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OFFICE OF THE INSPECTOR GENERAL

9

SEMIANNUAL REPORT

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APRIL 1, 1994 ~ SEPTEMBER 30, 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 TVA programs and operations. The OIG meets this responsibility by conducting audits, investigations, and other reviews.

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**

Tennessee Valley Authority  
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

October 31, 1994

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This is our seventeenth semiannual report; it describes the results we achieved this reporting period.

The last six months have seen considerable change at TVA. TVA reduced its workforce by over 2,650 employees by offering cash payments and voluntary retirement incentives. This reduction helps TVA meet one of its strategic goals--maintaining competitiveness in today's utility market. At the same time, TVA is continuing to pursue its other goals: putting employees first and environmental leadership.

Within the OIG, we are accomplishing more with less. We streamlined our operations to put full emphasis on audits and investigations, while incorporating into these functions the innovative techniques our former Inspections unit successfully developed and used. In addition, we are developing an automated tracking system which will provide detailed oversight of all OIG projects. We have also prepared a comprehensive audit universe which will help us determine where TVA's audit needs are greatest.

During the last six months, we issued 34 audit reports which identified over \$3.7 million in funds which could be put to better use and almost \$11 million in questioned costs, including an \$8 million refund from a TVA contractor that was obtained as the result of the combined efforts of OIG auditors and investigators. Our Inspections unit completed 35 inspections which identified ways TVA could reduce its costs by \$22 million. Our investigators completed 150 investigations which resulted in 19 individuals being referred to prosecutors for criminal prosecution. These investigations identified about \$2 million in recoveries, avoided costs, or potential long-term savings.

Based on these achievements and the strong support of Congress, the TVA Board of Directors, and TVA employees, I anticipate even better results in the future.

We are facing a challenging time within the OIG. Twenty-four associates--approximately 20 percent of our workforce--recently left after accepting incentives TVA offered to encourage early retirements. These associates were valuable coworkers and friends who helped us achieve many of our past successes. We appreciate their contributions and will miss them. However, the men and women who remain will help us move forward and maintain the standards we have established for ourselves in serving as a catalyst for excellence.

Sincerely,

A handwritten signature in cursive script that reads "George T. Prosser".

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OFFICE OF THE  
INSPECTOR GENERAL

SEMIANNUAL  
REPORT

APRIL 1, 1994  
THROUGH  
SEPTEMBER 30, 1994

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## ■ EXECUTIVE SUMMARY

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*This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending September 30, 1994.*

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Our audit activities ranged from working jointly with OIG investigators to obtain an \$8 million refund from a TVA contractor to identifying opportunities for preventing and detecting improper health care payments. As reflected in the appendices, the 34 audits we completed identified almost \$11 million in questioned costs and over \$3.7 million in funds which could be put to better use.

■

Our Inspections unit completed 35 inspections, including a detailed review of the Concerns Resolution and Employee Concern Program that involved interviews with over 1,750 employees and contractors. Other activities included identifying ways for TVA to reduce costs by as much as \$22 million through process improvements in surplus property disposal (up to a \$4 million reduction), state unemployment compensation payments (up to a

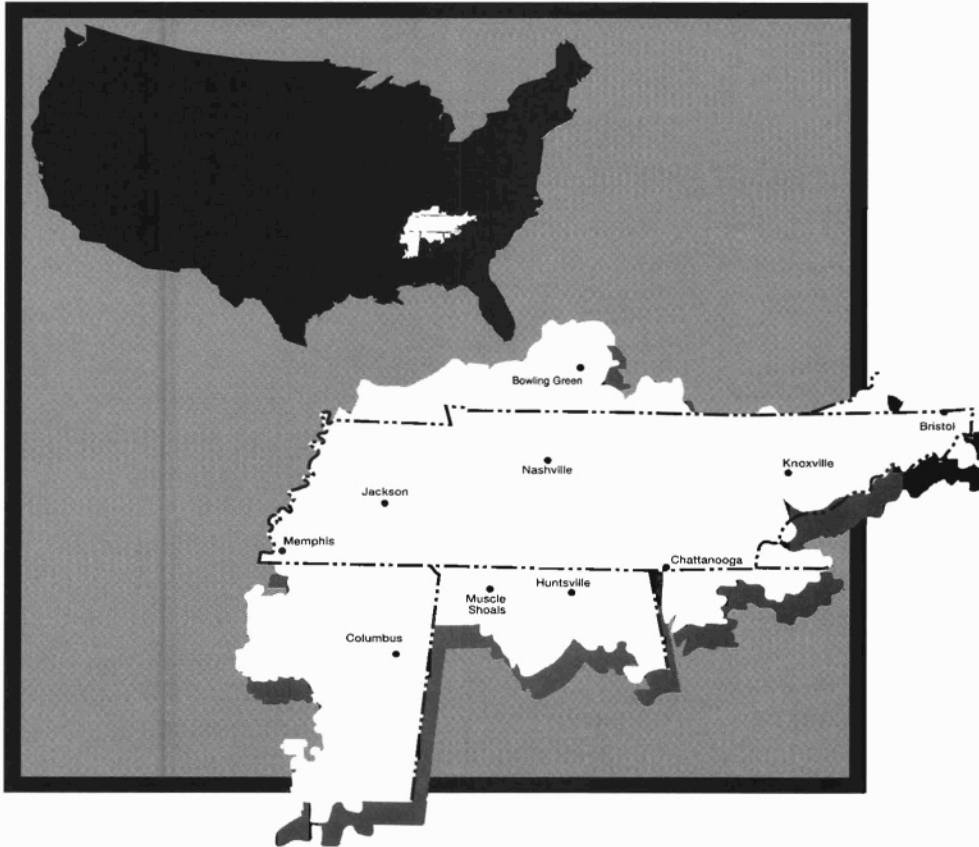
\$5 million reduction), workers' compensation payments (\$400,000 reduction), surplus metal disposal (\$1 million reduction), materials reserve (\$2.4 million reduction), and contractor per diem payments (up to a \$5 million reduction). In addition, our inspection of TVA's \$100 million business credit card program identified numerous opportunities for improvement that will likely result in a restructuring of this major TVA program.

■

Our investigative activities included investigating fraudulent per diem claims, allegations of TVA contractors entertaining TVA employees, and vandalism which occurred during a July 11, 1994, protest at a TVA nuclear plant. As reflected in the appendices, we completed 150 investigations in the last 6 months and referred 19 subjects for prosecution consideration. In addition, our investigators are increasingly focused on more complex, high-impact investigations.

## ■ TVA PROFILE

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*TVA's 18,800 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 18,800 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 appointed by the President and confirmed by the Senate. Craven Crowell is the Chairman and Johnny H. Hayes and William H. Kennoy are Directors.

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

## Organizational Changes

Effective October 1, 1994, the OIG changed its organizational structure to embody a strong focus on high-impact audits and investigations. More specifically, Investigative Operations consolidated its investigative activities by reducing the number of investigative departments from three to two. The two investigative departments, both managed by experienced criminal investigators, are (1) Financial Investigations, which will focus on contract issues, workers' compensation cases, and employee integrity matters; and (2) Internal Investigations, which will focus on environmental issues, nuclear issues, and benefits and entitlement programs.

Audit Operations also restructured to focus on high-impact audits. Its four departments, managed by experienced OIG audit managers, include two departments—Preaward Contract Audits and Contract Compliance Audits—devoted to contract-related topics. Two other departments—Financial and ADP Audits and Operational Audits—will focus on performance, financial, and ADP-related issues.

The OIG's Inspections unit was dissolved, and its ten auditors and investigators were reassigned to our audit and investigative units. This change focuses our resources on two core activities—audits and investigations—and incorporates the key innovation and performance features of this experimental group into our traditional Inspector General functions.

## Office Authority

The TVA Board of Directors administratively established the OIG during October 1985. 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.

George T. Prosser became TVA's third Inspector General on April 1, 1994.

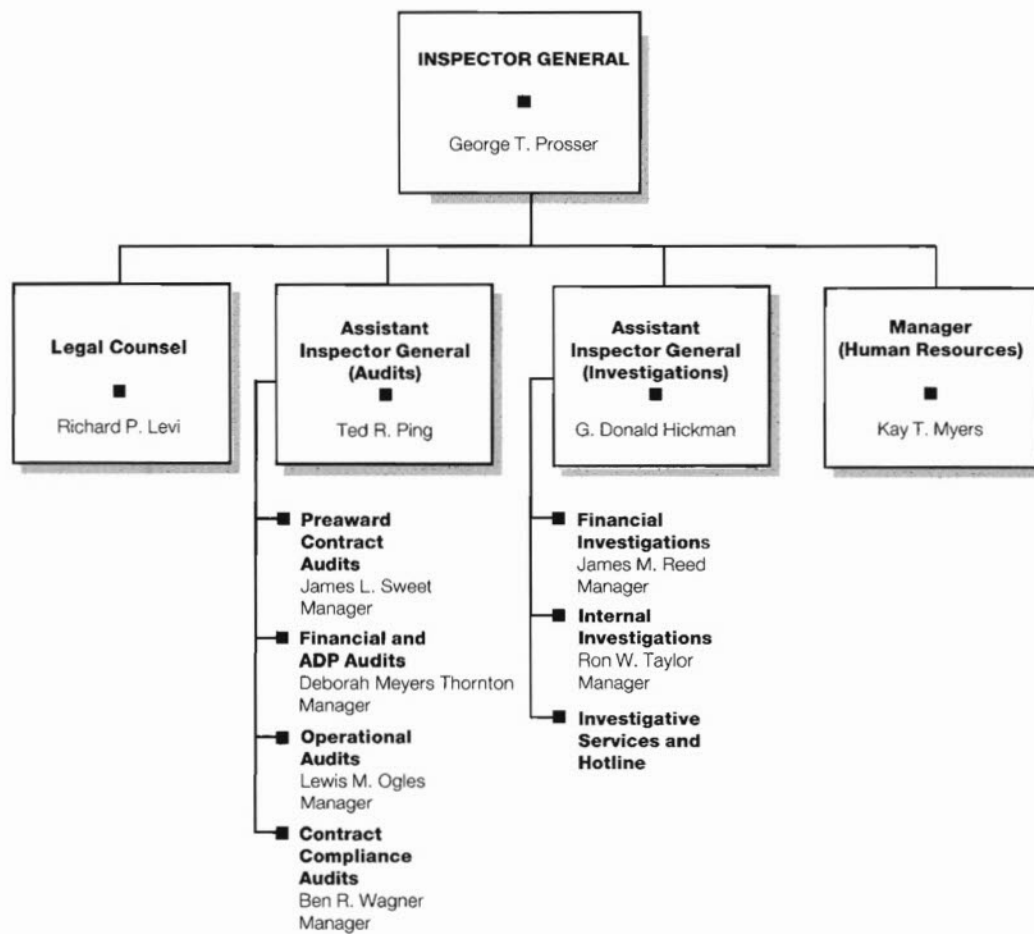
## Staffing and Budget

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee.

The OIG also has investigative satellite offices in Chattanooga, Tennessee, and Huntsville, Alabama.

The OIG's budget is about \$8.7 million, and during this reporting period, the OIG currently had approximately 120 employees.

### OFFICE OF THE INSPECTOR GENERAL (As of 10/1/94)





## OIG Peer Review

During the summer of 1994, the Amtrak OIG completed a peer review of our audit activities. Based on a review of 11 audit reports issued during March 1993-March 1994 and on interviews with OIG personnel, the review team concluded:

- The OIG's effort to move toward a paperless workpaper format was "commendable" and represented "forward-thinking."
- As recommended in a previous peer review, the OIG completed a risk analysis, formal audit strategic plan, and annual plan for 1993.
- Internal quality controls were in place, and our operations were in compliance with established policies, procedures, and applicable auditing standards.

The peer review also identified a few areas for improvement, including minor discrepancies in Human Resource training records, a need for increased documentation of supervisory reviews of audit workpapers, and adopting a methodology of tracking audits against our strategic and annual workplans.

Overall, we are pleased that one of our peers has examined our 1993-1994 operations and identified a number of "noteworthy accomplishments."

## OIG Auditors and Investigators Team Up to Recover \$8 Million for TVA

During this reporting period, we completed a joint audit and investigation of a software contract. We initiated this review because of concerns raised by TVA management. TVA issued the contract for software and services in 1990. Our auditors found that during May 1990, TVA paid the contractor \$15.6 million in advance for software products to be ordered over a five-year period ending May 1995. Contractually, TVA would forfeit the unused portion of this \$15.6 million prepayment when the contract expired. Our auditors also confirmed certain TVA management concerns and requested assistance from OIG investigators. A combined audit and investigative effort then proceeded as follows:

- We investigated a former TVA manager's conflict of interest in connection with his dealings with the contractor. We also quantified the financial impact of the advance payment for software and assisted TVA management in determining the value of software ordered to date.
- We discussed our findings regarding the award and amendment of this contract with TVA management. We

raised issues concerning the advance payment and a possible improper relationship between the former TVA manager and the contractor. TVA management then initiated negotiations with the contractor to resolve the issues we raised.

- Subsequently, TVA and the contractor signed an agreement to resolve those issues. The highlight of the agreement was the refund of \$8,000,911 to TVA for the unused balance of the advance payment for software. TVA will use the refund to purchase software and services from the contractor over the next four years. Without this agreement, TVA would have forfeited the unused portion of the software prepayment as of May 1995.
- We referred our investigation concerning the former TVA manager to the U.S. Attorney who declined prosecution.

*A team of OIG auditors and investigators provided information that resulted in an \$8 million refund that TVA will use to buy software and services over the next four years.*



*Our Inspections unit interviewed over 1,750 nuclear employees and contractors at 5 locations. The overall results were quite positive for TVA. The overwhelming majority were willing to report nuclear safety and quality concerns.*

## Inspection of Concerns Resolution Program Yields Positive Results

TVA began its Concerns Resolution Program (CRS) during 1986 in response to employee concerns about nuclear safety and quality. At that time, the Nuclear Regulatory Commission (NRC)—TVA’s key regulator—asked this office to review the CRS periodically and report the results.

We have conducted several CRS reviews. However, our Inspections unit recently completed the most extensive review to date. During this review, a five-member team conducted one-on-one confidential interviews with 1,750 randomly selected TVA and contractor workers at all four TVA nuclear sites and TVA Nuclear’s corporate offices.

We asked each interviewee a series of identical questions, using a structured interview process.

**Survey Results.** Based on the large size of our survey sample, we believe our data is highly accurate. Overall, the results are quite positive for TVA. Our Inspections team found:

- Employees and contractors at every site overwhelmingly feel free to raise nuclear safety or quality concerns.
- Almost all (99 percent) TVA employees and contractors would report nuclear safety or quality issues.
- Virtually all employees and contractors also said their first choice to report a nuclear concern would be to individuals or offices at the plant site.
- Almost all employees and contractors were aware of CRS and the Employee Concern Program (ECP) and would use these programs if the need arose. (ECP is the counterpart to CRS for contractor employees.) Of those expressing an opinion, a strong majority had a favorable view of CRS and ECP effectiveness.
- Most employees and contractors also feel free to report intimidation and harassment to the CRS or ECP.
- A substantial majority of contractors and employees believed that nuclear safety and quality problems were being handled “well” or “very well” at their plant.

In our opinion, the strong tendency to rely on internal avenues to report concerns is a sign that TVA has made considerable progress since the inception of the CRS.

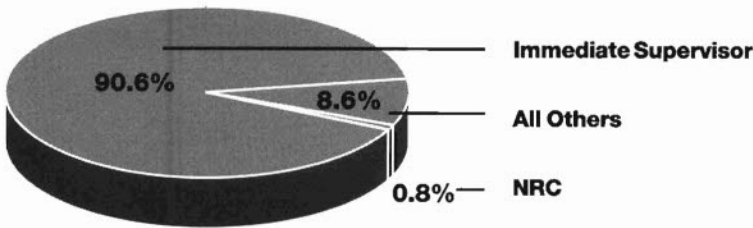
**Program Improvements.** The Inspections team also reviewed all CRS files and contractor ECP files—205 in all—

that were closed during 1993 or open at the time the Inspections team visited each site.

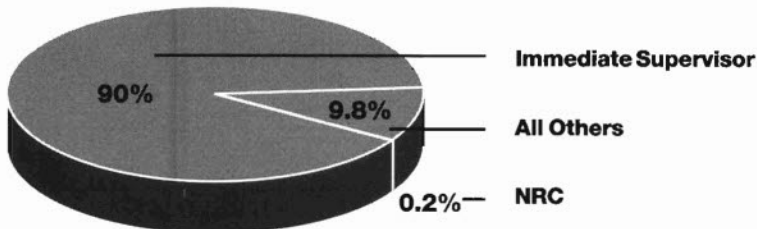
We found, in general, that CRS/ECP follows its own program directives, receives and investigates nuclear safety and quality issues in confidence, coordinates with management to get technical issues resolved, and responds to the concerned individuals about investigation outcomes and corrective actions. We also identified several program improvements which the CRS adopted.

The responses to some of our survey questions are shown below.

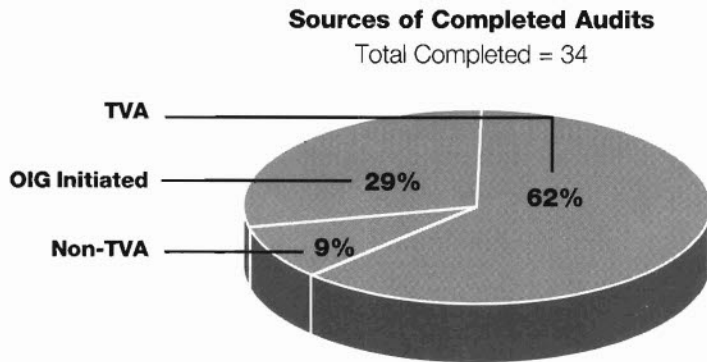
**To Whom Would TVA Nuclear Contractors Report a Concern?**



**To Whom Would TVA Nuclear Employees Report a Concern?**



# AUDITS

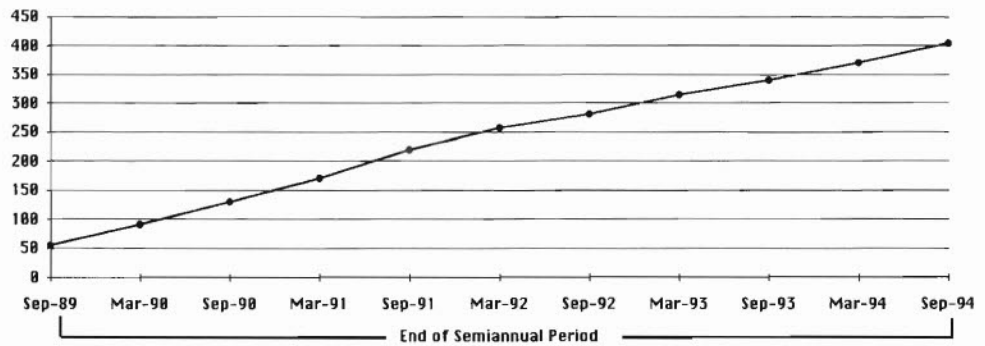


We issued 34 audit reports that identified almost \$11 million in questioned costs and over \$3.7 million in funds which could be put to better use (see Appendix 1).

Audits are initiated from the OIG annual workplan or performed in response to concerns raised by TVA management or non-TVA sources. The chart to the left shows the percentage of completed audits this period from our three primary sources.

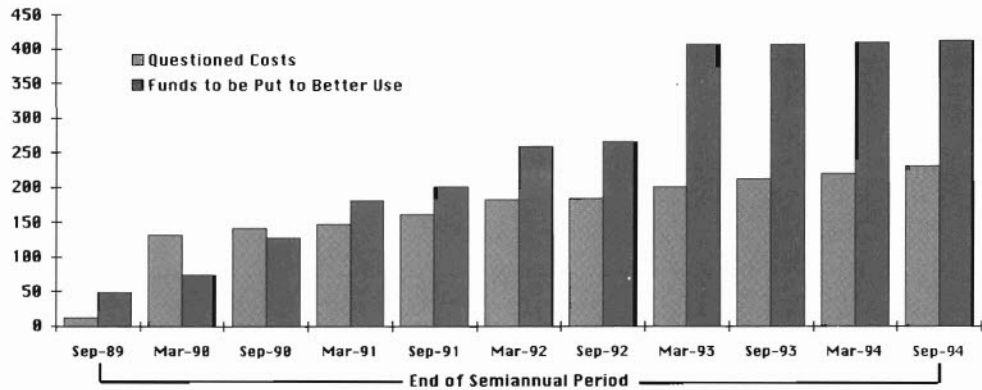
## Audit Statistics Since April 1, 1989

Cumulative No. of Audits



## Audit Results Since April 1, 1989

Cumulative Amounts (\$ Millions)



## Summary of Representative Audits

### **Contractor Overbilled TVA \$1.6 Million**

We reviewed a contractor's billings for subcontract labor during the first two years of a five-year contract. TVA was overbilled \$1,603,680 because the labor was billed at the contractor's commercial rates instead of cost plus 20 percent as provided by the contract. We estimated TVA could overpay an additional \$950,000 if the contractor continued to bill the subcontract labor at inflated rates.

TVA subsequently reached agreement with the contractor for certain categories of subcontracts to be billed at the contractor's rates. The contractor agreed to credit \$1,135,000 to cover the overbillings for other categories.

### **Opportunities for Preventing and Detecting Improper Health Care Payments**

We assessed TVA's vulnerability to health care fraud and abuse and identified opportunities for TVA to prevent and detect improper health care payments. We found TVA (1) was vulnerable to loss in its health care program due to significant levels of risk and lack of management processes for preventing and detecting fraud and abuse and (2) could reduce future losses and recover an

estimated \$1 million per year by adopting an aggressive and systematic fraud and abuse prevention and detection process.

### **Review of Fossil Plant Operator Staffing**

Several TVA employees expressed concern to the General Accounting Office (GAO) that implementing the dual unit operator concept at selected TVA fossil plants would create "a dangerous and life-threatening situation." GAO referred the issue to our office for action. In summary, we found (1) concern exists related to the timeliness of maintenance and the high incidence of manual mode operation, (2) demands on dual unit operators from simultaneous operation may negatively impact power production, and (3) physical layout of TVA's control rooms and related boards was not designed for the dual unit operator concept. We concluded that before any final decisions were made as to the merits of using dual unit operators, the potential negative impacts need to be effectively addressed and resolved. In addition, costs related to making the dual unit operator concept safe and efficient need to be incorporated into Fossil & Hydro's (F&H) ongoing cost/benefit analysis.

*TVA was overbilled \$1,603,680 because the labor was billed at the contractor's commercial rates instead of cost plus 20 percent as provided by the contract.*

*We reviewed TVA's spot coal procurement process from bid solicitation to contract award and found the process to be state-of-the-art.*

**Review of Fossil's Capital Project Estimating Process**

At the request of TVA senior management, we reviewed the capital project estimating process for F&H. We found that F&H completed 181 capital projects during fiscal year 1993 with total estimated and actual costs of \$298,883,000 and \$322,608,000, respectively. On a composite basis, actual costs were within F&H's acceptable range of plus or minus 10 percent of estimated cost. However, on an individual project basis, over 40 percent of F&H's completed projects exceeded the acceptable range.

We also found F&H had taken significant actions to improve its estimating process. However, we concluded F&H could further improve its process by (1) placing less reliance on order-of-magnitude estimates, (2) ensuring adequate scope and cost data exists for capital planning and budgeting, and (3) ensuring the criteria for evaluating employees and projects does not conflict with F&H's goal of producing accurate estimates.

**Special Opportunities Counties Project Account Verification**

We reviewed TVA's Special Opportunities Counties (SOC) program to (1) verify the accuracy of the reported outstanding SOC loan balance as of December 31,

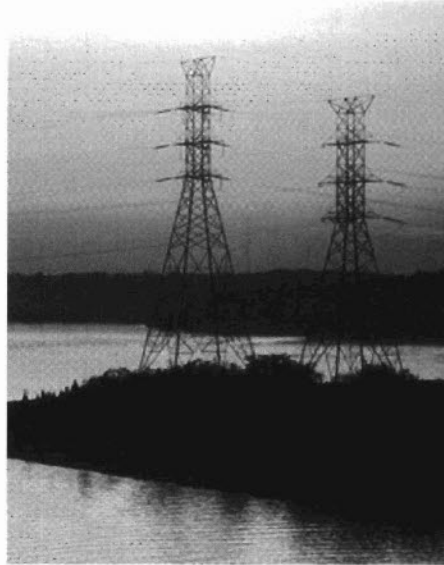
1993; and (2) assess the potential for waste, fraud, and abuse. Although we found no instances of fraud, we found the SOC program vulnerable to waste, fraud, and abuse due to the lack of effective program oversight. In addition, we found TVA did not maintain financial records related to the SOC loan balance in accordance with Generally Accepted Accounting Principles. To improve the program, we recommended TVA improve management oversight and start disclosing the total outstanding SOC loan balance.

**TVA's Spot Coal Procurement Process Is State-of-the-Art**

TVA spends about \$1 billion a year to obtain coal, and in fiscal year 1993, about 37 percent was procured through the spot market. We reviewed TVA's spot coal procurement process from bid solicitation to contract award. We found the process to be state-of-the-art. TVA was in the process of improving controls over completeness of contract files for emergency spot procurements, including flowcharting and documenting the emergency spot procurement process. During our review, TVA also improved the spot process through communication to suppliers about ethical conduct standards.

**Collapse of Transmission Line Towers**

TVA submitted a \$720,725 damage claim to the Federal Highway Administration (FHWA), Department of Transportation (DOT), to recover the cost of restoring transmission line towers damaged by an FHWA contractor. DOT's Assistant Inspector General for Auditing asked us to audit this claim. We reviewed TVA's claim for \$720,725 and found it to be reasonable and supported by TVA's recorded direct costs and overhead expense allocations.



**UNRESOLVED AUDIT REPORTS WHICH WERE ISSUED PRIOR TO APRIL 1, 1994**

Listed below are three audit reports which we issued before this reporting period began and for which no management decision has been made by September 30, 1994.

Date Issued	Audit Number	Report Title	Why Management Decision Has Not Been Made
12/07/93	93-040C	Analysis of General Electric PIP Contracts	TVA management anticipates completing its management decision by October 30.
02/23/94	92-054O	Distributors' Financial Position	The management decision has been delayed pending discussion with the newly appointed Senior Vice President.
02/28/94	93-006C	ACandS, Inc. - Preaward	TVA management is negotiating for retroactive adjustment of this contract.



## ■ INSPECTIONS

*Our inspections focused on ways TVA can improve its processes and reduce the cost of its operations.*

Our Inspections unit provided a wide range of coverage of TVA operations by using a relatively small staff to conduct numerous but more narrowly focused reviews in relatively short timeframes.

This period we completed 35 inspections (see Appendix 3) and several other projects. Considered collectively, these 35 inspections identified opportunities where TVA could save as much as \$22 million.

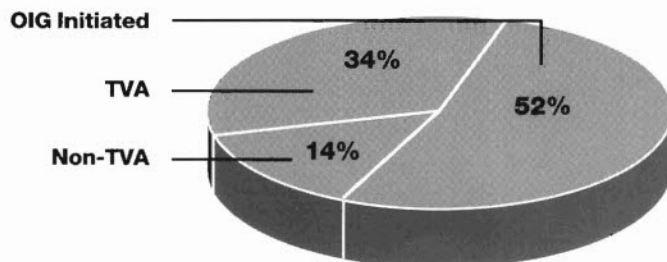
Our inspections included work in a broad spectrum of areas, providing information to the TVA Board of Directors, various senior TVA managers, and the NRC. Our inspections focused on ways TVA can improve its processes and reduce the cost of its operations, such as:

- Identifying savings up to \$4 million through process improvements in TVA's \$30+ million surplus property disposal process.

- Identifying \$2.4 million in annual savings through improvements in TVA's materials reserve program.
- Identifying opportunities for improvements in TVA's \$100 million-a-year business credit card program. (This project included a study that compared TVA's 3,000 cardholder program with other large business credit card programs, a review of TVA's \$30+ million field purchase order program, and reviews of credit card usage on a selected organization basis. We anticipate major changes in this program as a result of our review that should reduce TVA's costs in this area.)
- Proposing changes in the way TVA disposes of surplus metals, which could reduce TVA's costs by as much as \$1 million annually.
- Identifying significant control weaknesses in TVA's process for computer maintenance under a \$1.5 million-a-year contract. (This review resulted in substantial improvements in the way TVA reviews charges for such services.)
- Identifying improvements in the contractual arrangements under which contractor employees were paid almost \$50 million in temporary living allowances (TLAs). Our inspection revealed TVA pays such allowances at different rates—using

### Sources of Completed Inspections

Total Completed = 35



different criteria, different contractual provisions, and different oversight techniques—to various contractors and, in some cases, does not have an effective program to monitor the accuracy of contractor employee claims that they are eligible for such payments. (In the last year, we have identified a number of fraudulent claims by contractor employees for TLAs.)

- Identifying an opportunity to reduce TVA's expenses (by \$400,000 annually) by highlighting the continuing cost of reduced in force employees with a work-related disability. Our inspection revealed TVA is paying workers' compensation benefits to over 750 employees who were reduced in force while having a work-related disability. Payments to these employees exceed \$8 million annually.
- Improving administrative procedures to ensure TVA contractors carry liability and workers' compensation insurance when working at TVA job sites. (In a previous case, a TVA contractor failed to carry such insurance and TVA ultimately paid over \$600,000 in connection with the death of a contractor employee at a TVA job site.)

Based on an inspection completed during the first half of this fiscal year, TVA management has indicated it will contest unemployment compensation payments made to employees who voluntarily accept incentives and leave TVA. (A previous inspection revealed a significant number of employees who left during TVA downsizing initiatives accepted incentives and subsequently received state unemployment compensation benefits, thereby increasing TVA's costs by \$3 to \$5 million. We believe TVA management's action in response to our report will ultimately save TVA as much as \$5 million.)

Although we dissolved our Inspections unit in order to reallocate our resources to our core activities, this experiment succeeded in demonstrating flexibility, innovation, and performance at a high level. For example, during 1994, 10 auditors and investigators completed over 50 inspections, which collectively identified process improvements that could reduce TVA's costs by over \$25 million.

*TVA management has indicated it will contest unemployment compensation payments made to employees who voluntarily accept incentives and leave TVA.*

Our investigative efforts continue to focus on high-impact cases. This period, we closed 150 cases containing 172 allegations. We substantiated 34 of these allegations or almost 20 percent. The sources of the allegations are shown in the chart below.

### Summary of Representative Investigations

As part of our continuing efforts to reduce TVA's contract costs, we are identifying and seeking recoveries for fraudulent claims for temporary living allowances (TLAs). During the reporting period, we identified over \$145,000 that six individuals obtained by fraudulently reporting home addresses to be eligible for TLAs. (These individuals are employees of two TVA contractors at the Browns Ferry Nuclear Plant [BFN] and the Watts Bar Nuclear Plant [WBN].)

During this reporting period, two BFN contract employees and one BFN contract manager were charged

criminally with fraudulently obtaining more than 75,100 in TLAs .

As a result of our investigation, the contractor conducted an internal audit of TLA payments. Subsequently, the contractor credited TVA \$26,150 for questionable TLA claims for three individuals who are subjects of ongoing OIG investigations. Further, the contractor credited TVA \$25,000 for TLA problems they identified that were not connected to a separate OIG investigation of its employees.

Our investigation at BFN is being conducted jointly with the Federal Bureau of Investigation and the U.S. Attorney's office for the Northern District of Alabama. Additional prosecutions and recoveries are expected.

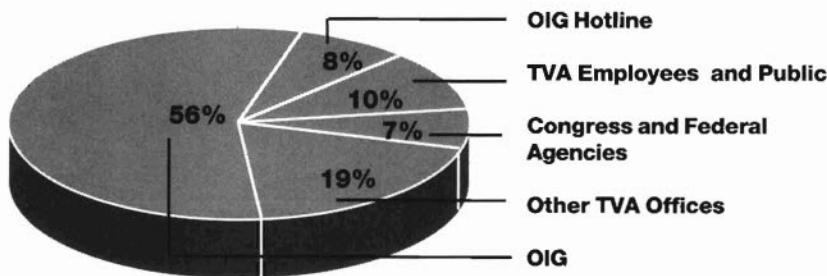
Our investigation at WBN revealed three contract employees inappropriately received almost \$70,000 in TLAs. We referred this case to TVA management to seek recoveries from the contractor, and we are continuing to investigate other contract employees.

Some of our other representative investigations follow.

- We completed several investigations concerning alleged violations of the Procurement Integrity Act and

**Sources of Allegations**

Total Allegations = 172



contractors entertaining TVA employees. In one case, a TVA contractor terminated its Senior Sales Manager after our investigation revealed the manager falsified his expense reports to indicate entertainment of TVA employees that did not occur. Subsequently, TVA Nuclear requested the contractor recertify its compliance with the Procurement Integrity Act after we questioned the validity of the Certificates of Procurement Integrity which the contractor submitted with its TVA contracts. In two other investigations, two TVA managers received warnings after they accepted meals and entertainment from TVA contractors. In addition, they were required to reimburse the contractors for the cost of the entertainment and meals.

- Based on our investigations, during this reporting period TVA management terminated two employees and counseled two others for sexually related activities. In one case, management terminated a systems analyst after he was arrested by state authorities for committing a sex-related crime in Georgia while on TVA time. The analyst was subsequently placed on a five-year probation and fined \$10,000. Management also terminated an engineer after he fondled a contract employee. Further, management counseled two employees after

our investigation revealed they engaged in inappropriate behavior (i.e., hugging and kissing) at work.

- We did not substantiate an allegation that several contract employees falsified about 1,700 nuclear plant quality assurance documents. However, our investigation revealed poor performance by two contract managers and a TVA supervisor, which resulted in misleading and inaccurate information being entered on nuclear workplan closure documents. Subsequently, TVA relieved the TVA supervisor from supervisory responsibilities while the contractor suspended one manager for two weeks and another manager for one week. Further, the contractor relieved the managers from supervisory responsibilities and provided them with additional training.
- During this reporting period, we completed our investigation of the vandalism which occurred during a July 11, 1994, protest which an environmental group staged at WBN. The Rhea County Sheriff's Department arrested 57 people in connection with the protest. The protestors vandalized government property and stopped traffic to prevent workers from getting to the plant. TVA estimated the total cost of the protest at \$480,142.

*Our investigation revealed poor performance by two contract managers and a TVA supervisor, which resulted in misleading and inaccurate information being entered on nuclear workplan closure documents.*

*A former sales representative for a TVA supplier was sentenced to serve 33 months in prison, to pay restitution to the contractor of more than \$125,000, and to serve 3 years' probation after pleading guilty to making a false claim to the government.*

## Investigative Referrals and Prosecutive Results

We referred 23 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.

- A former sales representative for a TVA supplier was sentenced to serve 33 months in prison, to pay restitution to the contractor of more than \$125,000, and to serve 3 years' probation after pleading guilty to making a false claim to the government. The representative ordered more than \$600,000 in supplies from the company on behalf of TVA and another TVA contractor, used a TVA VISA account number to obtain the supplies, falsified records to indicate TVA had received the supplies, and stored the supplies in a warehouse for his future personal use.
- Four individuals were indicted by a federal grand jury for mail fraud and making false claims to the government in connection with energy conservation loans (totaling approximately \$94,400) for work at a church and a former restaurant in Tennessee. Both loans are in default.

In one case, a church pastor hired a contractor to do work at the church. The pastor obtained loans from TVA (totaling \$83,400) for (1) heating and air-conditioning work at the church and (2) storm windows to be installed in the church. Our investigation revealed the storm windows were never purchased or installed and the contractor made kickbacks to the church. Further, the loan for the heating and air-conditioning work was used to pay for non-loan related expenses.

In the other case, a former restaurant owner and her daughter falsified documents in order to obtain an \$11,000 loan for heating and air-conditioning work at her mother's restaurant. The restaurant's owner leased the building where her restaurant was located, and in order to be eligible for the loan, she had to have the building's owner sign two documents. However, the building's owner refused. Subsequently, the daughter forged the building's owner signature to the documents.

- A former office manager of a TVA contractor was placed on three years' probation, fined \$10,000, and required to repay TVA \$24,400 after she pled guilty in federal court to wire

INVESTIGATIONS

fraud. The manager admitted she faxed TVA two bogus certificates of insurance indicating the company had \$1 million in liability and workers' compensation insurance.

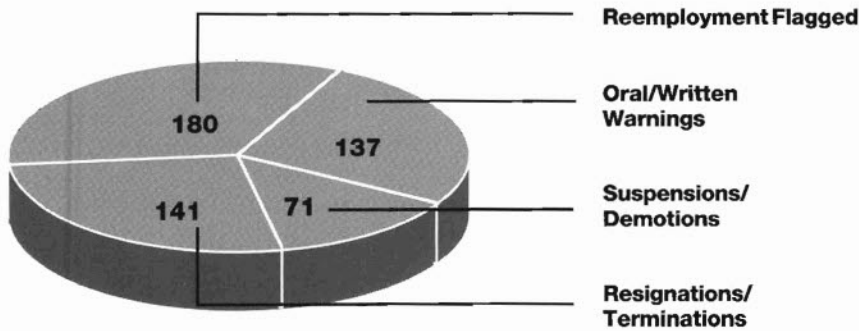
Subsequently, TVA hired the contractor to provide diving services at a fossil plant. During 1989, one of the contractor's divers was killed in a diving accident at the plant, and the diver's widow sued TVA. Another

contract employee also sued TVA for workers' compensation as a result of the accident. Because the company did not have insurance, TVA paid over \$600,000 to settle both lawsuits.

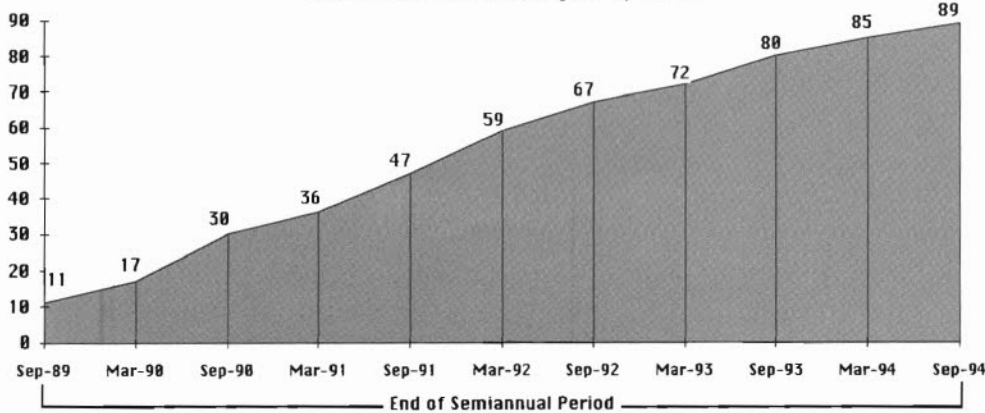
- A former TVA painter was placed on two years' probation after pleading guilty to knowingly making false statements to the Office of Workers' Compensation Program (OWCP). The former employee underreported his rate of pay and work activities.

**Administrative and Disciplinary Actions Since April 1, 1989**

Total = 529



**Convictions Since April 1, 1989**



## ■ LEGISLATIVE AND REGULATORY REVIEWS

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*IGs are to review legislation and regulations relating to the agency's programs and make recommendations concerning their impact on program economy and efficiency and the prevention of fraud and abuse.*

Under the Inspector General (IG) Act, IGs are to review legislation and regulations relating to the agency's programs and make recommendations concerning their impact on program economy and efficiency and the prevention of fraud and abuse. During this reporting period, we began following with interest the pending legislation described below.

The IG Reform Act of 1994. This legislation (H.R. 4679) is designed to increase the independence and strengthen the operations of IGs and would, among other things, (1) establish five-year terms for all IGs, (2) require IGs to consult with their entity head rather than being under his or her "general supervision," (3) allow removal of an IG from office "only for good cause," and (4) require earlier consultation and coordination between the IGs and the Department of Justice. We have provided our views on these and other provisions in this legislation to the Committee on Government Operations.

Federal Workers' Compensation Proposals. Several bills have been introduced which would affect federal workers' compensation benefits and programs. We were pleased with the enactment of H.R. 4606. That law amends 18 U.S.C. 1920 to make a false statement or other fraud in connection

with the receipt of benefits exceeding \$1,000 a felony and also provides that (1) individuals convicted of fraud in the application or receipt of workers' compensation benefits will forfeit their entitlement to benefits and (2) individuals convicted of any felony will forfeit their entitlement to benefits while incarcerated. The Assistant IG for Investigations for the Department of Labor recently commented that our efforts to draw attention to the need for legislation were instrumental in getting this law passed. He also expressed appreciation for all the contributions, including helping with Federal Employees' Compensation Act (FECA) training, that our office has made to the cause for fighting fraud and abuse in the FECA program.

In addition, H.R. 4825, H.R. 4977, H.R. 4978, and H.R. 4979 would revise the procedures of the U.S. Department of Labor OWCP. We hope that any such revisions will consider the rights and needs of the employing agency as well as the claimants.

■ APPENDICES

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**Appendix 1**Page 1 of 3

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**OIG AUDIT REPORTS ISSUED DURING  
THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1994**

The following table summarizes final audit reports issued by the OIG from April 1 through September 30, 1994.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
05/23/94	94-027C	Mesa Associates, Inc. - Preaward			\$376,444
05/25/94	93-012P-05	Fossil's Capital Project Estimating Process			
05/26/94	93-033F	Solvency of the TVA Retirement System			
05/26/94	94-014P	Special Opportunities Counties Program Administration			
05/31/94	94-003P-03	Technology Brokering Program's Cost Recovery Fee Analysis			405,000
06/17/94	94-031C	FD Engineers & Constructors - Preaward	\$5,374*		1,111,986
06/30/94	92-062F-01	Bear Creek Development Authority - Fiscal Year 1990			
06/30/94	92-062F-02	Bear Creek Development Authority - Fiscal Year 1991			
06/30/94	92-062F-03	Bear Creek Development Authority - Fiscal Year 1992			
07/21/94	94-053C	Derthick, Henley & Wilkerson Architects - Preaward			462,600
07/28/94	94-057P	DOE's Claim Related to Interagency Agreement TV-68345A			
07/29/94	93-043C	TVA's Spot Coal Procurement Process			

**Appendix 1**

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DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
07/29/94	94-042C	Stone & Webster Engineering Corporation - Contract 91NMB-80847D			
08/04/94	94-052C	McCarty Holsaple McCarty, Inc. - Preaward			\$83,000
09/08/94	94-013C	RPC - Contract 92NNA-44877C - Time and Material Invoices	\$135,412		
09/09/94	94-034P	TVA Nuclear 's Contractor Subcontracting Practices			
09/14/94	94-028P	Special Opportunities Counties Project Account Verification			
09/19/94	94-058C	J. A. Jones - Preaward			
09/20/94	94-029P-02	Browns Ferry Nuclear Plant's Unit 3 Capital Project Estimating Process			
09/23/94	92-082F-01	Oracle Corporation - Contracts 90BYB-93697C and TV-87601V	8,000,911		
09/26/94	94-001P	Fossil Plant Operator Staffing			
09/26/94	94-007C	General Electric Corporation - Contract 92NNP-83068D Subcontract Labor Costs	1,662,680		950,000
09/26/94	94-016P	TVA's Cost and Rate Competitiveness			
09/26/94	94-020P	Opportunities for Preventing and Detecting Improper Health Care Payments	1,000,000		
09/26/94	94-054F	Review of TVA Claim Against Federal Highway Administration			
09/26/94	94-055F	ONYX International, Inc. - Special Financial Review			

**Appendix 1**

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DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
09/26/94	94-059F	PeopleSoft, Inc. - Contract 90BYH-93492C			
09/26/94	94-067C	Desmear Systems, Inc. - Preaward			\$68,300
09/27/94	93-036C	PRC Engineering - Contract TV-73026A	\$124,657*		
09/27/94	94-039C	Bechtel Power Corporation - Preaward			333,611
09/30/94	94-049P-01	Billing of Contractor Air Travel - Coopers & Lybrand	18,737	\$798	
09/30/94	94-051P	Technology Brokering Program Projects With Information International Associates, Inc.			
09/30/94	94-056C	Bechtel Power Corporation - Contract TV-83425V			
09/30/94	94-062C	Cherokee Electric, Inc. - Preaward			
TOTAL	34		\$10,947,771	\$798	\$3,790,941

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

93-036C	\$111,000
94-031C	<u>5,374</u>
	<u>\$116,374</u>

## Appendix 2

### OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 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	4	\$707,157	\$658,829
B. Which were issued during the reporting period	7	10,947,771	798
Subtotal (A+B)	11	11,654,928	659,627
C. For which a management decision was made during the reporting period	10*	11,530,271	659,627
1. Dollar value of disallowed costs	8	9,899,892	596,314
2. Dollar value of costs not disallowed	5	1,630,379	63,313
D. For which no management decision has been made by the end of the reporting period	1	124,657	0
E. For which no management decision was made within six months of issuance	2	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.

**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	4	\$1,867,992
B. Which were issued during the reporting period	8	3,790,941
Subtotal (A+B)	12	5,658,933
C. For which a management decision was made during the reporting period	9*	4,772,080
1. Dollar value of disallowed costs	9	4,003,836
2. Dollar value of costs not disallowed	3	768,244
D. For which no management decision has been made by the end of the reporting period	3	886,853
E. For which no management decision was made within six months of issuance	1	484,942

\* 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.

**Appendix 3**

Page 1 of 1

**OIG INSPECTIONS COMPLETED DURING THE  
SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1994**

DATE COMPLETED	REPORT NUMBER	REPORT TITLE
04/94	94-501	Review of TVA's Formal Complaint Processes
04/94	94-513	Chattanooga Motor Pool Vehicle Utilization
04/94	94-526	Integrity Awareness Presentation
05/94	93-519	Contract Audit Savings
05/94	93-526	Contractor Liability Insurance Coverage
05/94	93-543	Surplus Property Sales
05/94	94-531	PCC Contract Compliance
06/94	94-518	Benchmarking TVA Credit Card Program
06/94	94-520	Contract Maintenance for Desktop Computers
06/94	94-529	Colbert Toolroom Controls
07/94	93-540	Review of Selected HRIS Data
07/94	94-517	Review of Field Purchase Order and Invoice Usage
07/94	94-530	GSA National Fuel Card Review
07/94	94-540	OIG Use of Business Credit Cards
07/94	94-541	Contractors' Use of TVA Business Credit Cards
08/94	93-525	FECA Match
08/94	94-511	WBN - Management Information Integrity
08/94	94-542	TVA Surplus Scrap Metals
09/94	93-533	Contractor Per Diem Payments
09/94	94-521	Review of Selected 1993 Survey Data
09/94	94-522	Contractors' OWCP Insurance
09/94	94-523	Elderly Recipients of OWCP
09/94	94-525	Per Diem Payments
09/94	94-528	Review of Information Services' Use of Business Credit Cards
09/94	94-532	Concerns Resolution - Chattanooga/Bellefonte Nuclear Plant
09/94	94-533	Concerns Resolution - Sequoyah Nuclear Plant
09/94	94-534	Concerns Resolution - WBN
09/94	94-535	Concerns Resolution - BFN
09/94	94-536	OWCP Criminal Histories
09/94	94-537	TVA Materials Reserve Systems
09/94	94-538	Review of Diversity Development's Use of Business Credit Cards
09/94	94-543	Concerns Resolution Program Review
09/94	94-544	Long-Term Cost of Separating Employees With Work-Related Disabilities
09/94	94-545	Credit Card Usage - ETP
09/94	94-546	Update of Review of Livewell Program

TOTAL 35

**Appendix 4**

**INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS**

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	19	4 Indictments 4 Convictions 3 Criminal Complaints 25 Declinations
Subjects referred to other agencies for investigative or administrative action	4	OWCP declared \$3,191 in overpayments and saved TVA more than \$1.8 million in estimated long- term workers' compensation costs.
TOTAL	23	

**Appendix 5**

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

Craven Crowell  
Chairman, Board of Directors

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 entering into its eighth consecutive year of no rate increases. The Inspector General has contributed significantly to this accomplishment. We welcome the continued support of the Inspector General as we strive to meet our goals of putting employees first, being an environmental leader, and maintaining competitive rates.

Sincerely,

Craven Crowell

Enclosure



## Appendix 5

Page 2 of 4

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### **TVA MANAGEMENT'S REPORT ON FINAL ACTIONS FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 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 3/31/94	9	\$1,760
B. On which management decisions were made from 4/1/94 through 9/30/94	10	9,900
Subtotal (A + B)	19	11,660
C. For which final action was taken by management from 4/1/94 through 9/30/94		
1. Amounts that were recovered by management	7*	8,054
2. Amounts that were not recovered by management	2*	50
D. For which management has taken no final action by 9/30/94	11*	3,556

\* The number of reports will differ from the arithmetic total when final action includes both amounts recovered and amounts not recovered for a single audit report.

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 3/31/94	2	\$129
B. On which management decisions were made from 4/1/94 through 9/30/94	9	4,004
Subtotal (A + B)	11	4,133
C. For which final action was taken by management from 4/1/94 through 9/30/94		
1. Dollar value of recommendations implemented by management	5*	1,477
2. Dollar value of recommendations not implemented by management	4*	562
D. For which management has taken no final action by 9/30/94	3*	2,094

\* The number of reports will differ from the arithmetic total when a final audit action includes both recommendations implemented and recommendations not implemented for a single audit report.

**Appendix 5**

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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.
Environmental Quality Staff Review 92-024O	11/25/92	N/A	N/A	Restructuring of the Environmental Management group continues. Final action will occur 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 resolution is expected during fiscal year 1995.
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 during fiscal year 1995.

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

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### 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 19
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 6-16
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 6-16
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	Pages 17-18 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 10-12
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	Page 12
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 significant revised management decisions.

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

## ■ HIGHLIGHTS

	FOR SEMIANNUAL REPORTING PERIODS				
	SEPT 30, 1994	MAR 31, 1994	SEPT 30, 1993	MAR 31, 1993	SEPT 30, 1992
ANNUAL BUDGET (In Millions of Dollars)	8.7	8.7	8.7	8.7	8.7
CURRENT STAFFING:	118	119	126	133	132
AUDITS					
AUDITS IN PROGRESS					
Carried Forward	29	27	21	41	31
Started	43	36	34	19	37
Canceled	(7)	(3)	(3)	(6)	(3)
Completed	(34)	(31)	(25)	(33)	(24)
In Progress at End of Reporting Period	31	29	27	21	41
AUDIT RESULTS (Thousands)					
Questioned Costs	\$10,948	\$6,708	\$ 11,517	\$ 17,543	\$ 396
Disallowed by TVA	9,900	1,649	10,291	9,586	1,204
Recovered by TVA	8,054	1,268	10,673	9,794	170
Funds to Be Put to Better Use	\$3,791	\$2,043	\$ 636	\$140,788	\$ 6,487
Agreed to by TVA	4,004	171	104,955	17,854	1,715
Realized by TVA	1,477	92	120,833	927	1,365
INSPECTIONS					
Opened	24	21	28	13	
Closed	(35)	(19)	(18)	(4)	
Canceled	(2)	(2)	(3)	(3)	
In Progress at End of Reporting Period	0	13	13	6	
Identified Opportunities to Reduce TVA Expenses Through Process Improvements					
	\$22,225	\$3,500			
INVESTIGATIONS					
INVESTIGATION CASELOAD					
Carried Forward	149	135	163	231	280
Opened	155	122	99	154	274
Closed	(150)	(108)	(127)	(222)	(313)
In Progress at End of Reporting Period	154	149	135	163	241
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	38	22	35	67	72
Actions Taken (# of Subjects)	23	19	44	42	59
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referrals	19	8	38	33	31
Indictments	4	2	6	0	4
Criminal Complaints	3	0	0	1	0
Convictions	4	5	8	6	11

OFFICE OF THE INSPECTOR GENERAL OF THE TENNESSEE VALLEY AUTHORITY

400 WEST SUMMIT HILL DRIVE

KNOXVILLE, TENNESSEE 37902-1499