPTER ONE

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## ASSURANCES OF FAIR RATES

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TVA power and natural resource programs must be equitable and economical to provide the lowest practical rates to consumers. This chapter addresses the reasonableness of costs which eventually must be borne by the ratepayers and taxpayers. We reviewed selected operations and contracts to determine whether:

- Costs claimed by contractors were reasonable and consistent with contract terms;
- Contracts were formulated and administered to assure desired results; and
- Internal operations were efficient and economical.

### Cost Claimed by Contractors

During the past six months, we issued 15 reports on audits of contractors. Three of these audits were requested by TVA's General Counsel to assist in litigation of claims.

Auditors questioned contractor claims of over \$5 million; \$2.7 million has been recovered to date. Another \$1.3 million was avoided during negotiations for a new contract. The most significant audits are highlighted below.

A contractor annually charges over \$100 million for mining operations at TVA's Camp Breckinridge properties. These properties include coal reserves, underground mines, coal preparation plants, and related support facilities.

#### **Mining Services**

We identified over \$3.5 million of questionable costs. Over \$1 million of marketing costs was not relevant because the coal was owned by TVA. The contractor overstated black lung claims by \$2.1 million; about \$2 million has been refunded to TVA.

A contractor billed TVA \$2.4 million for writing nuclear procedures. We recommended recovery of about \$60,000 primarily because the basis used in computing overhead costs and the fixed fee were not in accordance with contract terms. We also recommended lower overhead rates.

#### **Nuclear Procedures Writing**

The major problem identified during the audit was excessive overhead rates. The contract provided that fringe benefits and overhead would be billed at fixed rates of 20 percent each, without provisions for adjusting the estimates to actual costs. The contractor, a new company, did not have a historical basis for estimating cost rates. However, TVA did not require the contractor to provide specific cost estimates to support the rates.

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## CHAPTER ONE

### Assurances of Fair Rates

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The contract terms permitted the contractor's president to have an annual salary of nearly \$134,000 and, as sole stockholder of the corporation, a net profit exceeding \$471,000. Subsequent to our audit, TVA negotiated a reduction of nearly \$1.3 million for a new contract.

**Engineering Services** We reviewed three contracts totaling \$42 million between TVA and a large engineering corporation. The contractor provided engineering services associated with the design and support of nuclear power plants. We recommended that TVA recover nearly \$105,000 of travel expenses claimed by contractor employees on vacation or at their permanent residences.

The engineering contract provided for an 85-percent overhead cost rate. All costs associated with administrative support personnel should have been recovered through this overhead rate. We recommended that TVA recover over \$75,000 for work by administrative support personnel which was also billed as direct labor.

**Research and Development Services** A contract for \$25 million has resulted in an idle project because of repeated failures during testing. The contractor sued TVA when \$3.5 million in claims was denied. TVA filed a counterclaim against the contractor for poor performance and delays.

TVA's General Counsel asked us to audit the claims. Over \$600,000 of the claims was questioned because cost allocations were unreasonable. The parties reached a settlement which compensated TVA with almost \$2.3 million and denied the \$3.5 million claimed by the contractor.

**Construction Services** A general contractor submitted damage claims to TVA for alleged delays and work suspensions involving subcontractors. At the request of TVA's General Counsel, we audited two subcontractor claims totaling about \$324,000.

Nearly \$264,000 was questioned because costs were not allocated, classified, or stated properly. The claims, in litigation, are subject to confidentiality agreements between the parties.

### Contract Formulation and Administration

TVA's contracting function is an important element in ensuring that services performed by contractors are obtained at lowest practical costs. Our audits assess whether selected contracts are formulated and administered to achieve economy. TVA had opportunities to prevent the unnecessary costs disclosed by our audits.

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## CHAPTER ONE

### Assurances of Fair Rates

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We recommended that TVA consider adopting standardized cost principles. Such principles should address contractor rates, workhours, fringe benefits, overhead, and net profits. Provisions should be included in contracts to:

#### Opportunities in Contract Formulation

- Adjust overhead billing rates to reflect actual costs. TVA paid nearly \$294,000 for fringe benefits and overhead in excess of one contractor's actual costs. In addition, TVA paid \$29,000 in fixed fees applicable to these payments.
- Specify the types of costs which are appropriately covered in the overhead rate and provide for an audit of these costs. One contract had a high indirect cost rate that should have covered all costs associated with administrative support personnel. Over \$75,000 was also charged to direct labor for administrative support. The same contract prohibited the audit of indirect costs.
- Disallow travel expenses for time on vacation or at permanent residence. Nearly \$105,000 of per diem was allowed under these conditions in three contracts.
- Charge interest for payments of disallowed claims. One contractor had use of \$2.1 million of TVA funds due to overstated costs. As a result, TVA incurred interest costs exceeding \$420,000.
- Specify conditions for hiring former TVA employees. A TVA manager retired through a voluntary reduction-in-force and was hired the following month as a subcontractor to perform essentially the same duties. In the first seven months as a subcontractor, this individual received over \$100,000 of contract funds and nearly \$7,700 in TVA retirement benefits.

We recommended that TVA comply with existing policies and procedures for administering contracts.

#### Opportunities in Contract Administration

- Procurements should include competition when required or appropriate.
  - Administrative services were obtained from two firms without required competition. TVA paid the two firms \$1.7 million for processing medical claims of about \$46 million for the last 12 months audited.
  - Previous contracts for annual audits of TVA financial statements were made with the same firm without competition; the last contract was for \$750,000. Other firms were permitted to compete for the fiscal year 1988 contract.

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## CHAPTER ONE

### Assurances of Fair Rates

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- Contract performance should not precede approval of TVA contracts or supplements.
  - Prior to TVA Board approval of a contract, \$73,000 was incurred and subsequently charged to the contract.
  - A contractor charged nearly \$62,000 of costs incurred prior to execution of a contract supplement for expanding the scope of work. Another \$53,000 was charged to the contract but was not covered by a supplement. In addition, TVA paid \$25,000 as a separate claim related to the expanded scope of work.
  - All parties were exposed to unnecessary legal liabilities due to the absence of written contracts for the administration of health insurance plans.
- Cash advances to contractors should be based on cash needs. A contractor had at least \$7.6 million in excess of current cash needs. Only \$13.7 million was needed for an entire year.

#### Efficiency of TVA's Internal Operations

TVA must operate economically and efficiently to minimize costs to ratepayers.

#### **Late Payment Penalties**

The Prompt Payment Act provides for penalties when Federal entities do not pay bills on time. In the first quarter of FY 1987, TVA's late payment penalties were almost \$244,000. This nearly equaled total penalties for the previous year.

The primary cause for the excessive penalty payments was the lack of prompt processing of invoices for the nuclear program. Delayed processing resulted because of the large number of contract staff and multiple locations for receiving invoices.

#### **Workers' Compensation Claims**

We identified 89 questionable workers' compensation claims. Investigations of four claims resulted in projected cost avoidance of over \$1 million. (See Chapter Three for further discussion.)

## CHAPTER TWO

### ASSURANCES OF SAFETY

TVA must assure a safe and healthful environment for employees and the public. During the last six months, the OIG investigated actions affecting safety and evaluated two systems for assuring safety.

#### Investigations of Actions Affecting Safety

Investigations of actions affecting safety have focused on bomb threats, employee concerns of particular interest to the TVA Board and the Nuclear Regulatory Commission (NRC), and allegations of drug abuse by TVA employees.

Eleven bomb threats were made against a TVA headquarters building. Each time a threat was made, TVA officials immediately evacuated 1,000 employees from the building. Each evacuation caused a loss of about \$50,000 per hour in employee productivity. TVA's total loss from the 11 bomb threats exceeded \$500,000.

After numerous interviews and extensive investigation, we identified a non-TVA employee who admitted making the threats. The suspect was referred to the U.S. Attorney and subsequently indicted by a Federal grand jury; there have been no subsequent bomb threats. TVA officials have increased security at the building involved.

We have invested over 10,000 hours during this period investigating employee concerns of interest to the NRC. A private contractor was employed by TVA during 1985 to document and investigate employee concerns about the safety of nuclear activities. We continue to receive allegations by employees and others.

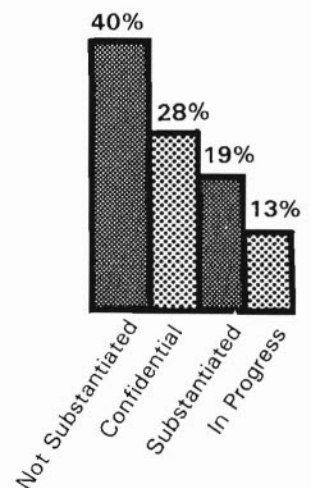
In coordination with the Nuclear Regulatory Commission, we selected 685 employee concerns alleging misconduct that appeared to relate to nuclear safety. Eighty additional concerns were received from TVA's Office of Nuclear Power. Investigations disclosed that 75 percent related only indirectly to safety--15 percent related to ethical conduct (see Chapter Three); and 60 percent to personnel practices (see Chapter Four). The remaining 25 percent were misconduct allegations relating to safety policies and practices; the chart at right depicts the status of these allegations.

Forty-four concerns which related to safety processes were substantiated, 16 during this six-month period. All 16 were based on actions by six employees.

- Three employees falsified quality assurance records; each received a three-day suspension.

#### Bomb Threats

#### Nuclear Regulatory Commission Interests



#### Employee Concerns Relating to Safety

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## CHAPTER TWO

### Assurances of Safety

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#### **Nuclear Regulatory Commission Interests**

- Two employees destroyed cards which were necessary to verify completion of inspections. Both received oral warnings; one also received a written warning.
- One employee perceived harassment by a policy which required automatic penalties against craft employees. The Office of Nuclear Power (ONP) rescinded the policy, as discussed in the OIG's last semiannual report.

The private contractor offered confidentiality to all employees interviewed. Of 323 misconduct concerns covered by confidentiality agreements, 66 appear to be safety-related. The OIG and the NRC are working toward a mutually agreeable resolution of these concerns.

Violations of Section 210 of the Energy Reorganization Act of 1974 are of particular interest to the NRC. According to Section 210, nuclear licensees must not discriminate against employees who allege infractions of nuclear safety rules.

A senior TVA manager allegedly coerced TVA quality assurance personnel into certifying that a defective valve was acceptable. The allegation was not substantiated by the evidence. (See Chapter Five, External Reporting Section, for another Section 210 concern.)

In response to OIG recommendations, ONP developed a training program covering compliance with Section 210. Training has been provided to over 1,100 nuclear plant and corporate managers and will eventually be provided to all ONP managers.

#### **Drug Abuse by TVA Employees**

TVA has recently adopted a policy of random drug testing for employees who have unescorted access to TVA's nuclear facilities. This policy was adopted in large measure as a result of the OIG's investigation of drug abuse.

#### **Sequoyah Nuclear Plant**

Acting on information provided by a Public Safety Service supervisor, we investigated alleged drug abuse by TVA personnel at Sequoyah Nuclear Plant. Two employees admitted using illegal drugs and identified other personnel who used or distributed controlled substances.

Of 31 employees investigated, 26 were tested for the presence of either marijuana, cocaine, or amphetamines. Fourteen employees tested positive; 12 admitted guilt. The OIG recommended that discipline be considered for 20 employees and that all employees who tested positive be referred to TVA's Medical Unit for counseling and treatment. Of the 14 who tested positive, all were initially suspended and 4 were eventually terminated.



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## CHAPTER TWO

### Assurances of Safety

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Ten employees sued the IG for \$3.3 million in damages. They alleged that agents threatened, coerced, abused, and humiliated them and violated their constitutional rights. They were assisted by the American Civil Liberties Union. The court ruled against these employees and concluded that (1) the OIG had reasonable suspicion to investigate and (2) the agents had conducted themselves lawfully and professionally.

About 60 milligrams of cocaine was discovered in the Secondary Alarm Station at Watts Bar Nuclear Plant by a public safety officer. The alarm station is controlled by the Public Safety Service. Our interviews of personnel with access to the station did not identify a suspect.

**Watts Bar Nuclear  
Plant**

Our interviews disclose that managers of the Public Safety Service had received recurring allegations against three public safety officers for drug abuse and trafficking. However, they had not resolved the allegations partly because they did not have a policy for dealing with alleged drug abuse by their own employees.

Following up on the recurring allegations, we recommended drug testing for two public safety officers. Tests indicated drug use; therefore, both officers were suspended from duty and placed in a program for drug abuse treatment. We also recommended that all suspected drug abuse be promptly referred to the OIG.

### Evaluations of Systems for Assuring Safety

We have evaluated two safety-related systems: the Environmental Compliance Audit Program and central mail scanning processes.

The mission of this TVA management program is to provide the Board of Directors, the General Manager, and facility managers with quality information on the status of environmental compliance. The program reviews (1) TVA operations which significantly affect the environment and (2) TVA facilities which require environmental permits.

**Environmental  
Compliance Audit  
Program**

The Director of the Environmental Quality Staff asked us to review operations of the audit program. We recommended that management improve controls and procedures to assure that environmental audit findings are promptly resolved.

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**CHAPTER TWO**  
**Assurances of Safety**

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**Mail Scanning Processes** TVA's Division of Property and Services asked us to evaluate TVA's central mail processing system to determine whether it was vulnerable to acts of terrorism such as letter bombs.

We identified three opportunities to improve safety. We recommended that TVA: (1) establish a formal training program for detecting letter and package bombs, (2) establish central sites for receiving and scanning mail and hand-delivered packages, and (3) use available scanning equipment similar to that used at nuclear plants by public safety officers. TVA concurred with our recommendations.

TVA plans to test scanning equipment at the Knoxville facility. If practical, scanning equipment will also be used in Chattanooga and Muscle Shoals.

# CHAPTER THREE

## ASSURANCES OF ETHICAL CONDUCT

TVA employees are obligated to observe high standards of conduct. TVA conduct standards are intended to assure that operations are free from fraud, misconduct, and other unethical practices. During the last six months, we have investigated alleged unethical actions and have evaluated systems for preventing such actions.

### Investigations of Alleged Unethical Actions

The OIG has a system for screening allegations of fraud, misconduct, and other unethical actions. Nearly all allegations were received from three sources: (1) a private contractor hired by TVA to document employee concerns, (2) the OIG Hotline, and (3) other direct referrals.

A private contractor was employed by TVA during 1985 to document and investigate employee concerns about the safety of the nuclear program. We also received concerns from TVA's Office of Nuclear Power. (See Chapter Two for a detailed discussion.) A total of 765 of these concerns fell within the OIG investigative mandate. About 15 percent (93) related directly to ethics and indirectly to safety; the chart at right depicts the status of these allegations.

Eleven ethics-related concerns have been substantiated during this six-month period. These concerns related primarily to insurance sales by TVA managers and employees.

An **OIG Hotline** has been in operation since February 1986. During the last six months, we received 135 hotline calls alleging unethical actions (See Appendix C for information on the Hotline.)

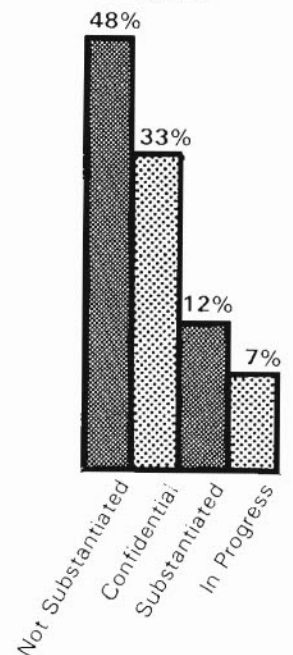
**Other direct referrals** may come from the Congress, the public, TVA managers, employees and retirees, and OIG audits.

Significant fraud investigations have included: questionable benefits and claims; and allegations of falsification of records, claims, and certifications.

Questionable Workers' Compensation Benefits—The Federal Employees Compensation Act provides benefits for Federal employees injured on the job. As a result of allegations of fraudulent claims, a major OIG project was initiated to identify potential abuses of the program.

We identified 89 questionable claims—44 cases are pending investigation, 20 investigations are in progress, and 25 have been completed. We have worked with the OIG of the U.S. Department of Labor in investigating these claims.

**Employee Concerns Relating to Ethics**



**Allegations of Fraud**

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## CHAPTER THREE

### Assurances of Ethical Conduct

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**Allegations of Fraud** Four investigations have resulted in projected cost avoidance of over \$1 million. Two of the four investigations resulted in referrals to the U.S. Attorney: one claim for \$90,000 and another for \$6,500. One scheme involved the use of false names and social security numbers to disguise employment activity.

**Questionable Contractor Claims**—As reported in the last period, an OIG audit disclosed overcharges for travel expenses and services by a major engineering contractor. Evidence resulting from our subsequent investigation did not substantiate fraud by the contractor.

**Falsification of Overtime Records**—We investigated an allegation that a TVA engineer altered and forged overtime reports. The case was referred to the U.S. Attorney because of suspected fraud of over \$10,000. The U.S. Attorney has authorized prosecution for false statements, and the engineer's employment has been terminated.

**Falsification of Travel Records**—A TVA employee was alleged to have represented a private firm while in Europe on TVA business. The employee also allegedly misused TVA materials and travel funds and engaged in private business without approval of TVA management. Suspected voucher fraud and false statements by the employee were referred to the U.S. Attorney, and TVA employment has been terminated.

**Falsification of Contractor Claims**—Two contractors employed by the OIG were involved in a traffic accident while operating a TVA-rented automobile. An OIG investigation disclosed that the contractors: (1) were at fault for the accident, (2) were on a personal trip when the accident occurred; (3) falsified official documents to cover up the trip, and (4) submitted fraudulent claims to TVA.

Contract claims totaling about \$10,000 have been denied by TVA, and the contracts have been terminated. Payment for a prior contract claim has been withheld to offset damage claims resulting from the traffic accident. This case has been referred to the U.S. Attorney.

**Falsification of Certifications of Prevailing Wages**—We investigated an allegation that a subcontractor underpaid its employees by about \$10,000. The terms of both the contract and subcontract provided that employees would be paid at the prevailing wage rates. Certifications by both the contractor and subcontractor stated that the prevailing wage rates were paid. However, actual billings by both were limited to wages paid.

This matter has been referred to the U.S. Attorney's office because of possible falsification of certifications. We recommended that TVA management consider withholding payments.

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## CHAPTER THREE

### Assurances of Ethical Conduct

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We have investigated theft of government property and instances of misconduct.

#### **Investigations of Allegations of Misconduct**

**Theft of Government Property**—As discussed in the last semiannual report, an investigation of the theft of Government property resulted in the recovery of office equipment, furniture, and guns valued in excess of \$5,000.

A former TVA employee was recently found guilty in Federal court on two of three counts of violating Title 18 U.S. Code, Section 641, for receiving, concealing, and possessing stolen property. The individual was sentenced to four months' custody of the U.S. Attorney General and five years of probation. The U.S. Attorney plans to seek a reindictment on the third count in November 1987.

**Misconduct**—We investigated an allegation that a mid-level manager had: (1) engaged in unapproved outside employment, (2) incurred Government expenditures because of a non-TVA companion on official trips, and (3) engaged in other misconduct related to the manager's profession. Evidence did not substantiate the first two allegations; however, a code of professional responsibility was violated and the manager resigned.

#### **Investigations of Allegations of Other Unethical Actions**

We investigated allegations that TVA retirement officials accepted entertainment, gifts, and favors from investment companies. Acceptance of gratuities can create an appearance that judgment can be influenced to the disadvantage of employees and retirees.

#### **Allegations of Acceptance of Gratuities by TVA Retirement Officials**

These officials had fiduciary responsibilities for retirement funds. The allegations were substantiated and the officials resigned from TVA prior to the completion of the investigations.

A private contractor reported allegations that TVA employees were being forced to buy or sell insurance while on duty. These employees were alleged to have received favoritism from the TVA managers participating in the insurance business. The evidence did not support these allegations. However, the OIG recommended disciplinary action for 11 employees who violated TVA's conduct standards or did not obtain approvals for outside employment.

#### **Employee Insurance Sales**

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## CHAPTER THREE

### Assurances of Ethical Conduct

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#### Evaluation of Systems for Preventing Unethical Conduct

We evaluated two systems designed to assure integrity of TVA employees and contractors.

##### **Conflict of Interest Review**

The Office of Government Ethics asked us to monitor TVA's efforts to prevent and detect conflicts of interest in the Office of Nuclear Power.

As reported in our previous semiannual report, TVA's contracts for acquiring nuclear managers were susceptible to conflicts of interest. The contracts were vulnerable to interest conflicts because the contractors were permitted to determine the number of managers to be obtained from their own firms. The Office of Government Ethics required TVA to restructure the contracts and to establish guidelines for monitoring actions of contractors to prevent conflicts of interest.

The monitoring program routinely includes random interviews of TVA employees and contractors, a review of all major contract awards, and investigations of alleged conflicts of interest. The OIG reports quarterly to the Office of Government Ethics and TVA officials.

Allegations have been received through the monitoring program but evidence has not substantiated them. To improve monitoring capability, we recommended that TVA promptly and accurately report any reassignments of loaned managers and advisors who are under contract. TVA has improved reporting controls.

##### **Treasury Checkwriting Review**

In December 1986, TVA began using paper checks rather than card checks. The TVA Comptroller asked us to review the internal controls of the new system which involved a change in computer equipment and software. The new system provided reasonable assurance that internal controls protect the disbursement of funds and ensure compliance with applicable laws and regulations.



# CHAPTER FOUR

## ASSURANCES OF FAIR PERSONNEL PRACTICES

TVA must assure that its actions are fair and that rights of individuals are protected under civil laws and rules. Personnel practices must be fair to TVA employees and contractors.

During the past six months, we reviewed selected practices affecting fair treatment of employees. These reviews were a first step in determining whether employees have (1) freedom from harassment and intimidation, (2) reasonable and fair opportunities for advancement, and (3) fringe benefits that are comparable to those of similar organizations.

### Harassment and Intimidation

As discussed in Chapter Two, a private contractor was employed by TVA during 1985 to document and investigate employee concerns about the safety of the nuclear program. We determined that nearly 60 percent (409 of the concerns) were related directly to personnel practices and only indirectly to nuclear safety; the chart at right depicts the status of these allegations. The OIG and the NRC are working to resolve the confidentiality barrier to investigating 226 of these concerns.

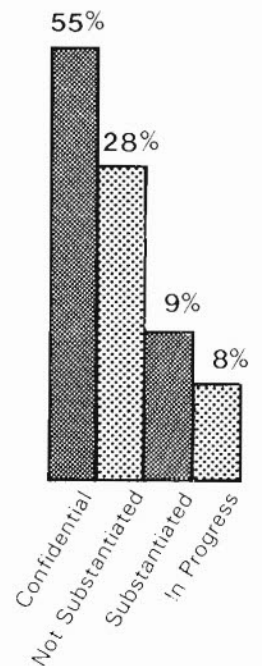
A total of 38 concerns that related to personnel practices have been substantiated during this six-month period. Most management errors fell in the following categories; failure to follow TVA policies, violation of employment policies, sexual harassment, and interference with the equal employment opportunity process. Corrective actions taken against these managers included oral and written warnings, training, counseling, and six suspensions.

### Fringe Benefits

This plan provides medical and dental benefits to annual trades and labor employees. Our audits determined that the plan's operating results were reported fairly for claim years 1982-1986. Claims totaling \$13.7 million were paid during claim year 1986. We recommended that TVA improve procedures to assure that eligible retirees promptly receive benefits.

TVA provides health insurance to salary policy employees at reasonable premiums as compared to other Federal agencies. The plan paid about \$33 million in claims in 1986.

**Employee Concerns Relating to Personnel Practices**



**Trades and Labor Health Insurance Plan**

**Salary Policy Health Insurance Plan**

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**CHAPTER FOUR**  
**Assurances of Fair Personnel Practices**

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**Reasonable and Fair Opportunities for Advancement**

**Evaluation of Public  
Safety Service  
Personnel Practices**

The OIG's "Master Plan for Fiscal Year 1987" included a project to review the management of the Public Safety Service. We reported that improvements could be made in staffing, career development, and training. Related findings are discussed in Chapter Five, Internal Reporting.

**Survey of  
Nepotism Policy**

TVA's nepotism policy is more comprehensive than Federal requirements. Our preliminary survey work did not identify instances of nepotism. However, we recommended that employees be required to report relatives' information when lines of supervision change.

## CHAPTER FIVE

### ASSURANCES OF FAIR REPORTING

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Fair reporting means that information provided meets the needs of its users. Internally, those responsible for setting TVA policy and for making decisions need objective and accurate information; those responsible for execution of decisions need clearly defined authorities and responsibilities. Externally, the public, ratepayers, and other funding sources also need quality information to assess TVA's performance.

The OIG's program includes evaluations of whether there is reasonable assurance that TVA activities and results are reported fairly under accepted standards. During the last six months, we have focused on both internal and external reporting.

#### Internal Reporting

During this six-month period, we identified the need for improving the flow and quality of management information and the need for changes in reporting relationships for two organizations.

Work included a project that designed a framework for TVA management to use in improving guidelines for providers of management information.

Early in a review of TVA's policy and planning process, we learned that TVA had not established complete guidelines for offices to use in developing information for the TVA Board of Directors. In the absence of guidelines, we were unable to completely evaluate the policy and planning process.

Therefore, we decided to develop a framework to use in performing the audit. TVA also could use the framework for improving guidelines to assure that: (1) information submitted to the Board meets its needs and (2) that Board actions are properly communicated.

We interviewed 38 senior TVA managers and staff to obtain additional ideas for developing the framework. In general, they indicated that the process of providing information could be enhanced if procedures were fully defined, documented, and communicated. Many of their suggestions were used to make the framework more practical.

We recommended a framework for management to use when improving guidelines for: (1) identifying appropriate decision levels, (2) ensuring information quality, (3) recording and communicating decisions, and (4) evaluating and reporting performance. We will use the framework and any new guidelines developed by TVA in our audits of policy and planning processes.

#### **Improvements in Information Quality and Flow**

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**CHAPTER FIVE**  
**Assurances of Fair Reporting**

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**Need for Changes in  
Organizational  
Reporting**

Work included a review of reporting relationships of both the Public Safety Service and the Environmental Compliance Audit Program.

Public Safety Service—Because of numerous allegations, the OIG’s “Master Plan for Fiscal Year 1987” included a project to review the management of the Public Safety Service.

In May 1987, responsibility for nuclear plant security was shifted from the central Public Safety Service to the Office of Nuclear Power. Affected managers indicated this shift would cause an unnecessary duplication of effort, particularly in administration.

We recommended that TVA management clarify the Public Safety Service’s law enforcement authority and rescind the shifting and splintering of its functions. This would improve the organizational and reporting relationships of the service. Also, service management should improve communication of authorities and responsibilities to its employees.

Environmental Compliance Audit Program—The Director of the Environmental Quality Staff asked us to review the Environmental Compliance Audit Program. We recommended that significant environmental audit issues and their resolution status be reported to the Board of Directors and the General Manager. Also, the audit program should be supervised by a unit without environmental compliance responsibilities. This would strengthen the independence of environmental audits.

**External Reporting**

**Alleged Impediment  
to Congressional  
Testimony**

Ratepayers and funding sources need objective and accurate information to assess TVA’s performance. During this period, we investigated an alleged impediment to an employee’s preparation for Congressional testimony and performed interim audits of financial systems to complement the annual audit of TVA’s financial statements.

According to Section 210 of the Energy Reorganization Act of 1974, nuclear licensees must not discriminate against employees who allege infractions of nuclear safety rules (“whistleblowers”).

A TVA employee alleged that he was harassed and intimidated by a senior TVA supervisor in retaliation for being a “whistleblower.” The employee complained that the supervisor did not allow sufficient worktime to prepare for Congressional testimony. Further, the employee believed that he received an unfair appraisal of performance. Our investigation revealed there was insufficient evidence to support the allegations.

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**CHAPTER FIVE**  
**Assurances of Fair Reporting**

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We designed a financial audit program to complement the annual audit of TVA's financial statements. During the last six months, this was the largest single audit effort. TVA's independent public accountant will rely on our interim financial work in forming an opinion on TVA's financial position.

**Interim Audits of  
Financial Systems**

The financial audits are designed to assure compliance with laws and regulations, security of assets, and proper execution of transactions. The scope of most of these audits extends over the entire year. Therefore, they will not be completed until after the end of the fiscal year.

One aspect of the financial audit has been impaired. Since August 1986, TVA has been denied complete audit access to the records of the retirement system. As presented in the last semiannual report, the system's Board of Directors believed that TVA's audit authority did not extend to the system and therefore refused to permit us to perform an unrestricted audit of its records.

The TVA retirement system has nearly \$2 billion in assets that have not been subjected to regular governmental or TVA review.

Because of the scope impairment, our audit has been postponed. The TVA Board of Directors has recently received a legal opinion from TVA's Office of the General Counsel which defines the Board's authority in connection with the operations of the retirement system.

**INVESTIGATIVE STATISTICS**

**1. Status of Investigations**

	<u>Number</u>
Investigations Carried Forward 4/1/87	802
Investigations Opened	385
Investigations Closed	<u>(511)</u>
Investigations In Progress 9/30/87	<u>676</u>

Note: Investigations Carried Forward 4/1/87 included 100 inactive investigations;  
 Investigations In Progress 9/30/87 include 92 inactive investigations.

**2. Classification of Investigations**

	<u>Number of Investigations</u>				
	<u>Carried Forward 4/1/87</u>	<u>April 1 - September 30, 1987</u>			
		<u>Opened</u>	<u>Closed</u>	<u>Inactive</u>	
1. Employee Misconduct	40	20	23	2	37
2. Employee Concerns Program Matters	268	101	182	42	187
3. Misuse/Abuse of Government Property	19	14	13	0	20
4. Vehicle Operations	22	61	34	1	49
5. Substance Abuse	5	7	7	0	5
6. Personnel Matters	102	55	77	21	80
7. Terrorism and Sabotage	2	1	2	0	1
8. Discrimination and Harassment	60	15	33	2	42
9. Safety	6	1	3	1	4
10. Trades and Labor	17	4	13	1	8
11. Theft	31	10	13	0	28
12. Falsification of Records	29	8	10	2	27
13. Contract-Related Misconduct	42	9	15	3	36
14. Fraud and Waste	80	49	16	15	113
15. General Criminal Activities	7	0	4	1	3
16. Employment Suitability	28	25	38	0	15
17. Public Concerns	11	0	4	1	7
18. Board Concerns	6	1	3	0	4
19. Archaeological Resources Protection	0	1	0	0	1
20. Special Projects	8	1	3	0	6
21. OIG Personnel Matters	5	2	4	0	3
22. Other	14	0	14	0	0
<b>TOTAL</b>	<u>802</u>	<u>385</u>	<u>511</u>	<u>92</u>	<u>676</u>



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**SUMMARY OF CRIMINAL AND MISCONDUCT STATISTICS**

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During this reporting period, 26 matters were referred to U.S. Attorneys for possible prosecution. Nineteen cases were declined for prosecution in favor of administrative remedies by TVA. Two matters were referred to State prosecutors and are pending prosecution.

The OIG recommended that TVA management take disciplinary action ranging from counseling to termination against 60 employees in 27 cases. (For some cases, recommendations were made for several employees.) As of September 30, 1987, disciplinary actions were complete for 32 employees. In two additional cases, employees terminated their employment with TVA during the investigation.

We recommended improvement in management techniques in 11 cases. TVA action had not been completed in three cases.

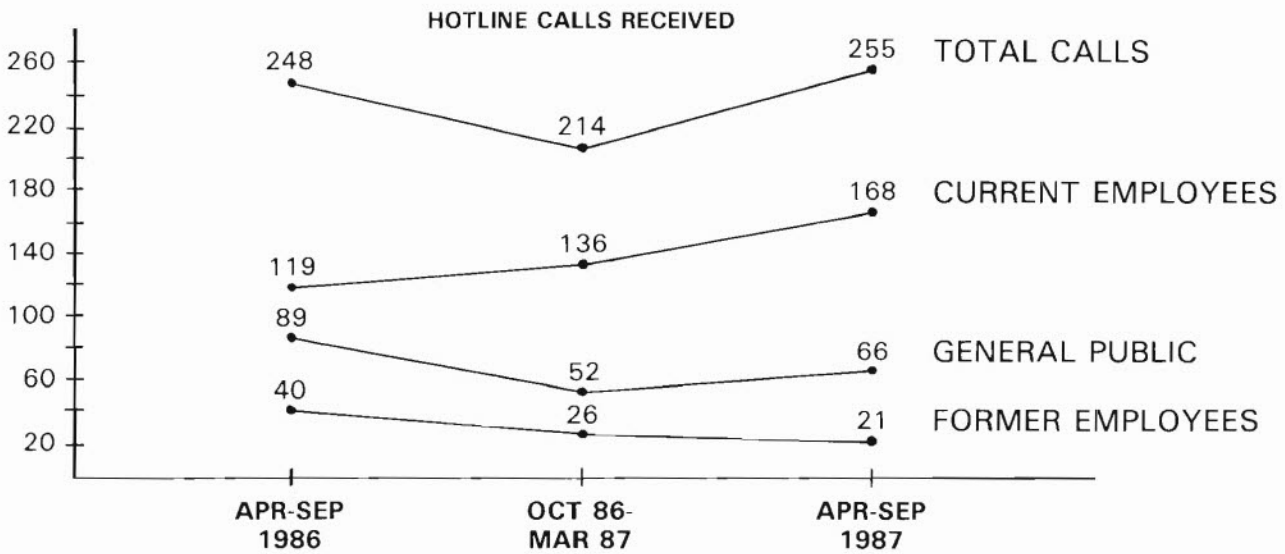
<b>Referrals to Federal Prosecution</b>	U.S. Attorneys, 4/1/87 – 9/30/87	26
	Referrals made prior to 4/1/87, awaiting prosecutive opinion	3
	Indictments	2
	Convictions	1
	Total awaiting prosecution or prosecutive opinion	10
	Declinations	19
	Total awaiting State prosecution or prosecutive opinion	2

**Reports Issued** In addition to Prosecutive Reports, the OIG issued 223 Reports of Administrative Inquiry. Thirty-six reports related to background inquiries on OIG employees. There were 187 reports issued to TVA management. Of these, 124 (66 percent) reported investigations of unethical conduct, 59 (32 percent) reported investigations of safety issues, and 4 (2 percent) reported on personnel issues. Overall, 133 of the 187 (71 percent) reports issued to management also related to matters of concern to the NRC.

**HOTLINE STATISTICS**

The OIG operates a toll-free telephone hotline. The staff receives and responds to calls from current and former TVA employees and the public who wish to report concerns or provide information. The OIG Hotline was established in February 1986 and has received an average of 42 calls per month.

Hotline calls for the past six months totaled 255, a 19 percent increase over the previous period. The graph below illustrates the trend of incoming calls and their sources for the last three reporting periods. Calls from current employees have increased steadily, while calls from former employees have decreased.



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**HOTLINE STATISTICS**


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Of the 255 calls received in this period, 132 (52 percent) related to ethics issues. Such calls included certain classifications within Employee Concerns Program matters, discrimination and harassment, employee misconduct, waste and fraud, and unauthorized vehicle use. Some calls have contributed information to ongoing OIG investigations. Other calls reported allegations of theft and misuse of Government property.

Over one-fourth (69) of the calls in the last six months related to personnel issues. Most of these are complaints concerning promotion or pay disputes and favoritism. The remaining 54 calls (21 percent) are related to safety issues. Predominant among safety calls were reports of speeding and other unsafe vehicle operations.

Hotline calls received in this period are listed by classification in the table that follows.

**CLASSIFICATION OF HOTLINE CALLS:**

	<u>Number</u>	<u>Percent</u>
1. Employee Misconduct	18	7.1
2. Employee Concerns Program Matters	44	17.2
3. Misuse/Abuse of Government Property	8	3.1
4. Vehicle Operations	47	18.4
5. Substance Abuse	8	3.1
6. Personnel Matters	52	20.4
7. Terrorism and Sabotage	0	0.0
8. Discrimination and Harassment	28	11.0
9. Safety	1	0.4
10. Trades and Labor	9	3.5
11. Theft	6	2.4
12. Falsification of Records	6	2.4
13. Contract-Related Misconduct	4	1.6
14. Waste and Fraud	15	5.9
15. General Criminal Activities	0	0.0
16. Employment Suitability	0	0.0
17. Public Concerns	<u>9</u>	<u>3.5</u>
Total	<u>255</u>	<u>100.0</u>

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**AUDIT REPORTS ISSUED**


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<u>Report Number</u>	<u>Report Title</u>	<u>Date of Transmittal</u>
87-09-1-701	The TVA-Council Medical and Hospital Insurance Plan For Annual Trades and Labor Employees	10/26/87
87-09-2-901	Bear Creek Development Authority Financial Statements For Year Ended September 30, 1986 – Contract TV-64000A	7/24/87
87-09-2-904	Beech River Watershed Development Authority Financial Statements For Years Ended September 30, 1986, 1985, and 1984 – Contract TV-39487A	8/24/87
87-09-2-905	Tellico Reservoir Development Agency Financial Statements For Year Ended August 31, 1986 – Contract TV - 60000A	10/02/87
87-0029	Survey of Timeliness of Bill Payment Process	9/21/87
87-0032-10	Special Review of Information Processes Supporting Board Decisions	12/3/87
87-0041	Peabody Coal Company – Contract 69P-87-T1 – Review of Costs Incurred For the Period October 1, 1982 Through November 10, 1985	10/29/87
87-0043	Clyde Owen Sand and Gravel, Inc. – Contract 78K55-823269-1 – Review of Contractor's Financial Condition – December 31, 1983	8/24/87
87-0049	Algernon Blair Industrial Contractors, Inc., Versus TVA, Civil Action No. 85-T-339-N – Review of Interim Repair Costs, Gallatin Steam Plant, For the Period April 1, 1984 Through June 30, 1984	6/30/87
87-0054	Tennessee Elk River Development Agency	9/30/87
87-0063	Review of Financial Records and Reports – Fiscal Year 1986	7/02/87
87-0068	Environmental Compliance Audit Program	10/26/87

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**AUDIT REPORTS ISSUED**


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<u>Report Number</u>	<u>Report Title</u>	<u>Date of Transmittal</u>
87-0069	TVA's Salary Policy Health Insurance Plan	10/20/87
87-0071	Atmospheric Fluidized Bed Development Corporation, Contract TV-66579A — Review of Contract Compliance For the Period May 1, 1985 Through February 28, 1987	10/28/87 10/16/87
87-0072	TVA Computer Store Inventories and Internal Controls	7/20/87
87-0074	Stone & Webster Engineering Corporation, Contracts TV-68702A, TV-68879A, and TV-693324A — Review of Costs Incurred For the Period January 3, 1986 Through February 25, 1987	10/14/87
87-0077	M. H. Sturdivant & Associates, Inc. — Contract TV-69323A — Review of Costs Incurred For the Period March 17, 1986 Through March 22, 1987	10/02/87
87-0083	Controls Over Nepotism in TVA	10/19/87
87-0084	Inventory of TVA Treasury Branch, May 1, 1987	8/07/87
87-0088	Section 13 Payments — FY 1987	7/27/87
87-0109	Review of Treasury Branch Checkwriting System	9/24/87
87-0111	Review of Proprietary Capital	9/11/87
<b>NOTE:</b>	This schedule excludes three audit reports involved in claims filed against TVA. Disclosure is restricted because of litigation.	

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**AUDIT STATISTICS**


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**1. Status of Audit Projects**

	<u>Number</u>
Audit Projects Carried Forward 4/1/87	34
Audit Projects Postponed or Canceled (Note 1)	(4)
Audit Projects Started	<u>47</u>
Total Active Audit Projects	77
Audit Projects Completed (Note 2)	<u>(26)</u>
Audit Projects in Progress 9/30/87	<u>51</u>

**2. Audit Results**

	<u>Cost</u>
Audit Reports Issued (25)	
Questioned Costs (Note 3)	\$ 5,023,272
Ineligible Costs	1,939,378
Unsupported Costs	3,083,894
Costs Disallowed by TVA	\$ 2,730,131
Costs Avoided	\$ 1,300,000

**3. Status of Audit Reports  
(Note 3)**

	<u>Oct. 1, 1986 to Mar. 31, 1987</u>	<u>Apr. 1, 1987 to Sept. 30, 1987</u>
Audit Reports Issued	17	25
Audit Determination Was Not Made	0	11
Audit Determination Was Made/ Audit Resolution Did Not Occur	6	4
Audit Resolution Occurred	11	10



**AUDIT STATISTICS  
NOTES**

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**NOTE 1.** Projects Postponed or Canceled:

- Quality Technology Corporation Audit—Postponed pending ongoing investigations.
- Salary Survey—Canceled due to development of the Hay System.
- Security Procedures Audit—Canceled due to investigative review of the Public Safety Service.
- TVA Retirement System Audit—Postponed pending agreement on audit scope.

**NOTE 2.** One completed project resulted in three contract audit guides.

**NOTE 3.** Detailed statistics are presented in conformance with the proposed amendment to the Inspector General Act of 1978. As used in the amendment, the following terms are defined:

**Audit Determination.** The evaluation by management of the findings and recommendations included in an audit report and the issuance of a written final decision by management concerning its response, including corrective actions concluded to be necessary, to such findings and recommendations.

**Audit Resolution.** The completion of all corrective actions that management has concluded, in an audit determination, is necessary.

**Disallowed Cost.** Ineligible or unsupported cost that management has concluded, in an audit determination, should not be charged to TVA.

**Ineligible Cost.** An incurred cost that is questioned by the OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement governing the expenditure of funds.

**Unsupported Cost.** An incurred cost that is questioned by the OIG because, at the time of the audit, such cost was not supported by adequate documentation.