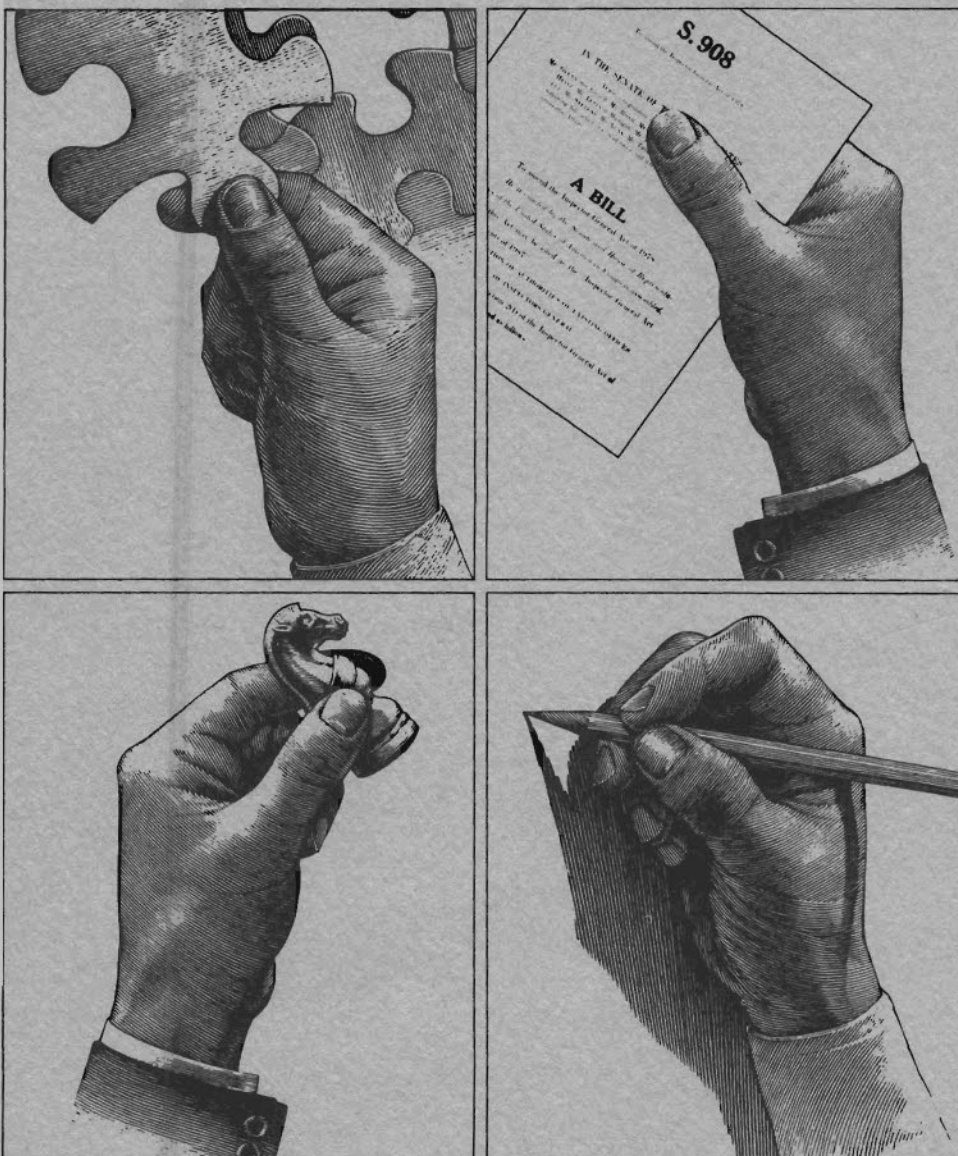


# TENNESSEE VALLEY AUTHORITY

# OFFICE OF THE INSPECTOR GENERAL

# SEMIANNUAL REPORT



October 1, 1987 - March 31, 1988

TENNESSEE VALLEY AUTHORITY  
OFFICE OF THE INSPECTOR GENERAL  
400 West Summit Hill Drive  
Knoxville, Tennessee 37902

The Office of the Inspector General (OIG) is an independent organization charged with reporting to the Tennessee Valley Authority (TVA) Board of Directors and Congress on the overall efficiency, effectiveness, and economy of all TVA programs and operations. The OIG meets this responsibility by conducting and supervising audits, investigations, and related projects.

The OIG's audits and investigations focus on (1) the prevention, identification, and elimination of waste, fraud, and abuse; (2) violations of law, rules, or regulations; and (3) misconduct, mismanagement, and inefficiencies in TVA programs and operations.

Individuals wishing to report fraud, waste, mismanagement, or misconduct involving TVA programs or employees should write to the Inspector General's Office or call the OIG Hotline.

OIG TELEPHONE HOTLINE

In Knoxville: (615) 632-3550

In Tennessee call toll-free  
1-800-423-3071

In Alabama, Arkansas, Georgia,  
Kentucky, Mississippi, Missouri, North  
Carolina, Virginia call toll-free  
1-800-323-3835

April 30, 1988

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This is our fourth Semiannual Report and it marks the second full year of the Office of the Inspector General's (OIG) operations. The report describes our major activities from October 1, 1987 to March 31, 1988.

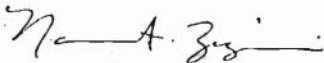
This has been an eventful six months and a productive two years. As of the date of this report, we have closed nearly 90 percent of the employee concerns that fell within our investigative jurisdiction and were reported to the Quality Technology Company. In addition, since the OIG's inception, TVA management has agreed with 80 percent of our audit recommendations. To date, these management actions have resulted in more than \$126 million in avoided costs.

There were also significant accomplishments this reporting period. An OIG-recommended change in TVA's accounting procedures resulted in a \$92 million increase in TVA's revenues. On the investigative side, we closed over 450 cases, referred 74 matters to Federal or State prosecutors, and issued over 200 investigative reports. In addition, significant criminal investigations are underway that already have resulted in the recent indictment of over 25 TVA employees.

These accomplishments demonstrate the OIG is a catalyst for change within TVA and is striving to promote integrity and efficiency in TVA's programs. We believe our activities will continue to benefit TVA management and employees, the ratepayers, and the taxpayers—which is what the Board of Directors intended when it established the OIG as an independent office within TVA.

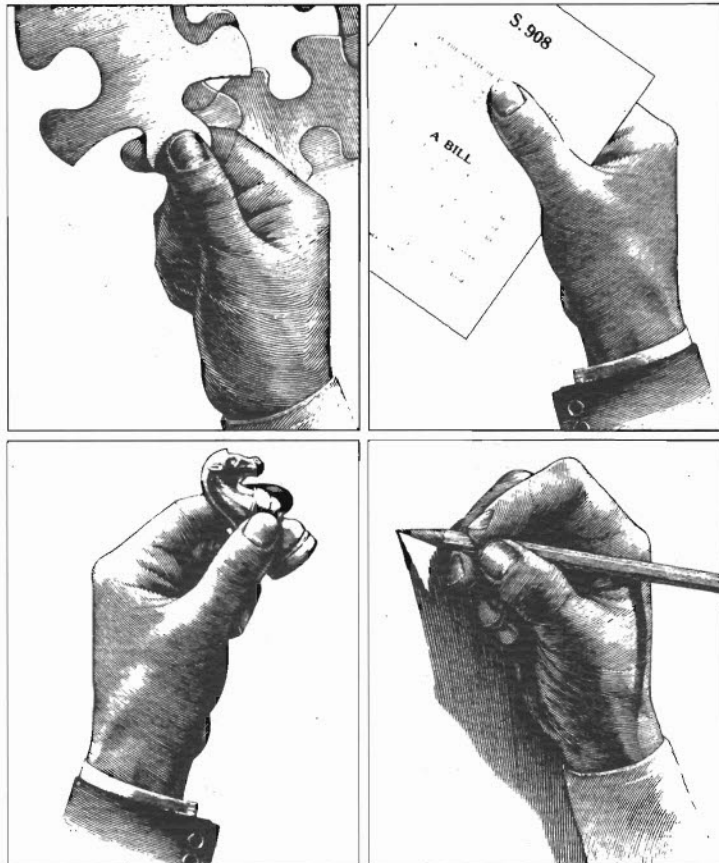
Throughout the last two years, the TVA Board of Directors, TVA managers and employees, Members of Congress, and the public have strongly supported the OIG. We continue to draw strength and encouragement from this support and will continue to work to justify this trust.

Sincerely,



Norman A. Zigrossi  
Inspector General

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# EXECUTIVE SUMMARY

This is the fourth semiannual report by TVA's Office of the Inspector General (OIG). The report summarizes the OIG's activities and accomplishments during the six-month period which ended on March 31, 1988. These activities and accomplishments are described below.

## INVESTIGATIONS

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A significant amount of the OIG's investigative workload involved TVA's nuclear program, allegations of fraud, and investigations involving the Tennessee Valley Authority Retirement System (TVARS). The OIG's more significant investigative accomplishments are described below.

- We opened 345 new cases and closed 456 cases resulting in a caseload of 576 open cases as of March 31, 1988.
- We recommended TVA management take administrative or disciplinary action in 90 of the 456 cases we closed. Based on these and prior recommendations, TVA management reprimanded 23 employees, suspended 39 employees, and terminated 13 others.
- We referred 74 matters to prosecutorial officials, including 56 referrals to U.S. Attorneys.
- OIG investigations resulted in 2 indictments and 9 convictions this reporting period.
- We issued 204 Reports of Administrative Inquiry to TVA management.
- Our investigation of false travel claims by employees in TVA's nuclear program uncovered fraud between \$100,000 and \$150,000 to date. Twenty-eight employees and two former employees admitted receiving travel reimbursement overpayments as a result of their involvement in a scheme to submit fraudulent lodging receipts to TVA. Our investigation of similar allegations involving additional TVA employees is continuing.
- During this reporting period, we completed our investigation of allegations of misconduct by current or former senior TVA officials and other TVA employees whose duties include the administration of TVA's Retirement System. As a result of these investigations, we concluded that some senior TVA officials had violated TVA's standards of employee conduct.
- The OIG Hotline received its 1,000th call during this reporting period, and 207 calls were received during the period covered by this semiannual report.

## AUDITS

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Our largest single audit activity was our review of TVA's financial statements and systems—the OIG's Financial Audit Program. We issued 21 audit reports and identified more than \$560,000 in questioned costs. To date, TVA management has:

- Agreed with 80 percent of our audit recommendations; and
- Implemented more than 50 percent of our recommendations.

These actions have resulted in more than \$126 million in avoided costs and the recovery of \$2 million from questioned costs since the OIG's inception.

During this reporting period, an OIG-recommended change in accounting for unbilled sales of electricity resulted in a \$92 million increase in TVA revenues. This increase was applied to certain fiscal year 1987 costs and will benefit ratepayers in future years.

## OTHER OIG ACTIVITIES

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To ensure our operations are consistent with Federal standards for Inspectors General, we requested an independent review and evaluation of our office. Grant-Thornton (a private CPA firm) and Charles Dempsey (a former Inspector General and a former Chairman of the President's Council on Integrity and Efficiency) are performing this external review.

We have also developed an orientation program describing TVA's OIG, what it does, and why it is now a part of TVA. Since last October, we have presented this program to over 6,000 employees at 17 TVA locations.

# TVA AGENCY PROFILE

TVA is an independent corporate agency of the United States. Established by Congress in 1933, TVA is charged with a wide range of responsibilities including producing, distributing, and selling electric power.

The TVA electric power system serves 160 municipal and cooperative power distributors and their 7 million consumers in virtually all of Tennessee and parts of 6 other states. As required by law, revenues from power sales fund the power system. Other TVA regional development activities (including TVA's nationally recognized fertilizer research and development program) are funded primarily by appropriations from Congress.

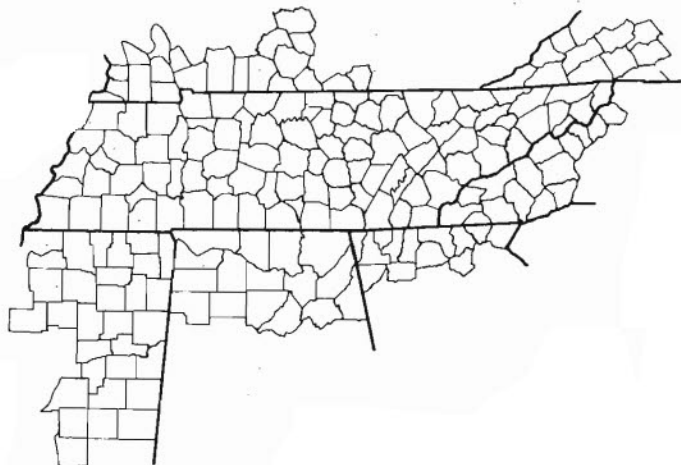
The power system's annual operating budget is approximately \$5 billion. Capital requirements are supplied largely by issuing bonds which are backed solely by TVA's power revenues. Programs funded by appropriations have an annual operating budget of approximately \$100 million.

TVA has approximately 33,000 employees and is headed by a three-member Board of Directors who are appointed by the President and confirmed by the Senate. Directors are appointed for staggered, nine-year terms, and the President designates one director as Chairman.

Many of TVA's current activities are similar to the tasks TVA has performed for the past 55 years, with successes hailed worldwide. However, all viable organizations must constantly evaluate and renew their goals and activities, and TVA's Office of the Inspector General has been one product of that renewal. Within TVA, the OIG is an additional safeguard for the taxpayers' and the ratepayers' interests and an independent and objective source of information and assistance to TVA management and employees.

## THE TENNESSEE VALLEY REGION

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# TVA OFFICE OF THE INSPECTOR GENERAL

## OFFICE AUTHORITY

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The TVA Board of Directors established the TVA Office of the Inspector General (OIG), during October 1985, to address employee concerns, increase public trust, and promote TVA's cost-effective operation. As provided in the resolution creating the OIG, the OIG's duties and authority are virtually the same as those of Inspectors General established under the Inspector General Act of 1978. TVA's Inspector General is an independent TVA official subject only to the general supervision of the TVA Board of Directors. The Inspector General may report matters to Congress through the Semiannual Report and interim reports.

## ROLE AND RESPONSIBILITIES

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TVA's Inspector General is charged with fully and currently reporting to the TVA Board of Directors and Congress on the overall efficiency, effectiveness, and economy of all TVA programs and operations; on TVA's efforts to prevent and detect waste, fraud, and abuse; and on investigations of employee concerns. Accordingly, the Inspector General provides policy direction for, and conducts, supervises, or coordinates audits and investigations of TVA's programs and operations.

## ORGANIZATION AND STAFFING

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The OIG's offices are in the TVA headquarters in Knoxville. There are two operational units—the Division of Audit and the Division of Investigations. Each division is headed by an Assistant Inspector General.

The Division of Audit has four branches for auditing TVA's financial, contracts, information, and general management systems. This alignment was chosen to provide an appropriate focus on expanded scope audits regarding the economy, efficiency, and effectiveness of TVA operations and programs.

Similarly, the Division of Investigations has four branches to cover general, fraud, internal, and nuclear investigations. As the data in this

report indicates, the cases these branches handle cover a wide spectrum of allegations.

The OIG also has a Legal Counsel, who provides legal advice in connection with matters of particular significance to the OIG and is also responsible for the preparation of a variety of OIG reports.

# NUCLEAR PROGRAM ISSUES

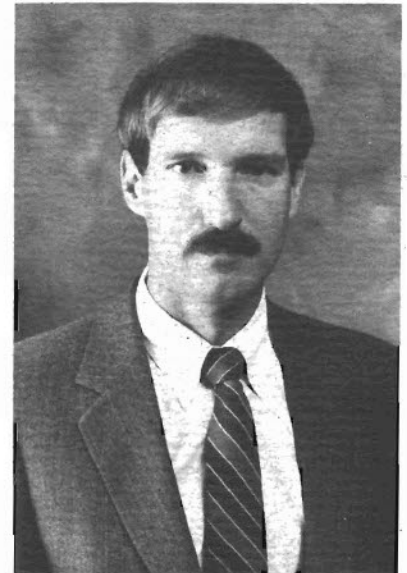
Since the OIG was established, employee concerns affecting TVA's nuclear program have remained our highest priority and have demanded a significant amount of the OIG's resources. TVA's multibillion dollar nuclear facilities have been idled since August 1985 due, in part, to the concerns employees expressed about these facilities.

The OIG has contributed to TVA's effort to restart its nuclear facilities and operate them safely. This contribution has included:

1. The OIG's investigation and resolution of employee concerns documented by the Quality Technology Company, a private contractor TVA hired to document and investigate employee concerns about the nuclear program;
2. The OIG's support of TVA's Employee Concern Program in the Office of Nuclear Power; and
3. The investigation and resolution of other allegations of waste, wrongdoing, and misconduct involving TVA's nuclear program. Employee concerns that fall within the OIG's investigative jurisdiction have been expressed to the OIG and to various other entities, both within and outside of TVA. These entities include:
  1. The Quality Technology Company;
  2. The Watts Bar Employee Concerns Special Project, an organization created by TVA's Office of Nuclear Power to document and address employee concerns expressed before February 1, 1986;
  3. The Employee Concerns Program (ECP) in the Office of Nuclear Power which was created to document and address concerns expressed after February 1, 1986;
  4. The Nuclear Regulatory Commission; and
  5. Congressional offices, TVA's Board of Directors, and TVA management.

## THE OIG'S INVESTIGATION OF EMPLOYEE CONCERNS THAT WERE DOCUMENTED BY THE QUALITY TECHNOLOGY COMPANY

Employee concerns that were initially documented by the Quality Technology Company (QTC) have constituted a substantial portion of the employee concerns the OIG has investigated to date. The OIG



Randall B. Morris is Senior Special Agent in the OIG's Nuclear Investigations Branch and is the Project Manager for the Quality Technology Company Investigations:

*"One of the major accomplishments of the QTC Project was establishing the OIG's credibility with the NRC. This credibility was established by ensuring that QTC concerns were addressed and that corrective actions were taken where appropriate. This contributed to enhancing NRC's view that the OIG is independent from TVA management."*

assumed an active interest in these concerns following the expiration of QTC's contract with TVA. The Nuclear Regulatory Commission (NRC) assumed control of QTC's investigative files following the expiration of QTC's contract with TVA. Subsequently, the NRC requested the OIG to investigate the QTC-documented concerns that fell within the OIG's investigative responsibility. QTC documented 5,800 employee concerns and, to date, 775 employee concerns have been identified as within the OIG's investigative mandate. (The balance of the QTC-documented concerns consists of safety or technical concerns that were or are currently being addressed by the Office of Nuclear Power's Employee Concerns Special Project.)

Generally, the 775 QTC-documented concerns that fall within the OIG's investigative responsibility involve allegations of waste, fraud, or abuse. More specifically, these concerns involve issues of intimidation and harassment, wrongdoing, and misconduct.

## Classification of QTC Concerns

The OIG has characterized the QTC concerns falling within the OIG's investigative jurisdiction into the following eight categories.

QTC Category	Number of Concerns
1. Harassment and Intimidation—Concerns involving potential violations of the Energy Reorganization Act of 1974	118
2. Harassment, Other—Concerns involving other types of harassment that do not constitute a violation of the Energy Reorganization Act of 1974	136
3. Wrongdoing, Falsification of Records—Concerns relating to the falsification of records, including wrongdoing that is safety related	163
4. Wrongdoing, Drugs—Concerns relating to the use, possession, or sale of illicit drugs	18
5. Wrongdoing, Theft—Concerns relating to the theft of TVA property or services	15
6. Wrongdoing, Other—Concerns which involve a violation of Federal or state law, but which do not fall within one of the previously mentioned wrongdoing categories	59
7. Misconduct, Sexual Harassment—Concerns involving sexual harassment	14
8. Misconduct, Other—Concerns involving alleged violations of TVA employee conduct standards	252
TOTAL	775

## Status of the 775 QTC Concerns

To date, the OIG has closed 689 of the identified 775 concerns, either through individual investigations and reports issued (282), or administrative closures (407). The remaining 86 concerns are described below:

Thirteen concerns have been investigated and Reports of Administrative Inquiry are being prepared;

Five concerns are currently under investigation; and

Sixty-eight concerns are inactive pending the receipt of additional identifying or substantive information either from the NRC or the respective complainants.

## SIGNIFICANT QTC-DOCUMENTED CASES

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Some of the more representative QTC-documented concerns that the OIG investigated and closed during this reporting period are outlined below.

### FALSIFIED TRAVEL VOUCHERS

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Twenty-eight Division of Nuclear Quality Assurance employees and two former employees admitted receiving travel reimbursement overpayments as a result of their involvement in a scheme to submit fraudulent lodging receipts to TVA. The amount of fraudulent overpayments to these employees varied. While one employee acknowledged he received more than \$10,000 in fraudulent overpayments, another employee acknowledged he received an overpayment of \$27.50. The total amount of fraud uncovered to date is between \$100,000 and \$150,000.

The United States Attorney, Eastern District of Tennessee, is seeking criminal prosecution of a number of these individuals, and a Federal Grand Jury has begun hearing testimony in the matter. Our investigation of other similar allegations involving additional TVA employees is continuing.

### WRONGDOING— QUALITY ASSURANCE TEST

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Our investigation revealed that after some Watts Bar Nuclear Plant

(WBN) inspectors took Quality Assurance (QA) procedures tests, they highlighted QA procedures manuals so other inspectors would know the answers to the test questions. However, the Power Operations Training Center, instead of WBN, is now responsible for the training and testing of QA inspectors, and this centralization has stopped the practice of inspectors highlighting the answers to test questions in procedures manuals.

## **MISMANAGEMENT**

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A former Watts Bar Nuclear Plant (WBN) engineering aide stated she and other WBN employees signed documents certifying construction work was completed, although they did not physically verify the completion of the work. However, her supervisor stated it was not necessary for the employees to personally verify the completion of the work. Instead, according to the supervisor, they could rely on documented inspections conducted by TVA engineers.

## **IMPROPER SIGNATURE**

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Our investigation revealed a principal planning engineer improperly signed someone else's name to two schematic drawings after the drawings had been issued.

## **NO IMPROPER TERMINATIONS**

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A former TVA employee alleged he was terminated for reporting a quality assurance violation which he committed. However, our investigation concluded the employee was terminated for committing the violation—not for reporting the incident.

## **THE OIG'S INTERFACE WITH ONP'S EMPLOYEE CONCERN PROGRAM**

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The Office of Nuclear Power's (ONP) Employee Concern Program (ECP) was created during early 1986 to document and address employee concerns affecting TVA nuclear operations. The ECP refers to the OIG's employee concerns involving issues that fall within the OIG's investigative mandate. These concerns may include intimidation and harassment, wrongdoing, or misconduct-related issues.

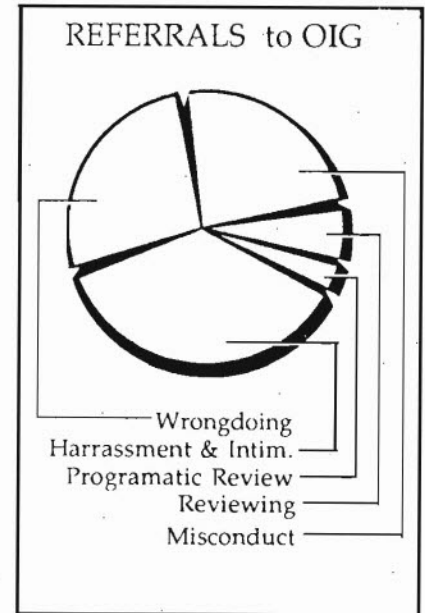
TVA's policy requires the referral of these matters to the OIG for

assessment and investigation, if warranted. However, the OIG is responsible for making the final decision on whether a particular concern is within its investigative mandate. Consequently, the ECP has been advised to liberally refer matters to the OIG, thereby allowing the OIG to review all concerns that may be of investigative interest.

The OIG investigates those concerns which are within its mandate and reports the results of these investigations to TVA management. These reports may include recommendations for disciplinary or corrective action. The OIG also reports the results of these investigations to the individuals who initially expressed the concern to the ECP.

The OIG has received 149 referrals from the ECP to date. The status of these referrals is described below.

- These 149 referrals consist of 53 intimidation and harassment concerns; 42 wrongdoing concerns; 41 misconduct concerns; 5 concerns which have been incorporated into OIG programmatic reviews; and 8 concerns that are being reviewed to determine whether they are within the OIG's investigative mandate.
- Of these 149 referrals, 48 are under active investigation; the field investigations of 11 concerns have been completed and are in the report writing stage; the investigations of 70 concerns have been closed; and 20 are in an inactive status.



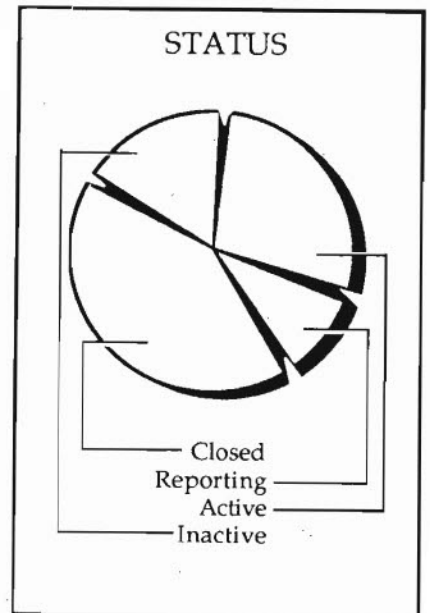
## SIGNIFICANT ECP CASES

Some of the more representative ECP concerns that the OIG investigated and closed during this reporting period are outlined below.

### CONFLICTS OF INTEREST

An OIG investigation concluded a senior TVA manager committed at least 25 violations of TVA's standards of conduct and ethical behavior. The manager resigned after the OIG released its report. Among other things, our report concluded the manager:

1. Promoted the employment of relatives (his brother-in-law and his wife's uncle) as contract employees with two TVA contractors; and, subsequently, approved their employment to provide services to TVA in organizations he managed;
2. Sought employment for his daughter with two different TVA contractors;
3. Attempted to hire his father-in-law as a TVA manager;
4. Interfered with employees' expressions of concerns to TVA's Employee Concern Program;
5. Interfered with the OIG's investigation of his misconduct, including questioning individuals about the information they provided to the OIG;



6. Retaliated against a TVA manager for recommending that his brother-in-law be terminated;
7. Used obscene and profane language on the job and conducted himself in a manner unbecoming a senior TVA official; and
8. Made false statements to OIG investigators.

## **EMPLOYEE MISCONDUCT**

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While there was no evidence to indicate a Sequoyah Nuclear Plant engineering associate accepted money and meals from Sequoyah employees whose work she inspected, the employee admitted she accepted two gifts from Sequoyah electricians. While these gifts did not influence her performance of her duties as an inspector, our investigation concluded that her conduct created the appearance she was losing complete impartiality and objectivity as an inspector. The employee received a written warning for her misconduct.

## **HARASSMENT AND INTIMIDATION**

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Our investigation did not substantiate the allegation that a former unit supervisor at the Watts Bar Nuclear Plant harassed one of his subordinates by assigning him work that was inconsistent with his medical limitations, singling him out for locker searches or issuing warnings for safety violations. However, our investigation revealed the subordinate committed three safety violations within a one-year period—actions which would make him subject to a two-week suspension.

## **FALSIFICATION OF QA RECORDS**

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Our investigation determined a Watts Bar Nuclear unit supervisor directed one of his subordinates to falsify an Electrode Reconditioning Log. However, the log was not a quality assurance document.

## **NO HARASSMENT**

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Our investigation did not substantiate allegations that TVA management harassed and intimidated an Office of Nuclear Power employee. Specifically, the employee cited examples of intimidation and harassment which he alleged arose on account of two separate incidents:

1. His involvement in the investigation of missing calculations for pipe supports at the Watts Bar Nuclear Plant; and
2. His involvement with a December 19, 1985 presentation TVA made to the Nuclear Regulatory Commission.



# THE TVA RETIREMENT SYSTEM

In our last semiannual report, we identified the TVA Retirement System (TVARS) Board's objections to a full-scope OIG audit of TVARS as an unresolved audit matter. These objections were not resolved during this reporting period.

As we stated in our last semiannual report, TVA's General Counsel has advised the TVA Board on its rights and obligations with respect to TVARS.

Although this matter remains unresolved, it should be noted that a new Chairman of the TVA Board of Directors has recently been appointed. Because of this development and the advice provided by the General Counsel, we are hopeful that this issue will be resolved during the next reporting period.

While this audit issue is unresolved, it is important to note that the Retirement System Board has cooperated with the OIG's investigation of allegations of misconduct and wrongdoing involving TVARS. During this reporting period, the OIG completed its investigation of allegations of misconduct by current or former senior TVA officials and other TVA employees whose duties involve the Retirement System. The results of these investigations are highlighted below.

## TVARS INVESTIGATIONS

Beginning in 1986, several current and former TVA employees made allegations of improprieties involving TVARS and misconduct by TVARS officials. As reported in previous semiannual reports, these allegations led to a series of OIG investigations, the last of which ended on February 29, 1988.

As a result of these investigations, we concluded some senior TVA officials engaged in misconduct and violated TVA's standards of employee conduct.

As a result of our investigative findings, disciplinary action was taken against a number of TVA employees, while others resigned during the course of our investigation.

The overall results of our TVARS investigations are highlighted below (including those investigations that were completed during 1987). As a result of these investigations, we reported the following findings to TVA management.

- Allegation: TVARS officials improperly informed a senior TVA manager of then-confidential changes in TVARS benefits.

This disclosure of confidential information about upcoming changes in retirement eligibility and pension computation rules allowed a senior TVA official to delay his resignation from TVA until those

more favorable changes went into effect. This delay increased the official's retirement benefits by about \$9,000 annually.

Our investigation revealed that other TVA employees retired while the new TVARS rules were still confidential and did not have the opportunity to consider these benefit changes as part of their retirement plans. In the interest of fairness, the TVA Board of Directors concluded that these retirees should be allowed to retroactively benefit from the new rules.

Of the four senior TVA officials we identified as having improperly released confidential information, two retired during or immediately after the investigation and TVA management reprimanded the other two.

- Allegation: A TVA employee was alleged to have engaged in sexual harassment.

This employee left TVA before the OIG issued a final report describing its findings about these allegations. However, our investigation also indicated that two other TVA managers had neglected their supervisory obligations and both of these employees were reprimanded by TVA management.

- Allegation: A TVARS official received preferential treatment regarding a promotion.

Our investigation revealed that after the Division of Personnel determined this senior employee's position did not warrant a higher grade, the subject of this investigation asked another TVARS official to intervene on the employee's behalf. As a result, another senior TVA manager bypassed normal TVA classification procedures and directed his subordinates to reclassify the subject's position to a higher grade.

Two of the employees involved in this matter are no longer TVA employees, and the senior TVA manager who bypassed normal promotion procedures and the subject's immediate supervisor have been reprimanded by TVA management.

- Allegation: The TVARS improperly reduced TVA's contributions to TVARS by misapplying earnings on its members retirement contributions.

The evidence did not substantiate this allegation. TVA contributions and those of TVARS members fund different components of retirement benefits, and TVARS accounts separately for their respective contributions. Also, the TVARS has a longstanding policy of maintaining a relatively stable dividend rate for member accounts. Therefore, the TVARS has never tied that rate directly to the annual rate of return on TVARS investments, which has historically varied substantially below, as well as above, the dividend rate attributed

to member accounts.

- Allegation: Retirement Services Branch employees falsified TVARS records to benefit one of their supervisors.

The evidence did not substantiate this allegation, which involved the distribution of the supervisor's funds following the liquidation of his TVARS account. Although the documentation of that distribution was partially deficient, the TVARS did, in fact, properly liquidate the account.

- Allegation: Two TVARS officials used their influence with the TVARS Board of Directors to obtain private financial gains.

The evidence did not substantiate this allegation, which involved deposits into, and transfers of funds among, the TVARS accounts of each official. All deposits and transfers complied with applicable TVARS policies, and the benefit of changes in those policies was available to all TVARS members. Moreover, the two officials did not, in fact, realize unusual financial gains from their TVARS deposits and transfers.

- Allegation: TVARS officials improperly accepted gifts, entertainment, and favors from TVARS investment managers.

To varying degrees, three TVARS officials and a fourth TVA employee accepted gratuities (e.g., meals, refreshments, non-promotional gifts, jobs for children, and lodging arrangements at private clubs) from investment managers who were actively seeking to obtain or maintain TVARS accounts. Some of these gratuities directly violated TVA rules on the acceptance of gifts, entertainment, and favors. In addition, the acceptance of these gratuities clearly created at least the appearance of a conflict of interest.

The two TVARS officials whose misconduct was most egregious have retired from TVA. In addition, TVA management has reprimanded the third TVARS official and counseled the other TVA employee.

- Allegation: Two TVARS officials engaged in improper business dealings with TVARS investment managers.

The evidence did not substantiate this allegation, which centered on the transfer of approximately \$586 million in TVARS funds to three investment management firms. Although the evidence raised questions regarding the TVARS decisionmaking process (see below), it did not support a conclusion that any TVARS officials engaged in wrongdoing in connection with the transfer of these TVARS funds.

On the other hand, one of the investment managers involved in this allegation inaccurately represented himself as a registered investment advisor in his agreement with the TVARS. Although this investment manager eventually cured this deficiency, he charged the

TVARS a management fee for a period of time during which he legally could not (and, in fact, did not) undertake any transactions in TVARS funds.

The investigation of alleged wrongdoing involving the transfer of approximately \$586 million in TVARS funds to three investment managers raised questions regarding the TVARS decisionmaking process. For example, the statements of seven current and former TVARS Directors suggested the decisions to transfer nearly \$286 million in TVARS zero coupon bonds to one investment manager occurred:

1. Without any formal research or planning;
  2. Without any review by the TVARS Investment Committee;
  3. Without all TVARS Directors being aware of the investment manager's credentials, his expertise in managing zero coupon bonds, or his proposed investment plans;
  4. Without any TVARS Directors being aware of the investment manager's limited resources, such as the fact he constituted a new one-person corporation;
  5. Without any formal presentation to the TVARS Board by the investment manager; and
  6. Without any formal research or consideration of why the investment manager should be paid a higher management fee than the previous TVARS managers.
- Allegation: A TVARS official's retirement violated TVARS policies, and he received preferential treatment regarding retirement benefits.

The evidence did not substantiate this allegation, which centered on the manager's retirement and his election of a new TVARS option which permits retirees to defer their withdrawal of certain contributions following retirement. Our investigation revealed no violations of TVARS policies and, in fact, other similarly situated retirees were allowed similar benefits under comparable circumstances.

## TVARS INVESTIGATION — GOOD NEWS FOR RETIREES

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Seventeen TVA retirees, who would have benefited from changes in TVARS retirement eligibility and pension computation rules, received increased benefits as a result of the TVARS Board and the TVA Board's decision to make increased benefits retroactive. Hiram Kimbrough, who lives in Tuscumbia, Alabama, was one of those retirees.

"I started to work for TVA in 1952 as a laborer at the Chemical Plant in Muscle Shoals. Then I went into the Power Program. I was a shift engineer at Colbert Steam Plant when I retired in January of 1986.

"Some time in the latter part of February of 1986 I heard about the new amendments to the TVA retirement rules and how they would have affected me and some other people pretty drastically. Shortly after that, I heard that some people who were scheduled to retire had learned about these rules before the rules were approved. I felt it was unfair for some to have been privy to this information and everybody not. If I'd been notified that these rules were in the works and I'd still retired, I'd have had no complaints.

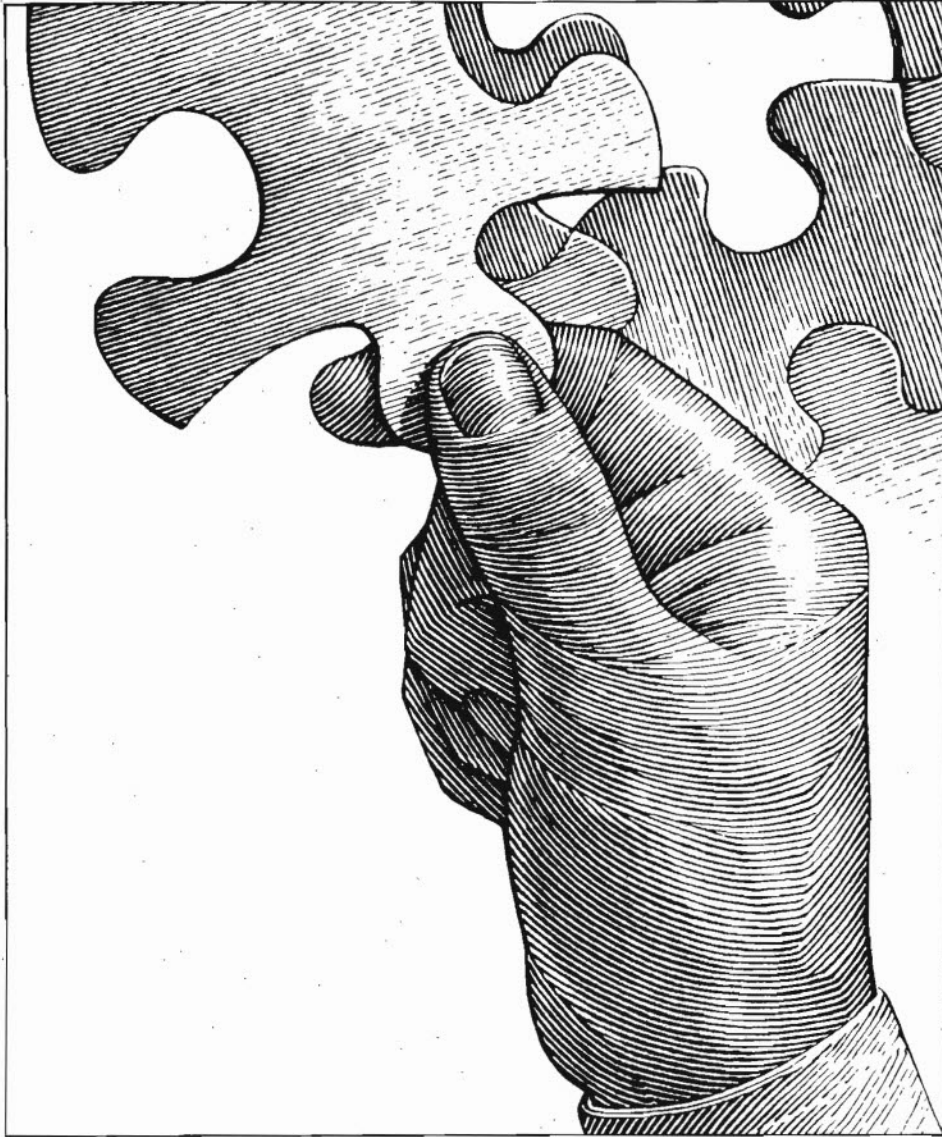
"I tried to resolve my matter by going up through the Retirement Board and the Inspector General's Office. The Inspector General's Office went to work on it and got a satisfactory solution for me.

"I knew that turning in the retirement system was going to cause some turmoil. In my 33 years with TVA I've never turned in a grievance of any kind, but I just felt some people were being treated unfairly. Although I hated to do it, I felt like I had to. I think it has helped the retirement system overall. I know it's better now than what it was."



*"Some time in the latter part of February of 1986 I heard about the new amendments to the TVA retirement rules and how they would have affected me and some other people pretty drastically. Shortly after that, I heard that some people who were scheduled to retire had learned about these rules before the rules were approved. I felt it was unfair for some to have been privy to this information and everybody not."*

# INVESTIGATIONS



**D**uring this reporting period, the OIG completed over 450 investigations, made 74 referrals for prosecution (including 56 cases referred to U.S. Attorneys), obtained 2 indictments and 9 convictions, and issued 204 formal investigative reports to TVA management.

More specifically, the OIG's inventory of open cases decreased nearly 17 percent from 687 at the beginning of this six-month period to 576 at the end. This change was the net result of closing 456 cases and opening 345 new cases. We closed 223 of the 456 administratively,

29 cases were consolidated with existing cases, and the remaining cases were closed upon the issue of an OIG Report of Administrative Inquiry.

Underlying these statistics are notable investigative achievements. These achievements are reflected in the following statistical summaries and in the following summaries of significant cases.

## THE INVESTIGATIVE CASELOAD

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Investigations Carried Forward as of September 30, 1987	687
Investigations Opened this Reporting Period	345
Investigations Closed This Reporting Period	456
Total Investigations in Progress as of March 31, 1988	576

## SOURCES OF ALLEGATIONS FOR CASES OPENED THIS REPORT PERIOD

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Source of Allegation	Number of Cases
OIG Hotline	89
Concerns Mailed In	41
Referrals from Other TVA Offices	66
Audit Referrals	33
TVA's Employee Concern Program	21
Congressional Inquiry	1
TVA Board	2
OIG Employee Applicants	16
OIG Special Agents	58
Quality Technology Company	11
Other	7
TOTAL	<u>345</u>

# CLASSIFICATION OF INVESTIGATIONS

Classification of Cases	Number of Investigations				
	Carried Forward 9/30/87	Opened	Closed	Inactive	In Progress 3/31/88
1. Employee Misconduct	38	24	29	1	33
2. Employee Concern Program Matters	194	104	132	52	166
3. Misuse-Abuse of Government Property	20	10	12	1	18
4. Vehicle Operations	48	29	50	0	27
5. Substance Abuse	5	4	7	0	2
6. Personnel Matters	80	25	55	7	50
7. Terrorism and Sabotage	1	1	1	1	1
8. Discrimination and Harassment	44	9	32	1	21
9. Safety	4	3	2	1	5
10. Trades and Labor	10	3	6	1	7
11. Theft	29	19	22	1	26
12. Falsification of Records	27	56	34	0	49
13. Contract-Related Misconduct	37	8	20	2	25
14. Fraud and Waste	117	23	29	14	111
15. General Criminal Activities	4	1	1	1	4
16. Employment Suitability	9	16	14	0	11
17. Public Concerns	7	1	5	1	3
18. Board Concerns	4	0	0	0	4
19. Archaeological Resources Protection	1	3	2	0	2
20. Special Projects	5	4	1	0	8
21. OIG Personnel Matters	3	1	2	0	2
22. Other	0	1	0	0	1
<b>TOTAL</b>	<b>687*</b>	<b>345</b>	<b>456</b>	<b>84</b>	<b>576</b>

\* Adjustments made to number in progress as of 9/30/87



## ALLEGATIONS IN OIG CASES

Many of the 456 cases we completed this reporting period contained multiple allegations.

These closed cases contained 624 allegations. Of these allegations, 448 were not substantiated and 176 were substantiated. We recommended TVA management consider disciplinary action in connection with 98 allegations, and recommended other management actions be considered for an additional 83 allegations. The following chart further describes these allegations.

Classification of Allegation	Number Total	Number Substantiated	Number Not Substantiated
1. Employee Misconduct	84	32	52
2. Employee Concern Program Matter	122	18	104
3. Misuse-Abuse of Government Property	24	16	8
4. Vehicle Operations	51	14	37
5. Substance Abuse	12	3	9
6. Personnel Matters	97	12	85
7. Terrorism and Sabotage	0	0	0
8. Discrimination and Harassment	56	3	53
9. Safety	2	0	2
10. Trades and Labor	5	0	5
11. Theft	22	6	16
12. Falsification of Records	73	55	18
13. Contract-Related Misconduct	24	6	18
14. Fraud and Waste	44	4	40
15. General Criminal Activity	1	1	0
16. Employment Suitability	0	0	0
17. Public Concerns	3	2	1
18. Board Concerns	0	0	0
19. Archaeological Resources Protection	4	4	0
<b>TOTAL</b>	<b>624</b>	<b>176</b>	<b>448</b>

# THE OIG'S REPORTS OF ADMINISTRATIVE INQUIRY

The OIG uses written reports to inform the TVA Board of Directors, General Manager, and senior TVA management of the results of its investigations. These reports, called Reports of Administrative Inquiry (RAI), are prepared by the OIG's Legal Counsel staff. During this reporting period, over 200 such reports were sent to TVA management.

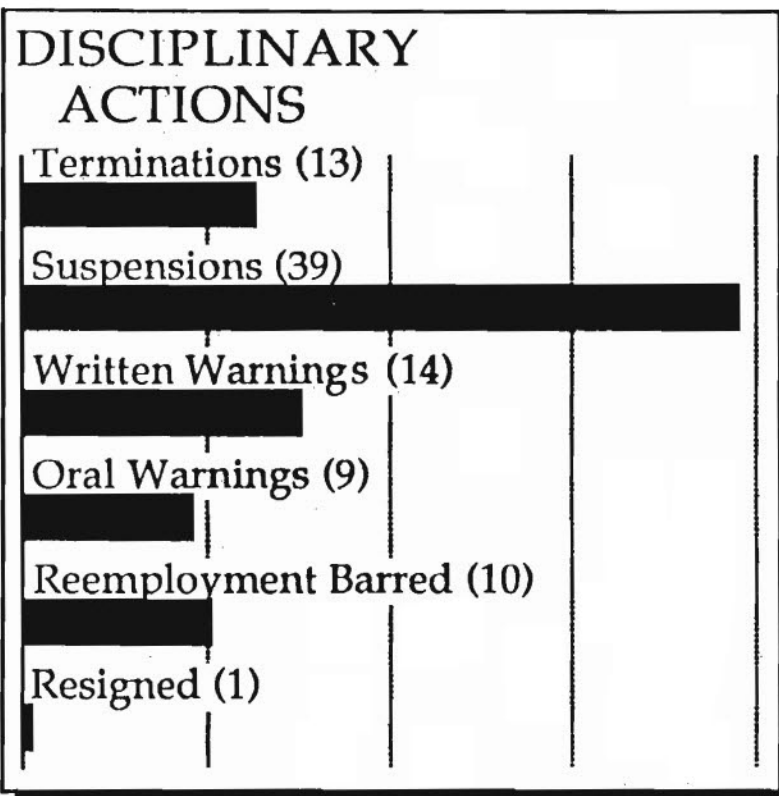
The procedures used to prepare OIG reports are designed to assure that:

- all relevant allegations have been thoroughly investigated;
- OIG investigative files properly document the results of the investigation;
- all of the pertinent information gathered during the investigation has been taken into account;
- the reports reflect an objective and independent review of the facts gathered during the investigation; and
- the report presents a clear and concise description of the OIG's investigative activity, its findings and conclusions, and any recommendations that may be warranted on the basis of the investigation.

## ADMINISTRATIVE AND DISCIPLINARY ACTIONS

We recommended that TVA management consider taking administrative or disciplinary action in 90 of the 456 cases we closed during this six-month reporting period. However, 16 employees resigned or retired prior to receiving any recommended disciplinary action.

**Examples of Actions Management Took**—Examples of disciplinary actions TVA management took during this reporting period in response to the OIG's investigative findings are described below.



## TERMINATIONS

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- An engineering associate was terminated for submitting a false travel claim to TVA, making false statements to the OIG, and attempting to hinder the OIG's investigation of his misconduct.
- A Bellefonte Nuclear Plant clerk was terminated for submitting a falsified medical excuse slip to TVA and for her pattern of unexcused absences from work.
- A former Browns Ferry Nuclear Plant quality assurance evaluator admitted he falsified his TVA employment application when he failed to report a conviction for possession of marijuana. This falsification resulted in TVA denying him unescorted access to its nuclear plants; subsequently, TVA terminated him.
- An electrical foreman at a TVA nuclear plant resigned as an alternative to being terminated for taking two weeks of unauthorized leave.
- An energy advisor was terminated for making a sexual advance to a 13-year-old girl during a home energy survey.

## SUSPENSIONS

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- A clerk, who was a unit timekeeper, was suspended for 14 days for making false entries on her unit's leave records. The OIG's investigation revealed the clerk would take leave but would not record it. In addition, management relieved her of her timekeeping responsibilities.
- An electrical engineer was suspended for 10 days for harassing a female subordinate. In addition, the engineer was transferred and relieved of his supervisory responsibilities. The engineer harassed the female employee with respect to the assignments he gave her, the enforcement of safety requirements, and by making derogatory comments about female workers to his employees.
- An energy advisor was suspended for 40 days for misusing a TVA vehicle and for making false statements to the OIG about his misconduct. The employee drove his TVA vehicle after work hours to a motorcycle gang clubhouse.
- An employee was suspended for five days and required to reimburse TVA \$1082 for 1800 minutes of unauthorized long-distance telephone calls from a TVA telephone.

## INVESTIGATIVE REFERRALS

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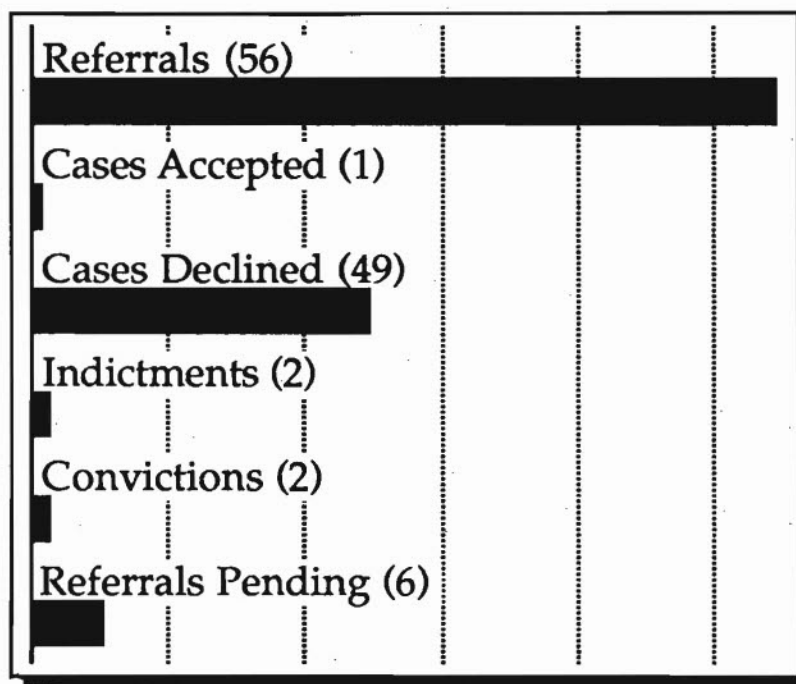
We referred 74 matters to prosecutorial and other officials during this reporting period. Most of these referrals were to U.S. Attorneys for a determination of whether a criminal prosecution would be appropriate.

<b>Investigative Referrals</b>	<b>Number</b>	<b>Results</b>
Cases referred to U.S. Attorneys for prosecutorial decisions	56	See next section
Cases referred to State or local agencies for prosecutorial decisions	1	7 convictions
Cases referred to and accepted by the FBI	2	FBI investigating
Cases referred to the OIG's Audit Division	1	
Cases referred to other agencies for investigative or administrative action	14*	OIG cases closed

\*All of these 14 referrals were to the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) and involved current or former TVA employees who may have improperly received Federal workers' compensation benefits. One such referral involved a former Sequoyah Nuclear Plant steamfitter who was improperly receiving Federal workers' compensation benefits. The DOL had previously determined that, because of his reportedly serious work-related injury, the former employee should not frequently engage in any heavy lifting, pushing, and pulling movements, or operate a car or heavy machinery at work. However, our investigation revealed the former employee's work activities for the past six years included very strenuous physical labor such as helping his coworkers lift compressors (each weighing between 300 and 350 pounds) and lifting, pushing and pulling other heavy equipment. Our investigation also revealed the employee had driven racing cars for several years after his work-related injury.

## PROSECUTORIAL ACTIVITIES

During this reporting period, the OIG referred 56 matters to U.S. Attorneys for possible prosecution. Forty-nine cases were declined for prosecution in favor of administrative remedies by TVA.



The indictments and convictions reported during this period are the results of referrals the OIG made during previous reporting periods.

**Examples of Significant Prosecutorial Actions**—Some of the more significant prosecutorial actions which occurred during this six-month reporting period are described below.

## **BOMB THREATS END IN SENTENCING**

A non-TVA employee was sentenced in Federal Court during December 1987, after she pled guilty to two counts of a Federal Grand Jury indictment against her for making telephone bomb threats to a TVA headquarters building. Her sentence included:

- A one year sentence (8 months suspended);
- Five years probation;
- 500 hours of community service; and
- A \$100 fine.

## **FORMER EMPLOYEE INDICTED IN SCHEME TO DEFRAUD THE GOVERNMENT**

A former ironworker was indicted by a Federal Grand Jury for his involvement in a scheme to defraud the Government by using false names and social security numbers while receiving disability benefits under the Federal Workers' Compensation Program. The former employee was indicted on three counts of filing false statements with the Department of Labor and one count of fraudulently using a social security number. He pled guilty to one count of filing a false statement and one count charging the fraudulent use of a social security number. This employee improperly received more than \$73,000 in Federal disability benefits.

## **SUMMARY OF OTHER SIGNIFICANT CASES DURING THIS REPORTING PERIOD**

### **FALSIFICATION OF RECORDS**

- **Senior Manager Falsified His Educational Qualifications**—A senior manager resigned following the OIG's determination he misrepresented his educational qualifications to TVA. The employee initially claimed he attended junior college and graduated from the University of Tennessee (UT) with an engineering degree. The

employee also provided a UT college transcript to substantiate his claim. However, our investigation revealed he did not attend junior college, did not graduate from UT and, in fact, only attended UT for one week. Our investigation also revealed the transcript he provided to TVA was a complete fabrication and had been purchased for \$50.

- **Employee Falsified Employment Application**—A division project engineer admitted he falsified his employment application during 1980 and submitted a falsified resume to TVA during 1983. The engineer initially claimed he had an industrial engineering degree from the University of Tennessee at Chattanooga. In his resume he also claimed he had a 3.147 undergraduate grade-point average and had completed 18 hours of postgraduate work. However, our investigation revealed: (1) he did not graduate from college, (2) his grades in his core engineering courses were near failing, (3) his overall grade-point average was 2.118, and (4) he did not complete any postgraduate work. The employee's organization has proposed his termination.
- **Falsification of Travel Vouchers**—An employee in the Division of Occupational Health and Safety admitted he falsely claimed he paid for six nights of lodging on travel vouchers he submitted to TVA for reimbursement, when the lodging was actually free.
- **Falsification of Travel Claims and Vouchers**—A senior instrument mechanic working at Sequoyah Nuclear Plant admitted he submitted travel mileage claims although he commuted as a passenger with his wife (who also submitted mileage claims), or in the car of another TVA employee. The employee reimbursed TVA approximately \$600 for these overpayments.
- **Fraudulent Overtime**—The OIG's surveillance of a TVA Public Safety Service lieutenant revealed he was overstating the amount of overtime he reportedly worked during post inspections. Although the lieutenant only worked two hours of overtime, he claimed he worked eight hours (the maximum amount of overtime for which he could be compensated during one pay period). The lieutenant resigned following an OIG interview and while our investigation was pending.

## MISUSE OF GOVERNMENT PROPERTY

- **Obscene Calls**—A Public Safety Service lieutenant admitted using TVA long distance telephone facilities to call a "dial-a-porn" number. The lieutenant was suspended for 30 days for his misconduct.
- **Misuse of TVA Equipment**—An OIG investigation revealed a TVA bulldozer and backhoe were used over a weekend to construct a dam on private property. Although the OIG did not determine who actually operated this equipment, the investigation revealed a TVA

laborer talked to his coworkers about constructing a dam and operating the equipment on some adjacent property owned by his uncle. The laborer also made several false statements during the investigation and resigned while the investigation was pending.

- **Telephone Misuse**—A design engineering associate admitted making 60 unauthorized long-distance calls from his TVA telephone during 1984-1986. This employee received a 5-day suspension and reimbursed TVA \$428 for the unauthorized calls.
- **Telephone Misuse**—Three occupational nurses and a clerk admitted making unauthorized long-distance telephone calls from the TVA telephone at the Watts Bar Nuclear Plant's Health Station. The four employees received written warnings and were required to reimburse TVA for the unauthorized calls.
- **Unauthorized Access to Computer System**—Our investigation concluded a welding engineer at the Watts Bar Nuclear Plant gained unauthorized access to a computer system at Watts Bar. However, there was no evidence that an adverse effect on nuclear safety or quality resulted from this unauthorized access. The employee received an oral reprimand and a written warning.

## OTHER MISCONDUCT

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- **Bomb Threat**—A fossil plant assistant unit operator admitted making a bomb threat telephone call to the plant as a practical joke. A plant shift engineer who knew the caller's identity failed to promptly identify the caller and inform his superiors the call was a prank. The assistant unit operator received a 2-day suspension and the shift engineer was suspended for 5 days.
- **Contract-Related Misconduct**—An OIG investigation concluded division employees: (1) used a TVA contract with a local university to circumvent TVA procedures for consulting and personal services contracts; and (2) altered invoices in connection with the contract to cover expenses that were not allowed.

## THE OIG'S INVESTIGATIVE REPORTS—OFTEN GOOD NEWS FOR EMPLOYEES

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Contrary to some perceptions, the results of the OIG's investigations are not always "bad" news for employees. A significant number of investigations have resulted in "good" news—e.g., allegations



were not substantiated, the OIG determined the employee received an unwarranted disciplinary action, or employees received increased financial benefits or additional pay.

The 456 cases closed this six-month period contained 624 allegations, 448 which were not substantiated.

**Examples of Good News**—Following are examples of cases closed since the OIG's inception, which resulted in good news for TVA employees.

## UNWARRANTED SUSPENSION

An OIG investigation supported a safety technician's allegation that his 30-day suspension for willful misuse of a TVA vehicle was unwarranted. The employee was subsequently reimbursed for the pay that was withheld during his 30-day suspension.

## NO HARASSMENT

**No Intimidation and Harassment**—A Sequoyah Nuclear Plant principal electrical engineer was alleged to have terminated a contract employee for complaining about work conditions to the Deputy Manager of Nuclear Power, and Sequoyah management had already reassigned the engineer because they believed he had harassed the contract employee. However, our investigation indicated the contract employee's complaints were untruthful and that the engineer had selected the employee for termination based on valid management considerations. Based on these findings, we recommended the organization consider returning the engineer to his previous position.

## DOCUMENT FALSIFICATION

**No Document Falsification**—There was insufficient evidence to conclude a former Quality Assurance inspector at the Sequoyah Nuclear Plant improperly inspected cables and falsified inspection-related documents.

## CONSPIRACY

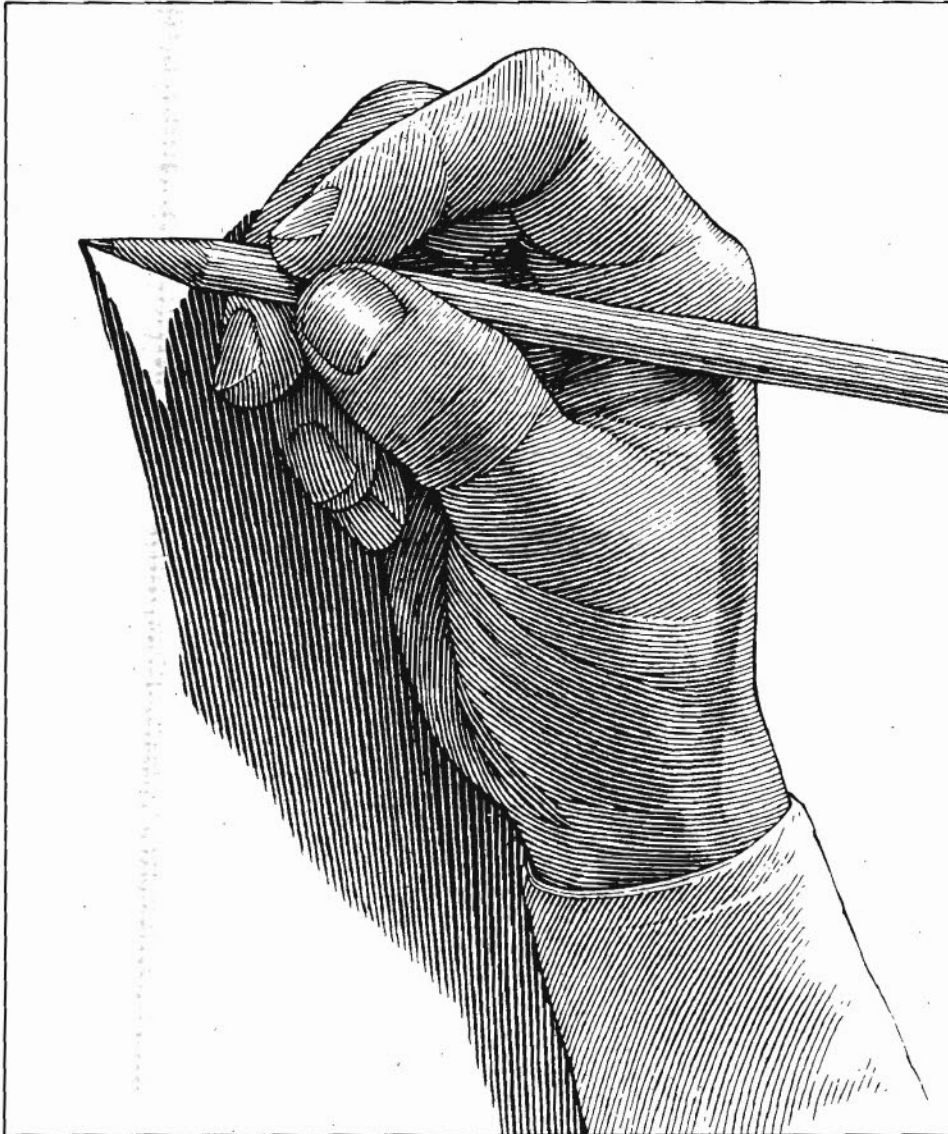
**No Conspiracy**—Our investigation concluded there was no evidence an Equal Opportunity Staff employee tried to conceal a discrimination complaint filed against a former Watts Bar Nuclear Plant personnel officer.

## MISCONDUCT

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**No Misconduct**—Our investigation concluded an energy advisor did not solicit a fee in order for a consumer to receive a \$100 rebate on a heat pump water heater installation. However, prior to the OIG's investigation the employee's organization investigated the alleged misconduct and determined the advisor had not done enough to eliminate the "perception" of misconduct. The organization, therefore, included the purported misconduct in the employee's performance appraisal. The OIG recommended revising the employee's performance appraisal to delete any reference to the rebate incident.

# AUDITS



**D**uring the past six months, the OIG issued 21 audit reports and identified about \$560,000 in questioned costs. We also made several recommendations involving the validating, recording, and authorizing of TVA's financial transactions, as well as recommendations to disallow portions of contractors' requests for reimbursement of questionable expenditures.

To date, TVA has realized more than \$126 million in avoided costs based on the actions taken by individual organizations in response to the OIG's audits. Further, we recommended that TVA change its

accounting policy to record unbilled sales of electricity. TVA management implemented this change before the audit was completed. As a result, the need for future rate increases totalling \$92 million was eliminated.

Our largest single audit activity was our involvement in the review of TVA's financial statements and systems—the OIG's Financial Audit Program. This program was designed to complement the annual audit of TVA's financial statements by an independent CPA firm. This program and other significant audit activities are described in this section.

## AUDIT STATISTICS

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### A. Status of Audit Projects

	Number
Audit Projects Carried Forward 10/1/87	51
Audit Projects Postponed or Canceled	( 9)
Audit Projects Started	32
Total Active Audit Projects	74
Audit Projects Completed	(21)
Audit Projects in Progress 3/31/88	53

### B. Audit Results

	Cost
Audit Reports Issued (21)	
Questioned Costs: (Note 1)	
Ineligible Costs	\$543,793
Unsupported Costs	16,614
Total questioned costs	\$560,407

### C. Status of Audit Reports (Note 1)

	4/1 - 9/30/87	10/1/87 - 3/31/88
Audit Reports Issued	25	21
Audit Determination Was Not Made	2	7
Audit Determination Was Made/ Audit Resolution Did Not Occur	7	8
Audit Resolution Occurred	16	6

Note 1. These statistics conform with a proposed amendment to the Inspector General Act of 1978. This amendment provides the following definitions:

**Audit Determination**—Management’s evaluation of an audit report’s findings and recommendations, including management’s final response to the audit. This response may include corrective actions that are necessary in response to the audit’s findings and recommendations.

**Audit Resolution**—Management’s completion of all necessary corrective actions in response to an audit determination.

**Ineligible Cost**—An incurred cost the OIG has questioned because of an alleged violation of law, regulation, contract, grant, cooperative agreement, or other agreement governing the expenditure of funds.

**Unsupported Cost**—An incurred cost the OIG has questioned because of a lack of adequate documentation at the time of the audit.

## AUDIT FOLLOW-UP AND RESOLUTION

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The following summarizes audit recommendations made to management since the OIG’s inception, and management’s responses to those recommendations.

	Number	Dollar Savings
Total Recommendations Made:	230	\$133,157,247
Total Recommendations Implemented	116	126,586,833
Total Recommendations Not Implemented	114	6,570,414
Recommendations not Implemented With Which Management Agrees	66	6,562,001
Corrective Action Plans Not Received	13	
Recommendations With Which Management Does Not Agree	9	
Recommendations to Which Management Has Not Responded	24	
Referred to Division of Investigations		
No Response Presently Requested	2	8,413

## CHANGE IN ACCOUNTING POLICY NEGATES NEED FOR \$92 MILLION IN FUTURE RATE INCREASES

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Generally accepted accounting principles permit utilities to report revenue either when electricity is delivered or when customers are billed. Since 1974, footnotes to TVA's financial statements have shown that revenues from sales of electricity are recorded only when billed. At different times in the past, TVA management considered the need to change this accounting policy.

During our audit survey, we concluded that a change in accounting policy to begin reporting unbilled sales could have a significant one-time effect on power rates. During August 1987, we estimated that unbilled sales would be about \$90 million as of September 30, 1987.

We reported this audit finding to TVA during August. Subsequently, TVA management decided to record \$92 million of unbilled sales and to write-off certain deferred costs in fiscal year 1987. The deferred costs effectively offset the unbilled sales.

The TVA power rate increase approved for fiscal year 1988 was not affected by the changes in accounting policies. However, these changes will benefit ratepayers in future years since additional revenue will not be needed to fund the deferred costs that were written off with the \$92 million.

Other benefits from the changes include (a) enhancing TVA's ability to match revenues with costs and (b) making TVA consistent with the growing number of utilities that record unbilled sales when electricity is delivered.

## INTERNAL FINANCIAL AUDIT PROGRAM

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This audit program was designed to determine whether TVA's internal accounting control system provided a reasonable assurance that transactions were properly executed and were in accordance with generally accepted accounting principles. We also reviewed whether TVA's assets were reasonably secured from loss and whether TVA complied with applicable laws and regulations.

Throughout the year, we reviewed selected major accounts and internal controls and issued separate reports to TVA management. We also completed year-end reviews of account balances. A consolidated audit report will be issued to summarize our findings.

During our review of TVA's internal accounting controls, nothing came to our attention which would indicate TVA's financial operations were not fairly reported. We did, however, recommend a number of improvements in validating, recording, and authorizing financial transactions, and TVA management has begun implementing these recommendations. Among other things, we recommended:

- Improving controls over the authorization of advances of funds from the Federal Financing Bank;
- A more timely write-off of uncollectible accounts;
- Confirming inventory balances at two TVA storage facilities by conducting a physical inventory at each location; and
- Improving TVA's compliance with procedures for receiving and inspecting materials at TVA's Office Supply Warehouse.

## OTHER SIGNIFICANT AUDIT ACTIVITIES

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Other significant audit reports that were issued during this reporting period are described below.

### NUCLEAR POWER CONTRACTOR OVERCHARGED TVA FOR SERVICES

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TVA signed a commitment letter with a company that agreed to provide supplementary audit, surveillance, and engineering services to TVA's nuclear power program. The letter stated that if TVA and the company failed to agree on the terms of a personal services contract, TVA would reimburse the company for the services it performed by using an hourly rate that the company had previously submitted to TVA. Two months later, when TVA and the company failed to agree on the terms of the personal services contract, TVA cancelled the letter agreement. The company then submitted a claim to TVA for nearly \$560,000. The OIG subsequently conducted an audit to determine if the contractor's claim was justified.

We determined that over \$378,000 of the claim consisted of overhead and other expenses that were not covered by the terms of the commitment letter. An additional \$21,000 represented costs the contractor had not incurred or services the contractor had not

performed. Finally, \$17,000 of the contractor's requested reimbursements were improperly documented.

The contractor disagreed with our findings.

On the basis of our findings, the OIG recommended that the Office of Nuclear Power submit the questioned claim to TVA's Office of General Counsel for a legal review. It is our opinion that TVA should reimburse the contractor about \$144,000—the uncontested part of the claim—but should not pay the \$17,000 until the contractor submits proper documentation to verify the expenses for which it is seeking reimbursement.

## BARGE COMPANY OVERCHARGES TVA

The Inland Waterways Revenue Act of 1978 requires that barge companies pay an excise tax on fuel consumed when moving freight. When TVA contracts with a barge company to haul coal to a steam plant, TVA typically agrees to reimburse the company for the expense of the fuel excise tax. Between 1981 and 1986 TVA reimbursed one barge company over \$830,000 for excise taxes incurred in hauling coal from a mine in Kentucky to a TVA steam plant in Tennessee. Taxes were calculated on the basis of a flat rate per trip. The OIG conducted an audit to determine if the fuel excise tax the contractor billed was fairly stated.

We determined the flat rate the barge company charged is no longer accurate. Towboats have become more fuel efficient since the flat rate was originally calculated in 1981. As a result of the audit, we questioned over \$140,000 of the total taxes TVA paid to the barge company.

On the basis of our audit, we recommended that TVA:

1. Renegotiate the flat rate to reflect more accurately the actual excise tax the barge company is paying;
2. Develop procedures to monitor the excise tax to ensure that TVA's reimbursement is in line with the barge company's actual costs; and
3. Recover the \$140,000 in overpaid excise taxes.

## THE CONTRACT AUDIT BRANCH— THE MAN BEHIND THE PROGRAM

Joseph E. Kerley, a CPA and a Certified Internal Auditor, is Chief of the OIG's Contract Audit Branch and has worked for TVA for over



35 years. He was TVA's General Auditor for over 12 years before joining the OIG's staff 2 years ago. Under his leadership TVA has recovered or avoided hundreds of millions of dollars in misdirected funds. Although he was eligible to retire before he joined the OIG, he elected to become part of the OIG and continue his efforts to reduce waste, fraud, and abuse within TVA.

The Contract Audit Branch which Kerley manages is responsible for auditing contracting processes and administration within TVA and for auditing contractors doing business with TVA. Contract processes include procurement and personal services contracts as well as cooperative agreements. These processes are audited based on a workplan that uses sampling to gather information about whether contractor costs are reported fairly. The plan benefits TVA by ensuring that fair prices are paid and services are economical and effective.

Kerley's Contract Audit Branch is staffed by 18 professionals—15 are Certified Public Accountants—and supplemented by 3 CPA firms.

During fiscal year 1987 alone his staff questioned nearly \$40 million. As a result, TVA avoided over \$34 million in costs and recovered \$2 million; only \$4 million remains unsettled. Based on Kerley's recommendations, TVA has instituted new contracting procedures, such as competition in awarding personal services contracts, that will continue to save TVA millions of dollars.



*"Working in the OIG, I'm particularly pleased with the attention our reports get. We've made some good suggestions, and actions get taken. One of our best suggestions was recommending competition in personal services contracts. We've proven that competition saves TVA money."*

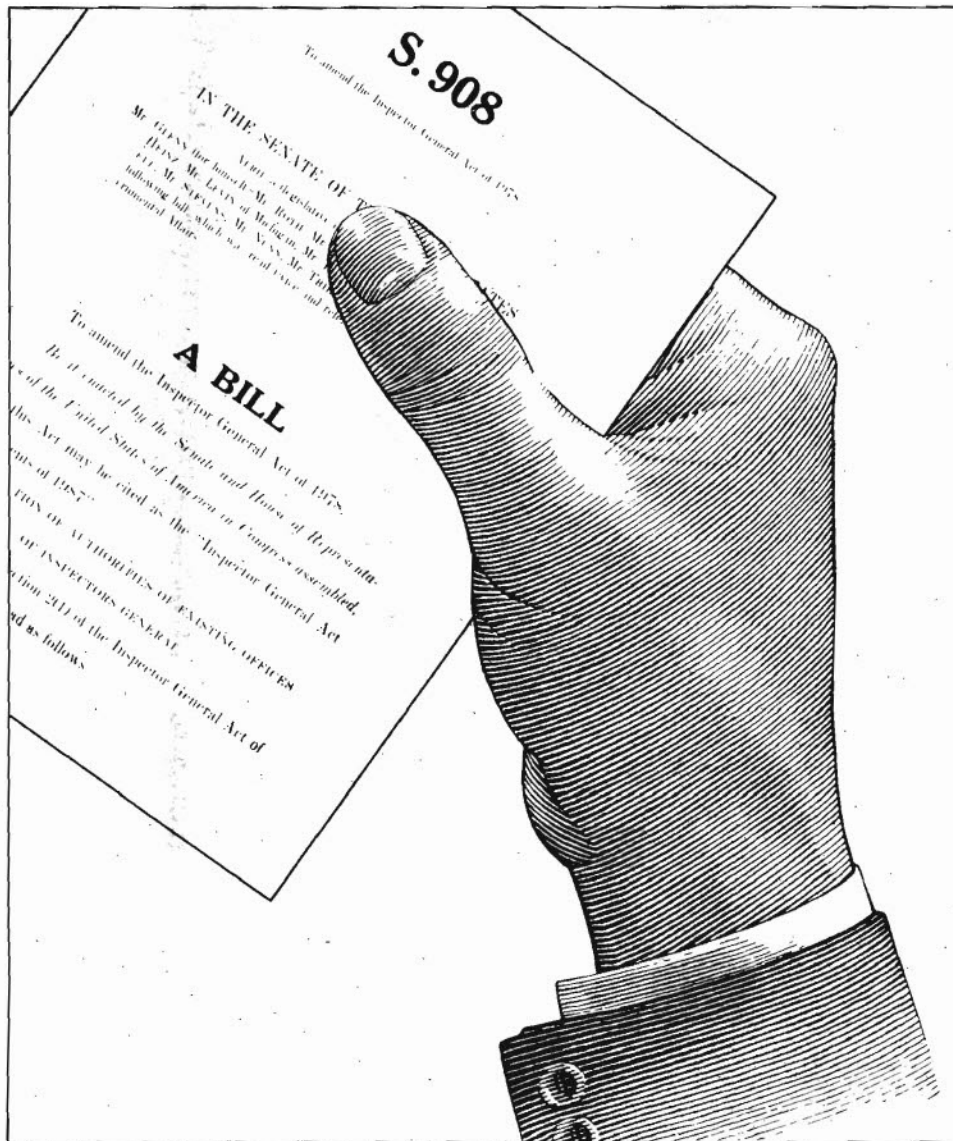
## AUDIT REPORTS ISSUED

Report Number	Report Title	Date Issued
<b>Internal Financial Audits:</b>		
87-0110	Review of Deferred Charges	10/16/87
87-0116	Review of Capital Lease Assets and Obligations	10/28/87
87-0108	Review of Long-Term Debt and Short-Term Notes	10/29/87
87-0105	Review of Journal Vouchers	11/18/87
87-0106	Review of Long-Term Investments	11/18/87
87-0104	Review of Cash	12/ 1/87
87-0114	Review of Chemical Product Cost Statements	12/ 4/87
87-0091	Review of Fuel Inventories	12/18/87
87-0095	Review of Property, Plant and Equipment	12/21/87
87-0094	Review of Accounts Receivable	2/5/88
87-0093	Review of Accounts Payable	3/7/88
87-0087	Review of Power Stores Inventories	3/15/88
87-0090	Review of Corporate Services Inventories	3/17/88
87-0086	Review of Payroll	3/22/88

### Other Audits

88-0127	Beale Street Development Corporation	11/18/87
87-0124	Review of Appropriated Spending for Fiscal Year 1987	11/24/87
87-0009-		
02-903	Tennessee Elk River Development Agency	12/1/87
87-0009-		
02-902	Alabama Elk River Development Agency	1/27/88
87-0078	American Commercial Barge Line Company	2/29/88
87-0112	Universal Testing Laboratories, Inc.	2/29/88
87-0117	Management and Physicians Recruiting Incentive Program	3/30/88

# LEGISLATIVE AND REGULATORY REVIEWS



**T**he OIG reviews key legislative and regulatory proposals to assess their effect on TVA's economy and efficiency and on the detection and prevention of waste, fraud, and abuse. During this reporting period, there were two legislative developments of particular interest to the OIG.

## S. 908—INSPECTOR GENERAL ACT AMENDMENTS OF 1987

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On February 2, 1988, the Senate passed S. 908 by a vote of 85 to 0. This bill, which would amend the Inspector General Act of 1978, would create a number of new statutory Inspectors General and strengthen the audit and internal investigative activities in about 70 other Federal agencies, including TVA.

S. 908 would extend various requirements of the Inspector General Act to agencies that are not currently covered. Under the bill, agencies such as TVA would be required to establish an "internal audit unit" that would be responsible for conducting audits and investigations. The head of each such unit would be appointed by and report directly to the agency head. Other provisions of the bill that would apply to TVA are outlined below.

The head of the audit unit could not be prevented from initiating or completing any audit or investigation or from issuing any subpoena during the course of an audit or investigation.

If the head of the audit unit is removed from office or involuntarily transferred, the head of the agency would be required to notify Congress of the reasons for such removal or involuntary transfer.

The audit unit would fulfill the same duties and responsibilities as a statutory Inspector General and would have the same authorities as a statutory Inspector General, including the authority to subpoena documents.

The audit unit would be required to prepare a semiannual report to Congress.

Audit unit employees would be authorized to take sworn statements.

Enactment of S. 908 would not significantly affect the OIG's current operations, since the OIG is already operating much like a statutory Office of the Inspector General. However, enactment of S. 908 would give the TVA Office of the Inspector General permanent statutory authority to subpoena documents as well as the authority to take sworn statements. Currently, the TVA Office of the Inspector General does not have the authority to take sworn statements and does not have the permanent statutory authority to subpoena documents. (However, Congress has granted, on a year-to-year basis, the OIG the authority to subpoena documents under a provision in TVA's annual appropriations bill.)

TVA and the OIG support enactment of this legislation.

# GENERAL ACCOUNTING OFFICE TO REVIEW THE OIG'S INDEPENDENCE

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During the Senate debate which preceded passage of S. 908 (The Inspector General Act Amendments of 1978), TVA's Office of the Inspector General was mentioned in the following colloquy between Senator Humphrey and Senator Glenn, the Chairman of the Senate Committee on Governmental Affairs.

**Senator Glenn....** S. 908 as reported does include a statutory requirement that 33 agencies, including TVA, consolidate all audit and internal investigative resources into a single office.

Inasmuch as TVA already has consolidated these functions into a nonstatutory Inspector General Office under a single individual who reports to the agency head, S. 908 creates a statutory mandate requiring a continuing of TVA's current operations but vests that office with the powers and reporting requirements of a statutory Inspector General....

The TVA Board has no objection to this treatment under S. 908.

**Senator Humphrey....** In 1985, the senior Senator from Tennessee (Senator Sasser) successfully persuaded the TVA Board of Directors to establish an Office of Inspector General at TVA. Clearly, this was a step in the right direction.

\* \* \*

(However) . . . in order to ensure the absolute independence of the Inspector General in examining all the phases of the agency, I believe it essential that the authority to remove the Inspector General reside with the President rather than the TVA Board.

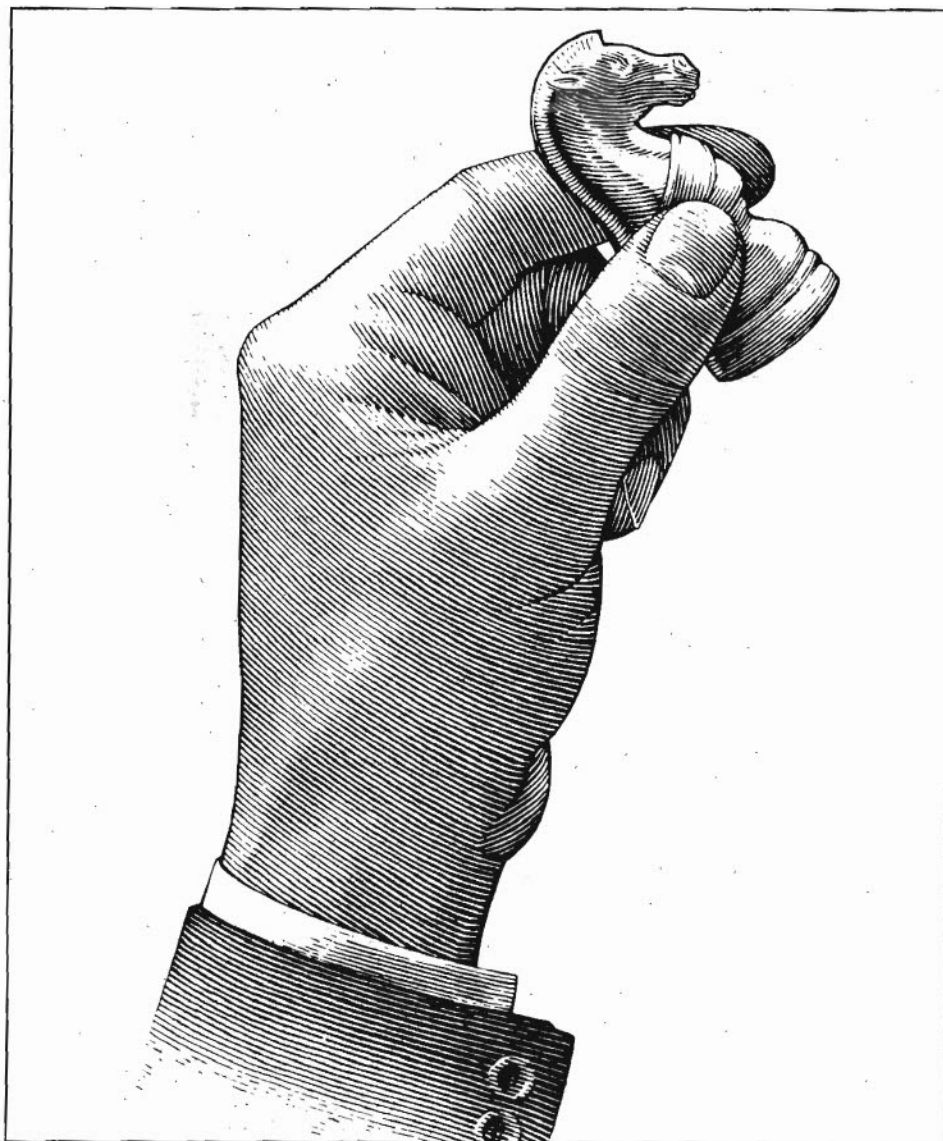
. . . I understand that (Senator Glenn) . . . has agreed to request that the General Accounting Office study the existing Office of the Inspector General at the Tennessee Valley Authority and evaluate the adequacy of the current arrangements. It is important that the Chairman of the Governmental Affairs Committee has taken this step and, in deference to his efforts, I have agreed not to offer my amendment to establish a Presidentially-appointed Inspector General at TVA.

**Senator Glenn....** I am very confident that the GAO will provide the Governmental Affairs Committee with objective data concerning the adequacy of the Office of the Inspector General at TVA. Further, GAO will provide an assessment as to whether a Presidentially-appointed Inspector General would better fulfill the objectives of the Inspector General Act than the arrangement contained in this legislation, S. 908.

... as Chairman of the Committee on Governmental Affairs, I full assure the Senator that upon receipt of the GAO report the committee will review it thoroughly. I further assure the Senator from New Hampshire, if warranted, the committee will conduct a hearing on the matter.

Although the GAO has not scheduled its review of the OIG, the results of that review will be described in a future semiannual report.

# OTHER OIG ACTIVITIES



**T**he OIG is involved in other activities that help to fulfill the OIG's overall objectives. A description of a number of these activities is presented below.

## MANAGEMENT INITIATIVES

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### Grant-Thornton Review of the OIG

This semiannual period marks the second anniversary of the TVA

OIG's formation. The office has experienced organizational changes and shifts in focus during the past two years. In our effort to simultaneously organize and operate, we have experienced changes and shifts in emphasis and have been flexible as audit, investigative, and other roles have evolved.

To help make certain our development is consistent with Federal standards for Inspectors General, we requested an independent review and evaluation of our office in light of the practices and policies that are currently followed in the Inspector General community generally. This external review is being performed by Grant-Thornton (a private CPA firm) and Charles Dempsey (a former Inspector General and a former Chairman of the President's Council on Integrity and Efficiency).

#### **The OIG's Ethics Training**

OIG employees teach the ethics and conduct component of a TVA course on supervision that all TVA managers are required to take. To date, OIG employees have taught 62 such sessions, which 2,600 TVA managers have attended.

The OIG also developed an orientation program describing the OIG, what it does, and why it is now a part of TVA. Since last October, the OIG has presented this program to over 6,000 employees at 17 TVA locations.

#### **TVA's Arrangement to Investigate Fraudulent Federal Employees' Compensation Act (FECA) Claims**

TVA currently pays more than \$47 million annually for workers' compensation benefits under FECA. To help reduce waste and fraud in connection with this program, the OIG is cooperating with TVA's Division of Medical Services to identify and investigate questionable workers' compensation claims. This initiative also includes the Department of Labor's OIG and the DOL Office of Workers' Compensation Programs (OWCP).

To date, the OIG has identified 116 questionable FECA claims for investigation. Of this total, the OIG has completed the investigation on 35 claims and the investigations of the remaining 81 are pending. Of the 35 completed investigations, 11 have been referred to the United States Attorney for possible prosecution. One case has been successfully prosecuted, three are pending prosecutorial decisions, and prosecution was declined on seven cases.



Five of the OIG's completed investigations resulted in potential cost avoidance of over \$1 million to TVA. These claims consisted of cases in which the FECA recipients falsified statements regarding their work activity. One recipient had returned to work but had not notified OWCP, another recipient was found to be ineligible for benefits, and another case involved an individual who failed to report his father's death to OWCP and continued to receive his father's FECA compensation.

The results of the completed investigations of these and other similar matters have been forwarded to OWCP for a determination of the appropriate administrative action, which could include, among other things, the declaration of an overpayment, the reduction of benefits, or the termination of benefits.

## THE OIG'S USE OF SUBPOENAS

The OIG's power to subpoena documents is an important investigative tool. The subpoena power makes information available to the OIG that might not be provided voluntarily and can play a critical role in the successful completion of an OIG investigation or audit. Currently, the OIG's subpoena authority is granted on a year-to-year basis by a provision in TVA's appropriations bill.

The OIG issued 53 subpoenas during 1987 and the first three months of 1988. These subpoenas are described below:

- Sixteen involved the OIG's investigation of potentially fraudulent workers' compensation claims;
- Twelve involved the OIG's investigation of TVA contract-related matters (e.g., contract performance and potentially fraudulent claims by TVA contractors);
- Seven involved the OIG's investigation of falsified travel vouchers by TVA employees or contract employees (e.g., subpoenas for relevant hotel and apartment records);
- Fifteen involved the OIG's investigation of the potential falsification of educational and occupational qualifications of TVA employees (e.g., subpoenas for educational records and employment-related information);
- Three involved an OIG investigation of fraud by TVA employees against the Government; and
- Forty-one of these subpoenas were issued in connection with OIG investigations and 12 were issued in connection with OIG audits.

# THE OIG HOTLINE



*James W. Calloway, Administrative Analyst, periodically answers the OIG HOTLINE.*

*"The HOTLINE continues to be a primary source of the OIG's cases. My job is to get as much information as possible during the initial call. When an investigation is warranted, an OIG investigator handles the follow-up."*

The OIG's Hotline, which opened during February 1986, receives and responds to calls from individuals wishing to report concerns or provide information about TVA's programs and operations. The Hotline continues to be one of our primary sources of allegations and information. The Hotline received its 1,000th call during this reporting period, and 207 calls were received during the period covered by this semiannual report. The following charts describe the categories and sources of Hotline calls.

CLASSIFICATION	OCTOBER 1987-MARCH 1988	
	NUMBER OF CALLS	PERCENTAGE OF CALLS
1. Employee Misconduct	12	5.8
2. Employee Concern Program Matters	42	20.3
3. Misuse/Abuse of Government Property	4	2.0
4. Vehicle Operations	36	17.4
5. Substance Abuse	3	1.4
6. Personnel Matters	40	19.3
7. Terrorism and Sabotage	0	0
8. Discrimination and Harassment	20	9.7
9. Safety	0	0
10. Trades and Labor	7	3.4
11. Theft	4	2.0
12. Falsification of Records	10	4.8
13. Contract-Related Misconduct	5	2.4
14. Fraud and Waste	15	7.2
15. General Criminal Activities	0	0
16. Employment Suitability	0	0
17. Public Concerns	9	4.3
TOTALS	207	100.0

