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OFFICE OF THE INSPECTOR GENERAL

9

SEMIANNUAL REPORT

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OCTOBER 1, 1993 ~ MARCH 31, 1994

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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 audits, investigations, and inspections.

The OIG focuses on the prevention, identification, and elimination of (1) waste, fraud, and abuse; (2) violations of laws, rules, or regulations; and (3) inefficiencies in TVA programs and operations.

If you want to report any matter involving TVA programs, operations, or employees, you should call the OIG Hotline or write the Inspector General's office.

OIG Hotline

Knoxville: **615-632-3550**

Toll-free: **1-800-323-3835**

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Office of the Inspector General
400 West Summit Hill Drive
Knoxville, Tennessee 37902-1499



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

George T. Prosser
Inspector General

April 30, 1994

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This is our sixteenth semiannual report. During this reporting period, we continued to review our operations to ensure they are consistent with TVA's three strategic goals—put employees first, establish environmental leadership, and maintain competitive rates.

To achieve these goals, we are working more collaboratively with management while conducting independent and objective audits, investigations, and inspections which support TVA's ongoing improvement initiatives. We are focusing on TVA's contracting processes, major contractors, and key business operations, as well as emphasizing more complex and high impact investigations.

During the last 6 months, we issued 31 audit reports which identified \$2 million in funds that could be put to better use and \$6 million in questioned costs. Our Inspections unit issued 18 reports which identified between \$3 and \$5 million in potential savings. Our investigators completed more than 100 investigations which generated more than \$1 million in benefits and resulted in 9 individuals being referred to prosecutors for criminal prosecution.

Based on these positive results and the strong support of TVA employees and management, Congress, and the Board, I anticipate even better results in the future. Rest assured, we will continue to serve as a catalyst for excellence within TVA by objectively and independently pursuing the facts wherever they may lead.

On a personal note, this has been an eventful year. On April 1, I became TVA's third Inspector General. While much of the credit for the successes highlighted in this report belongs to my predecessor—William L. Hinshaw, II—I am eager to build upon the high morale, innovative atmosphere, open communications, and good working relationships that are his legacy to this office. As always, I and the men and women of this office will continue to work to justify the trust and responsibilities placed upon us.

Sincerely,

A handwritten signature in black ink that reads "George T. Prosser". The signature is written in a cursive, flowing style.

■ CONTENTS

1 Executive Summary	8 Audits	OFFICE OF THE INSPECTOR GENERAL
2 TVA Profile	11 Inspections	SEMIANNUAL REPORT
3 Office of the Inspector General	13 Investigations	OCTOBER 1, 1993 THROUGH MARCH 31, 1994
5 Special Features	15 Legislative and Regulatory Reviews	

Appendices

1. OIG Audit Reports Issued During the Six-Month Period Ending March 31, 1994
2. OIG's Report on Management Decisions for the Six-Month Period Ending March 31, 1994
3. OIG Inspections Completed During the Six-Month Period Ending March 31, 1994
4. Investigative Referrals and Prosecutive Results
5. TVA Management's Report on Final Actions for the Six-Month Period Ending March 31, 1994
6. OIG Reporting Requirements

■ EXECUTIVE SUMMARY

This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending March 31, 1994.

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Our audit activities ranged from reviewing TVA's power forecasting methodology to auditing contracting activity. As reflected in the appendices, the 31 audits we completed identified over \$6 million in questioned costs and \$2 million in funds which could be put to better use.

■

In the Inspections area, we continued to complete focused reviews in relatively short timeframes. We completed 18 inspections concerning topics such as prevention of billing errors to TVA from state agencies for unemployment compensation payments, TVA's Business Credit Card Program, and management of tool inventories in TVA's nuclear program. During this reporting period, our Inspections unit identified between \$3 and \$5 million in potential savings or recoveries for TVA. We continue to receive positive feedback about our Inspections program.

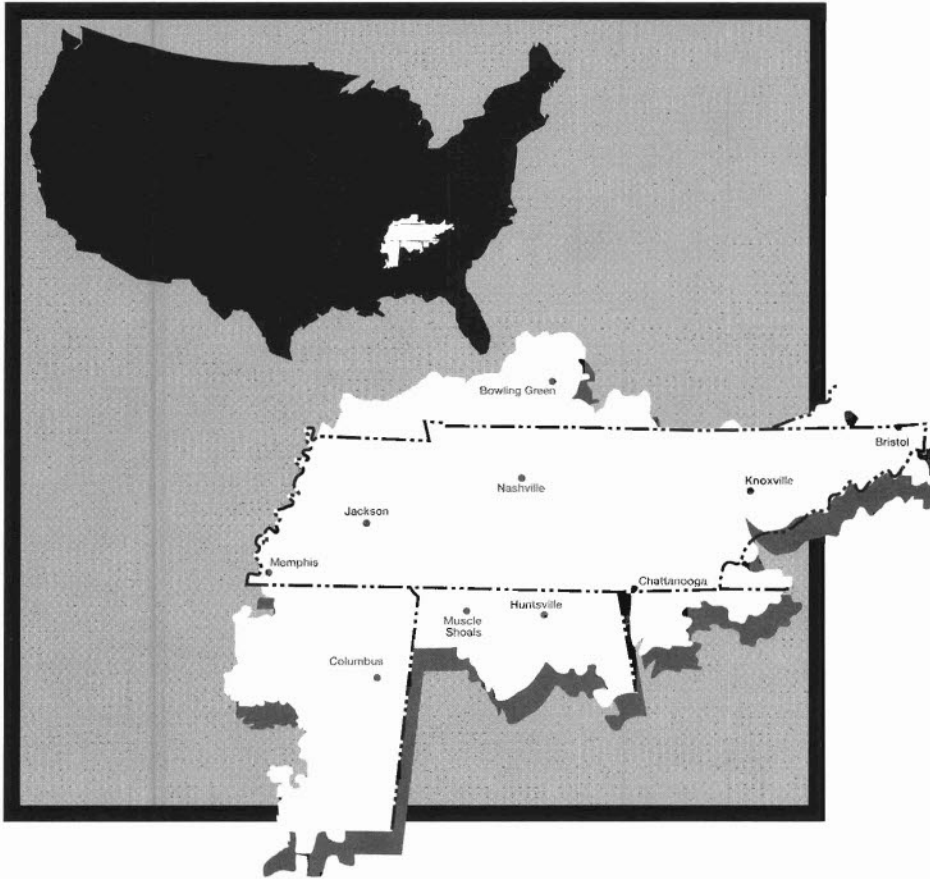
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Our investigative activities ranged from investigating a vendor's sales representative who fraudulently charged more than \$600,000 worth of supplies to TVA, the theft of \$30,000 in cash and checks from a facility, to investigating three contract employees who fraudulently received more than \$100,000 in temporary living expense payments. As reflected in the appendices, we completed over 100 investigations in the last 6 months and referred 9 individuals to prosecutors for prosecution. In addition, our investigators are increasingly focused on more complex, high-impact investigations.

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Effective April 1, 1994, George T. Prosser became TVA's third Inspector General and G. Donald Hickman replaced Prosser as the OIG's Assistant Inspector General for Investigations.

■ TVA PROFILE



TVA's 19,000 employees serve an 80,000-square-mile region spanning seven states.

TVA is an independent federal corporation responsible for developing and conserving the natural resources of the Tennessee River Valley, an 80,000-square-mile region spanning seven states.

TVA's 19,000 employees are involved in economic, natural resource, and agricultural development and in the production of low-cost electricity. The power system is funded exclusively by power sales, and TVA's other programs are funded by congressional appropriations and other revenues.

TVA is governed by a three-member Board of Directors. Craven Crowell is the Chairman and Johnny H. Hayes and William H. Kennoy are Directors.

Following his appointment as TVA's eleventh chairman and his reorientation at TVA, Chairman Crowell and Directors Hayes and Kennoy established three strategic goals for TVA: Employees First, Environmental Leadership, and Competitive Rates.



George T. Prosser



G. Donald Hickman

The OIG's New Leadership

Effective April 1, 1994, George T. Prosser became TVA's third Inspector General, replacing William L. Hinshaw, II. Prosser, who has been with the OIG since its inception, has served as the office's Assistant Inspector General for Investigations (AIGI) since March 1992. During his tenure as AIGI, Prosser received the Paul R. Boucher Public Service Award from the President's Council on Integrity and Efficiency for his efforts in detecting abuse in the workers' compensation program. Before becoming AIGI, Prosser was Manager of the OIG's Fraud Investigations department. Prior to coming to TVA, Prosser, a 15-year veteran of the Federal Bureau of Investigation (FBI), served as a supervisory special agent in the Terrorism Section at FBI Headquarters. For four years, he was the senior supervisory special agent in the FBI's Chattanooga resident agency. He was also an Artillery Officer in the U.S. Army and is a Tennessee native

and a graduate of The University of Tennessee.

G. Donald Hickman, who was Manager of the office's Internal Investigations department, is replacing Prosser as AIGI. Hickman, who has been with the OIG since its inception, has worked extensively with Nuclear Power to develop our investigative program regarding nuclear issues. Hickman is an eight-year veteran of the FBI and prior to coming to TVA worked as a special agent in Jackson, Mississippi, and Washington, DC. He was an Air Defense Artillery Officer in the U.S. Army. Hickman, a Tennessee native, is a graduate of Maryville College, Maryville, Tennessee.

Office Authority

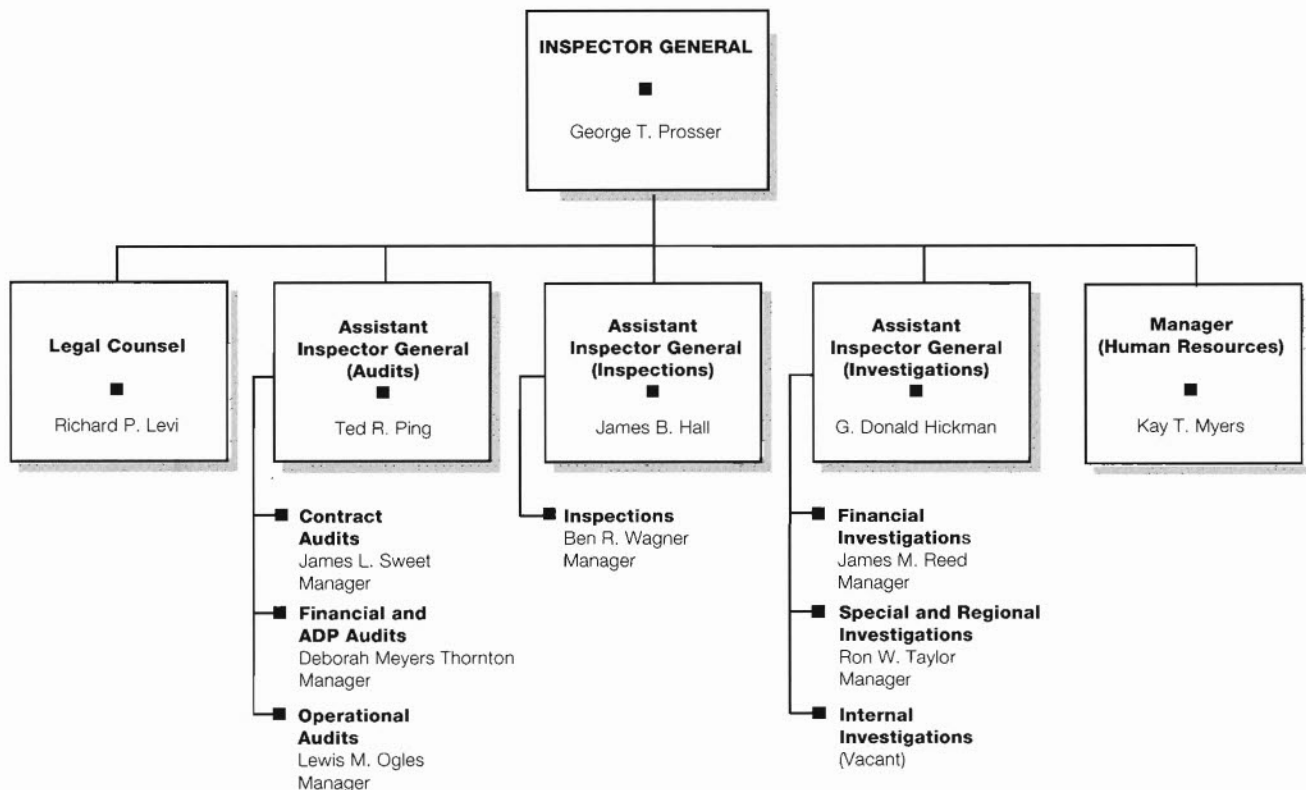
The TVA Board of Directors administratively established the OIG during October 1985. During its initial years of operation, the OIG operated much like its statutory counterparts. When Congress enacted the Inspector General Act Amendments of 1988, TVA's OIG became 1 of 33 new statutory offices whose Inspector General was appointed by the agency head. TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors.

Staffing and Budget

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee. The OIG also has investigative satellite offices in Chattanooga and Memphis, Tennessee, and Huntsville, Alabama. The OIG functions through three operational units – Audits, Inspections, and Investigations.

The OIG's fiscal year 1994 budget is about \$8.7 million. The OIG currently has approximately 120 employees.

OFFICE OF THE INSPECTOR GENERAL (As of 4/1/94)



Investigations Save Government \$1.2 Million

As a result of our investigative efforts, the government has recovered more than \$1.2 million, and two individuals have been convicted for making false claims. These actions resulted from investigations completed during this reporting period and prior investigations which we referred to the Internal Revenue Service (IRS). A description of these investigations follows.

An investigation resulted in the recovery of more than \$500,000 worth of stolen supplies – 94 percent of the items stolen were recovered.



OIG Special Agent (right) helps unload recovered materials that a vendor's representative had fraudulently charged to TVA.

- A former sales representative for a TVA supplier pled guilty to making a false claim to the government. The representative ordered more than \$600,000 in industrial supplies from the company in TVA's and another TVA contractor's name, used a TVA VISA account number to obtain the supplies, falsified records to indicate TVA received the supplies, and stored the supplies in warehouses in Kentucky and Missouri. (There were no TVA employees involved in the scheme.) Subsequently, we found, seized, and returned to the vendor more than \$584,000 worth of supplies which the sales representative had stolen from the company – almost 94 percent of the items he stole. In return, the company sent TVA a check for more than \$339,000 and credited TVA's account with the company by more than \$278,000. During the time he was making these false claims and stealing the supplies, the sales representative was ranked as the company's number one salesman, and he provided training to other employees on how to obtain government contracts. During our investigation, the company terminated the representative.

- We continued our efforts to reduce TVA's contract costs by identifying and seeking recoveries for fraudulent per diem claims. A joint investigation with the FBI and the United States Attorney for the Northern District of Alabama revealed at least ten managers and employees of a major TVA contractor at the Browns Ferry Nuclear Plant who may have fraudulently reported home addresses to be eligible for temporary living expenses. One contractor employee recently pled guilty to making false statements to TVA in order to obtain per diem. He was placed on three years' probation with special conditions, including electronically monitored home confinement. In addition, he was required to reimburse TVA \$46,633 – the amount he fraudulently obtained. Additional prosecutions and recoveries are expected.
- During this reporting period, we were notified that based on our investigations of contract employees fraudulently obtaining temporary living expenses, the IRS has generated over \$500,000 in tax deficiencies against such individuals.

CONTRACT IMPROVEMENT INITIATIVE

We are participating in a major initiative to improve TVA's contracting process. This initiative was begun by TVA Board-level interest in examining how contracts are managed. TVA's Contract Projects staff, working closely with TVA Board Director William H. Kennoy, created the Contract Improvement Team (CIT) to identify and solve various contracting process problems. The CIT is made up of contracting experts throughout TVA and meets regularly to discuss contracting problems. Cross-functional employee teams study and present recommendations for TVA's most pressing contracting issues. Some of the team's projects include (1) standardizing contract language and format, (2) implementing a comprehensive Contract Information System, (3) developing a contract administration training handbook, (4) developing a contractor performance rating system, and (5) conducting a review of the contractor's productivity monitoring process. The OIG has provided a full-time auditor to work on TVA's Contract Projects staff. In addition, our Inspections unit has conducted several special projects at the CIT's request and conducted reviews of various aspects of TVA's contracting process.

OIG auditors and inspectors are directly contributing to TVA's contract improvement initiative.

AUTOMATION CHANGES IN THE OIG

Automation continues to change the way we do business. In order to achieve greater efficiency, we have made the commitment to increase the use of automation in our office.

In July 1992, we formed a team to evaluate our automated data processing (ADP) equipment, software, and processes. The team established as goals having (1) quality ADP resources and services which complement our business functions, (2) trouble free service, (3) compatibility with TVA's systems, and (4) the ability to share information with other OIGs. The team developed a five-year plan to achieve these goals.

During the past year, we made major changes to our computer equipment. In March 1993, TVA announced a move away from mainframe computers to personal computers networked in a client/server environment. This environment rendered our existing equipment obsolete. Our team researched possible alternatives which would meet the OIG's business needs and also be compatible with TVA's client/server environment. As a result, we replaced or upgraded most of our computer equipment.

The team identified two types of OIG computer users: (1) the travelers, which include OIG managers and professional associates (auditors, investigators, and inspectors); and (2) the nontraveling administrative and clerical associates. All nontravelers received a desktop computer. However, because of the traveling associates' need for mobility, we equipped each with a notebook computer and modem. OIG travelers can now take their office computers to remote locations and have complete access to TVA and OIG systems.

Phase I of our ADP plan was completed by September 30, 1993. We are now moving forward into Phase II – the installation of the local area network (LAN), service centers, and conversion of OIG systems. The targeted completion date for this phase is September 30, 1994. As we move forward, we are continually looking for ways automation can help improve productivity and responsiveness.

■ AUDITS

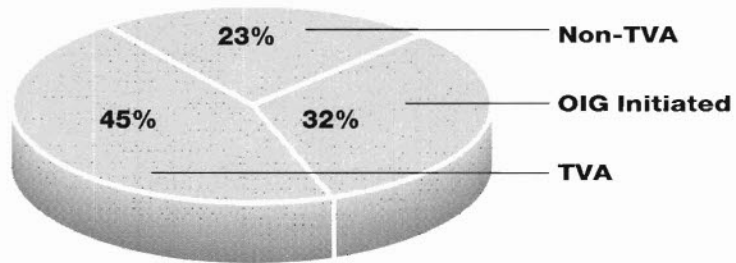
We issued 31 audit reports that collectively identified over \$6 million in questioned costs and \$2 million in funds which could be put to better use (see Appendix 1).

Audits are initiated from the OIG annual workplan or performed in response to concerns raised by TVA management or non-TVA sources. The following chart shows the percentage of completed

audits this period from our three primary sources.

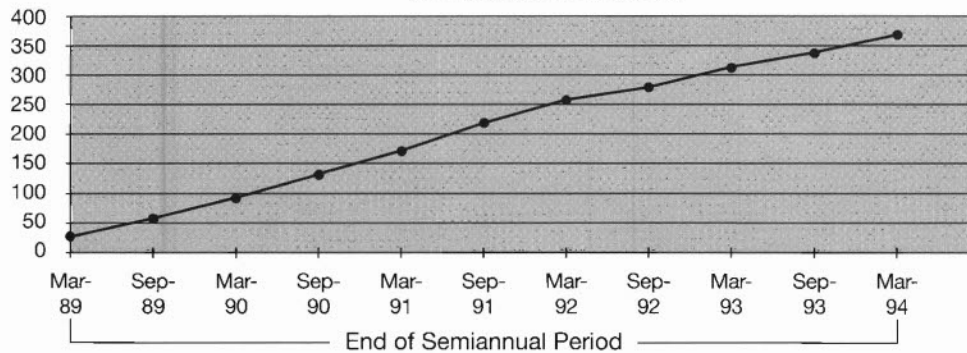
Sources of Completed Audits

Total Completed = 31



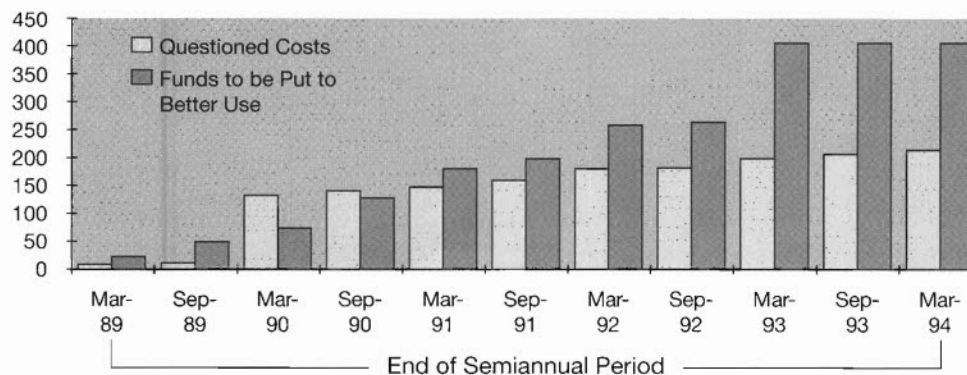
Audit Statistics Since October 1, 1988

Cumulative No. of Audits



Audit Results Since October 1, 1988

Cumulative Amounts (\$ Millions)



Our audit activities ranged from reviewing TVA's power forecasting methodology to reviewing computer system planning.

Summary of Representative Audits

TVA's Power Forecasting Methodology and Results Are Reliable

We reviewed the reliability of TVA's fiscal year 1992 medium forecast. We found the forecast is reliable for planning and decision-making purposes because it (1) was made using a reliable forecasting methodology and (2) appeared reasonably accurate. TVA forecasts have become increasingly more accurate over the past decade due to improved methods and as the data used in forecasting has evolved to reflect structural changes in the economy. The TVA fiscal year 1992 medium forecast of 2.3 percent load growth was similar to TVA's 2.2 percent growth rate from 1986 through 1992.

Improvements Recommended for PIP Contracts

TVA estimates it will spend at least \$548 million over five years under Partnering in Performance (PIP) contracts with a major contractor. In conjunction with an OIG investigation, we reviewed the terms and conditions of these contracts.

Among other things, we found the terms of the contracts prevent TVA from evaluating the contractor's actual costs and profits included in their commercial

labor rates. Also, TVA could be paying excessive prices for parts and services purchased from the contractor. For example, (1) rates billed for craft labor are substantially higher than rates billed by other contractors, (2) subcontract labor is billed at the contractor's commercial labor rates instead of cost plus 20 percent as provided by the contract, (3) the contractor is adding 300- to 600-percent markups to the cost of subcontracted parts.

We recommended that TVA management consider revising the PIP contracts as well as enforcing existing contract terms.

TVA's Move to Open Computer Systems Needs an Integrated Plan

We reviewed TVA's wide area network, metropolitan area or campus area networks, and LANs to determine if TVA effectively plans, organizes, directs, and controls these systems. We found that TVA has taken some positive steps to make a successful transition to open computer systems. However, no integrated plan exists for these networks. The lack of a comprehensive plan has caused difficulties in making a successful transition to open computer systems, including weaknesses in user support, cost control, and security. We believe adopting an integrated plan will help TVA

effectively organize, direct, and control these efforts. TVA management has agreed that an integrated plan is needed and that key clients and suppliers should participate in its development.

Preaward Audit Finds Contractor's Costs Overstated by Over \$1.3 Million

As requested by TVA management, we performed a preaward audit on a contractor's proposal to extend existing agreements for two additional years. These agreements provide for modification and supplemental maintenance services for TVA's eastern region fossil and hydro facilities. We found the indirect cost rates proposed for recovery of project overhead costs, fringe benefits, and payroll taxes were overstated and could result in overbillings of about \$766,000. We also estimated that TVA will be billed about \$592,000 during the three-year base contract period for project overhead costs which have not been incurred.

TVA's Compliance With the Byrd Amendment

We reviewed TVA's compliance with the certification and reporting requirements of the Byrd Amendment (31 U.S.C. 1352). We concluded that TVA was in substantial compliance with the certification requirements, except for Fossil Fuels' contracts negotiated by telephone.

Corrective action was taken during the audit to ensure future compliance with the certification requirements. We also found that TVA did not submit the required semiannual reports to the Congress for fiscal year 1993. TVA retroactively issued the reports to the Congress. We recommended that TVA take appropriate action to ensure future reports are submitted to the Congress in a timely manner.

Problems Identified in Contracts for Software and Related Support Services

We performed a contract compliance audit on two contracts to provide TVA with software and related support services. The total value of these contracts is almost \$20.5 million. We identified significant internal control weaknesses, administrative problems, and contract deficiencies which relate to the contractor's billings and TVA's receipt of goods and services. We found questioned costs totaling \$185,559 and funds to be put to better use totaling \$520,820. The contractor has refunded TVA \$158,383 of the amount questioned, and TVA management is currently renegotiating the contract and developing a process to improve control of computing resources.

Both preaward and compliance audits of contracts continue to produce results for TVA.

■ INSPECTIONS

Our Inspections unit continues to provide a wide range of coverage of TVA operations by conducting limited scope reviews in relatively short timeframes (30 to 90 days).

This period, we completed work on 18 inspections (see Appendix 3) and several other special projects. Considered collectively, these inspections identified opportunities where TVA could save between \$3 and \$5 million. We made oral and written presentations to TVA management and provided information for improving various processes and practices. We initiated about 50 percent of our inspections in response to requests from TVA management as shown in the chart below.

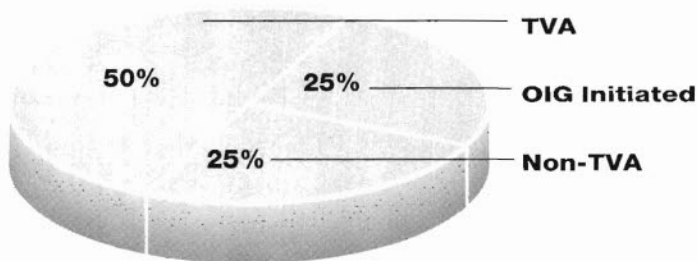
Our efforts this period included work in a broad spectrum of areas providing information to the TVA Board of Directors

and nine different senior TVA managers. Our inspections have focused on many areas where TVA can improve its operations, such as:

- Controls over the management of small tool inventories at TVA nuclear plants;
- Prevention of billing errors to TVA from state agencies for payment of unemployment compensation;
- Controls over the use of TVA's Business Credit Card Program and its impact on the procurement process;
- TVA's use of Manpower Temporary Services;
- Direct payments to employees reduced in force;
- Policy compliance requiring the preparation of Individual Development Plans for Disabled Veterans;
- Verification of contractor's liability insurance coverage; and
- Determination of the error rate in TVA's payroll processing operations.

Sources of Completed Inspections

Total Completed = 18



Our Inspections unit has been an effective method of expanding our coverage of TVA programs. It has enabled the OIG to review many more programs utilizing a very limited number of OIG staff.

INSPECTIONS

Our inspections work continues to receive highly positive feedback from TVA management – over 90 percent positive. This unit also referred matters to audit and investigations, including identifying over 70 individuals who inappropriately may have received federal workers' compensation benefits and state unemployment compensation benefits at the same time and between \$500,000 and \$1 million in erroneous charges to TVA by another federal agency.

■ INVESTIGATIONS

Our investigative efforts continue to focus on preventing and identifying fraud, waste, and abuse. This period, we closed 108 cases containing 110 allegations. We substantiated 27 of these allegations or almost 25 percent. The sources of the allegations are shown in the chart below.

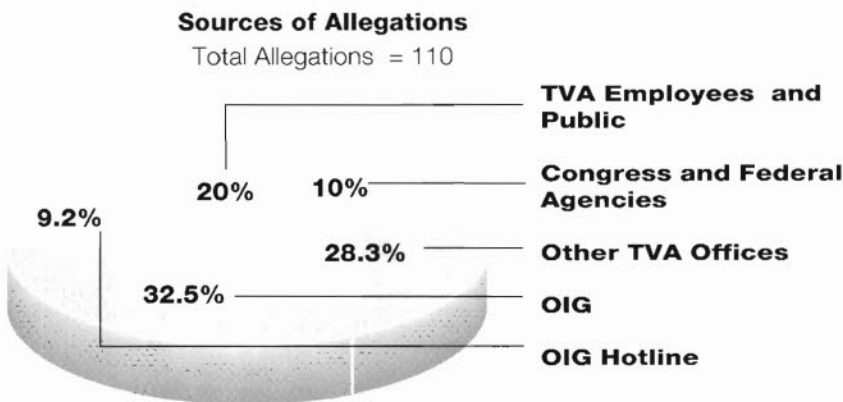
Summary of Representative Investigations

TVA management suspended an electrician foreman for 30 days and banned him from using a TVA vehicle for one year after our investigation revealed he allowed unauthorized passengers in his TVA vehicle – passengers who subsequently stole the vehicle from him. The foreman, who was driving a TVA car, picked up two individuals from a lounge and took them to a motel. Subsequently, he and one of the passengers went to a restaurant, and he left the other passenger in the car with the keys in it. When

he came out of the restaurant, the car was gone. The car was subsequently recovered, and the two individuals were arrested. One of the individuals later pled guilty in federal court to stealing the vehicle.

We completed two cases this semiannual period involving sexually related activities at work. In one case, management plans to terminate two senior instrument mechanics after they were videotaped engaging in sexual activities at work. When questioned about their activities, the two employees denied they were involved in any inappropriate conduct at work. In the other case, management suspended a clerk-dispatcher for two weeks for making inappropriate comments of a sexual nature concerning the way his supervisor obtained her promotion.

A civil engineer violated TVA conduct regulations by using the same contractors for TVA work and for his personal businesses during the same time periods. Although we could not prove the engineer accepted kickbacks or special favors, we determined he accepted free office space from a contractor. While he was receiving the free office space, he used the company for several TVA projects and for his personal businesses. In addition, the engineer conducted



personal business on TVA time and misused TVA telephones.

Investigative Referrals and Prosecutive Results

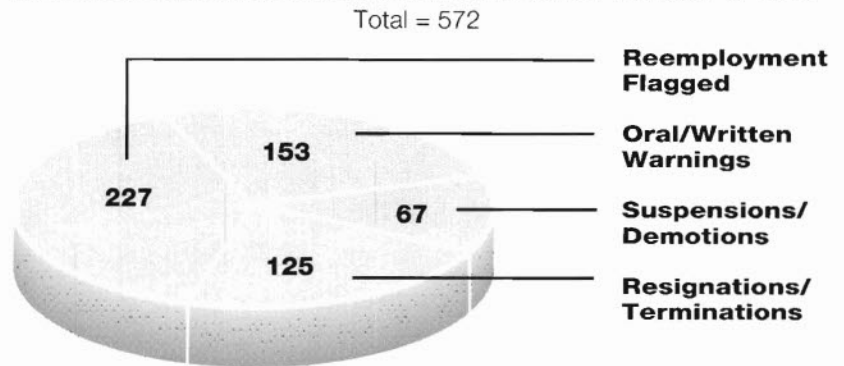
We referred nine matters, including nine subjects, to federal prosecutors and other officials during this reporting period. Some of the results obtained from these referrals and others pending from prior periods are outlined below.

Two former TVA employees pled guilty in federal court to making false statements to the Office of Workers' Compensation Programs (OWCP) and TVA. One of the former employees reported to OWCP that he was earning \$5 an hour working in an office when, in fact, he was the company's branch manager and earning considerably more. In the other case, a former employee admitted he made false statements to OWCP and TVA stating that he had never sustained a back injury or filed a disability claim. However, we found that he had an extensive history of back-related problems and was receiving total disability benefits when he applied to work at TVA.

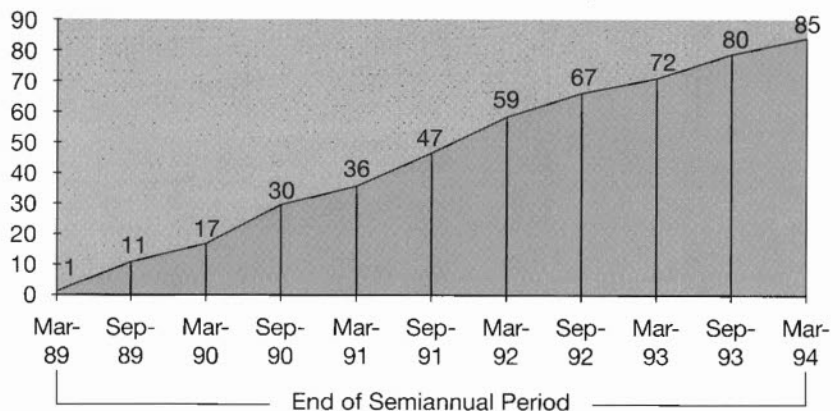
A former TVA manager pled guilty in federal court to participating in a procurement decision involving a company in which he had a financial interest in

violation of 18 U.S.C. 208. Further, he accepted a contribution from a source other than the government to supplement his government salary in violation of 18 U.S.C. 209. He was sentenced to one-year probation. In addition, he is required to (1) serve 96 hours of community service, (2) make restitution to TVA of \$3,250, and (3) pay the government \$1,085 for one-half of the cost of his probation.

Administrative and Disciplinary Actions Since October 1, 1988



Convictions Since October 1, 1988



■ LEGISLATIVE AND REGULATORY REVIEWS

Our review of legislation and regulations concerning their impact on TVA operations and the prevention and detection of fraud, waste, and abuse is an ongoing OIG responsibility.

The Inspector General Act provides that Inspectors General shall review existing and proposed legislation and regulations so as to make recommendations, as appropriate. These recommendations would be made to their entities and the Congress concerning the impact of these items on the economy and efficiency of programs and operations and the prevention and detection of fraud and abuse.

During this reporting period, we considered the impact of various proposed laws and regulations, most of which were carryovers from the previous six months. Because our views on these proposals remain unchanged and were presented in our last semiannual report, they do not warrant further discussion.



■ APPENDICES

Appendix 1

Page 1 of 2

**OIG AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING MARCH 31, 1994**

The following table summarizes final audit reports issued by the OIG from October 1, 1993 through March 31, 1994.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
10/19/93	93-007P	Federal Employees' Compensation Act			
10/20/93	93-012P-06	Contracting Out Status Report			
10/28/93	93-011S	ABB Combustion Engineering Services, Inc. - Preaward	\$286,616		
11/01/93	93-047C	ICF Resources - Preaward			\$13,000
11/30/93	93-046C	ENSR Consulting and Engineering - Preaward			
12/07/93	93-040C	Analysis of General Electric PIP Contracts			
12/16/93	94-003P-01	Technology Brokering Program			
12/17/93	93-012P-04	Comparison of TVA's Contracting Methods With Other Utilities			
12/20/93	93-029F	LAN and WAN Management and Operation			
01/11/94	94-008C	CDI Power Systems Group, Inc. - Preaward			
01/13/94	93-003F	Bechtel Casual Employees	5,563,134		
01/14/94	94-003P	G-UB-MK Contracting Cost Effectiveness			
01/27/94	93-022C	Radiological Waste Contracts	7,693		
01/28/94	93-025P	TVA's Demand Forecasting & Power Supply Planning Process			
01/28/94	93-039P	Impact of Nuclear Plant Completion on TVA Power Rates			
01/31/94	94-009C	PRC Engineering Systems, Inc. - Preaward			246,125

Appendix 1

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
02/23/94	92-054O	Distributors' Financial Position			
02/23/94	93-045C	Procurement of Panasonic Dosimeters			
02/24/94	94-005C	Fuller Power Corporation - Contract TV-90688V	\$5,540	\$5,540	\$11,800
02/28/94	94-006C	ACandS, Inc. - Preaward			484,942
02/28/94	94-010C	Global Power Company - Preaward			
03/09/94	94-017P	TVA Compliance With the Byrd Amendment			
03/11/94	93-018O	Peppertree Fontana Village, Inc. - Contract 27427A	3,516	3,516	
03/16/94	94-019C	Bechtel Corporation - Preaward	63,313	63,313	
03/25/94	93-031F	Bicentennial Volunteers, Inc. Administration of Regional Waste Management Program			
03/28/94	94-018C	G-UB-MK - Preaward	592,000	592,000	766,000
03/31/94	92-082F	Oracle Corporation - Contracts 90BYB-93697C and TV-87601V	186,559	5,741	520,820
03/31/94	94-003P-02	Technology Brokering Program			
03/31/94	93-044F	Military Service Retirement Benefits Cost Estimates			
03/31/94	93-038F	System Development of Circuit Subsystem			
03/31/94	94-011C	CDI Corporation - Southeast - Contract TV-87640V			
TOTAL	31		\$6,708,371*	\$670,110	\$2,042,687

* Questioned costs for unreasonable or unnecessary expenditures are not recoverable for audit reports:

93-003F	\$4,990,548
93-022C	<u>7,693</u>
	<u>\$4,998,241</u>

Appendix 2

Page 1 of 2

OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 1994

The following Tables I and II summarize management decisions made by TVA management on OIG recommendations contained in final audit reports. The tables reflect amounts which were questioned and recommended to be put to better use and track the disposition of these amounts through management decision.

TABLE I
TOTAL QUESTIONED AND UNSUPPORTED COSTS

AUDIT REPORTS	NUMBER OF REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the period	6	\$989,417	\$0
B. Which were issued during the reporting period	8	6,708,371	670,110
Subtotals (A + B)	14	\$7,697,788	\$670,110
C. For which a management decision was made during the reporting period	11*	6,990,631	11,281
1. Dollar value of disallowed costs	11	1,648,504	11,281
2. Dollar value of costs not disallowed	3	5,342,127	0
D. For which no management decision has been made by the end of the reporting period	4**	707,157	658,829
E. For which no management decision was made within six months of issuance	0	\$ 0	\$ 0

* The total number of reports differs from the sum of C.1 and C.2 when the same reports contain both costs disallowed and not disallowed by management.

** The total number of reports differs from the difference of (A+B) and C when the same reports contain both recommendations with management decisions and without management decisions.

Appendix 2

Page 2 of 2

TABLE II
FUNDS TO BE PUT TO BETTER USE

AUDIT REPORTS	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE
A. For which no management decision has been made by the commencement of the period	0	\$ 0*
B. Which were issued during the reporting period	6	2,042,687
Subtotals (A + B)	6	\$2,042,687
C. For which a management decision was made during the reporting period	3**	174,695
1. Dollar value of disallowed costs	3	170,362
2. Dollar value of costs not disallowed	1	4,333
D. For which no management decision has been made by the end of the reporting period	4***	1,867,992
E. For which no management decision was made within six months of issuance	0	\$ 0

* This number differs from the prior report's ending number because of a data entry error in the prior report.

** The total number of reports differs from the sum of C.1 and C.2 when the same reports contain both recommendations agreed to and not agreed to by management.

*** The total number of reports differs from the difference of (A+B) and C when the same reports contain both recommendations with management decisions and without management decisions.

Appendix 3

Page 1 of 1

**OIG INSPECTIONS COMPLETED DURING THE
SIX-MONTH PERIOD ENDING MARCH 31, 1994**

DATE COMPLETED	REPORT NUMBER	REPORT TITLE
10/93	93-527I	Watts Bar Toolroom Controls
10/93	93-531I	TVA Business Credit Card Program
11/93	93-529I	Manpower Temporary Services
11/93	94-503I	Union Views on Contracting Out
11/93	94-506I	Allied Technology Group Review
12/93	94-505I	Coal Procurements
12/93	94-508I	Watts Bar Status Report Presentation
12/93	94-502I	Custodian Job Review
12/93	93-530I	Rehire - Terminated Employees
12/93	93-534I	IDPs for Disabled Veterans
12/93	93-544I	Offsite Livewell
01/94	93-539I	Hotline Survey
01/94	94-507I	Direct Payments to Employees Reduced in Force
01/94	93-525I	FECA Testimony
02/94	94-504I	ADP Hardware Inventory Management
02/94	94-512I	Unemployment Billings
03/94	94-514I	Ocoee River
03/94	94-515I	Payroll Processing

Appendix 4

Page 1 of 1

INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	8	2 Indictments 5 Convictions 10 Declinations
Subjects referred to other agencies for investigative or administrative action	1	OWCP declared \$62,619 in overpayments and saved TVA more than \$1.4 million in estimated long- term workers' compensation costs.
TOTAL	<u>9</u>	

Appendix 5

Page 1 of 4



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

Craven Crowell
Chairman, Board of Directors

April 22, 1994

TO THE UNITED STATES CONGRESS:

We are providing TVA's Report on Final Actions on Inspector General audit recommendations, in keeping with Section 5(b) of the Inspector General Act of 1978, as amended.

TVA is establishing business and resource plans to achieve our goals of putting employees first, being an environmental leader, and maintaining competitive rates. We welcome the Inspector General's efforts in helping us attain these goals.

Sincerely,

A handwritten signature in black ink that reads "Craven Crowell". The signature is written in a cursive style with a large initial "C".

Craven Crowell

Enclosure

Appendix 5

Page 2 of 4

TVA MANAGEMENT'S REPORT ON FINAL ACTIONS FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 1994

The following Tables I and II summarize final action taken by management on OIG audit reports. The tables reflect amounts which were agreed to by management and track the disposition of these amounts through final action. Table III contains the explanations by audit report for final actions not taken within one year of the management decision dates.

TABLE I
DISALLOWED COSTS

AUDIT REPORTS	NUMBER OF REPORTS	AMOUNTS AGREED BY MANAGEMENT (Thousands)
A. For which final action by management had not been taken by 9/30/93	8	\$1,941
B. On which management decisions were made from 10/1/93 through 3/31/94	11	1,649
Subtotal (A + B)	19	\$3,590
C. For which final action was taken by management from 10/1/93 through 3/31/94		
1. Amounts that were recovered by management	9*	1,268
2. Amounts that were not recovered by management	5*	562
D. For which management has taken no final action by 3/31/94	9*	\$1,760

* The number of reports will differ from the arithmetic total when final action for an audit includes both recovery and nonrecovery of amounts.

Appendix 5

Page 3 of 4

TABLE II
**RECOMMENDATIONS THAT FUNDS BE PUT
TO BETTER USE**

AUDIT REPORTS	NUMBER OF REPORTS	AMOUNTS AGREED BY MANAGEMENT (Thousands)
A. For which final action by management had not been taken by 9/30/93	1	\$50
B. On which management decisions were made from 10/1/93 through 3/31/94	3	171
Subtotal (A + B)	4	\$221
C. For which final action was taken by management from 10/1/93 through 3/31/94		
--- Dollar value of recommendations implemented by management	3*	92
D. For which management has taken no final action by 3/31/94	2*	\$129

* The number of reports will differ from the arithmetic total when an audit includes both final action on management decisions and management decisions still outstanding.

Appendix 5

Page 4 of 4

TABLE III
EXPLANATIONS FOR FINAL ACTIONS NOT TAKEN

AUDIT REPORT NUMBER	DATE ISSUED	DISALLOWED COSTS (Thousands)	FUNDS PUT TO BETTER USE (Thousands)	EXPLANATION FINAL ACTION NOT TAKEN
Polychlorinated Biphenyls 90-023P	2/28/91	N/A	N/A	TVA has implemented an agency strategy for PCB management. Final resolution expected after the completion of the Environmental Management reorganization.
Technology Brokering Program 91-076G	3/31/92	N/A	N/A	Final action pending completion of database of potential R&D firms in the Tennessee Valley.
Degree Tuition Reimbursement Program 91-073P	6/15/92	N/A	N/A	Policy revision should close all outstanding audit issues. Implementation pending discussion of new policy with labor unions.
Environmental Quality Staff Review 92-024O	11/25/92	N/A	N/A	Environmental Management is currently being restructured. Final action is anticipated once the restructuring is complete.
Medical & Dental Insurance Contracts 90-042G	11/30/92	N/A	N/A	Most audit issues have been resolved. Final completion expected prior to 10/94.
Beech River Watershed Development Authority 92-046F	1/27/93	N/A	N/A	Audit resolution pending approval of a draft personnel manual by the Beech River Development Authority's Board of Directors.
TVA's Electromagnetic Field Strategy 92-016P	2/4/93	N/A	N/A	TVA has issued interim EMF guidelines which address most audit issues. Final resolution expected prior to 10/94.

N/A - Not Applicable

NOTE: This table excludes four reports in judicial appeal according to the reporting guidelines of the Inspector General Act.

Appendix 6

Page 1 of 1

OIG REPORTING REQUIREMENTS

Information required by the Inspector General Act of 1978, as amended, is included in this semiannual report as indicated below.

Section 4(a)(2) — Review of Legislation and Regulations	Page 15
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 5-14
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 5-14
Section 5(a)(3) — Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 5
Section 5(a)(4) — Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Page 14 Appendix 4
Sections 5(a)(5) and 6(b)(2) — Summary of Instances Where Information Was Refused	*
Section 5(a)(6) — Listing of Audit Reports	Appendix 1
Section 5(a)(7) — Summary of Particularly Significant Audits	Pages 8-10
Section 5(a)(8) — Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 2
Section 5(a)(9) — Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 2
Section 5(a)(10) — Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period	**
Section 5(a)(11) — Significant Revised Management Decisions	***
Section 5(a)(12) — Significant Management Decisions With Which the Inspector General Disagreed	****

* There were no instances where information or assistance was unreasonably refused or not provided.

** There were no unresolved audit reports.

*** There were no significant revised management decisions.

**** There were no significant management decisions with which the Inspector General disagreed.

■ HIGHLIGHTS

	FOR SEMIANNUAL REPORTING PERIODS				
	MAR 31, 1994	SEPT 30, 1993	MAR 31, 1993	SEPT 30, 1992	MAR 31, 1992
ANNUAL BUDGET (In Millions of Dollars)	8.7	8.7	8.7	8.7	8.7
STAFFING POSITIONS	141	143	143	145	145
AUDITS					
AUDITS IN PROGRESS					
Carried Forward	27	21	41	31	31
Started	36	34	19	37	42
Canceled	(3)	(3)	(6)	(3)	(4)
Completed	(31)	(25)	(33)	(24)	(38)
In Progress at End of Reporting Period	29	27	21	41	31
AUDIT RESULTS (Thousands)					
Questioned Costs	\$6,708	\$ 11,517	\$ 17,543	\$ 396	\$ 21,414
Disallowed by TVA	1,649	10,291	9,586	1,204	2,491
Recovered by TVA	1,268	10,673	9,794	170	1,179
Funds to Be Put to Better Use	\$2,043	\$ 636	\$140,788	\$ 6,487	\$ 58,157
Agreed to by TVA	171	104,955	17,854	1,715	56,090
Realized by TVA	92	120,833	927	1,365	54,748
INSPECTIONS					
Opened	21	28	13		
Closed	(19)	(18)	(4)		
Canceled	(2)	(3)	(3)		
In Progress at End of Reporting Period	13	13	6		
INVESTIGATIONS					
INVESTIGATION CASELOAD					
Carried Forward	135	163	231	280	309
Opened	122	99	154	274	197
Closed	(108)	(127)	(222)	(313)	(226)
In Progress at End of Reporting Period	149	135	163	241	280
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	22	35	67	72	48
Actions Taken (# of Subjects)	19	44	42	59	50
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referrals	8	38	33	31	33
Indictments	2	6	0	4	7
Convictions	5	8	6	11	12

OFFICE OF THE INSPECTOR GENERAL OF THE TENNESSEE VALLEY AUTHORITY

400 WEST SUMMIT HILL DRIVE

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