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OFFICE OF THE INSPECTOR GENERAL

9

SEMIANNUAL REPORT

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OCTOBER 1, 1997 ~ MARCH 31, 1998

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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.

TVA
INSPECTOR
GENERAL

Hotline

Call toll free:
1-800-323-3835
423-632-3550 (Knoxville)

Tennessee Valley Authority
400 West Summit Hill Drive ET 4C
Knoxville, Tennessee 37902-1499



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

George T. Prosser
Inspector General

April 30, 1998

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This semiannual report describes the accomplishments of our office for the six-month period ending March 31, 1998.

During this reporting period, we completed 30 audits which identified almost \$1.2 million in questioned costs and more than \$2.3 million in funds that could be used more effectively. Our auditors conducted performance reviews of TVA operations and contract preaward and compliance audits. Contract-related audits included audits of a watershed development agency and a regional procurement assistance group. We also conducted 13 special projects, which identified over \$840,000 in savings.

Our investigations group completed 74 investigations, substantiating allegations in over 39 percent of the cases we investigated. During this reporting period, our investigations resulted in over \$1.5 million in savings and recoveries, two subjects indicted, and six subjects convicted. Further, as a result of our investigations of alleged misconduct, administrative action was taken against 12 individuals.

When the Inspector General Act was enacted during 1978, Congress stressed the need for independent oversight to reduce fraud, waste, and abuse affecting the federal government. The environment in which the government operates today is vastly different from that of 1978, with diminished resources and increasingly difficult challenges and demands. Yet, 20 years later, a need remains for Inspectors General to maintain their independence while, as appropriate, working collaboratively with entities inside and outside of their agencies. Through cooperative efforts, we are able to stretch our dollars, draw upon the expertise of others while sharing our experience, and help TVA meet its goals while continuing our independent oversight role.

Sincerely,

A handwritten signature in black ink that reads "George T. Prosser".

George T. Prosser

1	Executive Summary	8	Audits	OFFICE OF THE INSPECTOR GENERAL
2	TVA Profile	12	Investigations	SEMIANNUAL REPORT
3	Office of the Inspector General	17	Special Projects	OCTOBER 1, 1997 THROUGH MARCH 31, 1998
5	Special Features	21	Hotline	

Appendices

1. OIG Audit Reports Issued During the Six-Month Period Ending March 31, 1998
2. OIG's Report on Management Decisions for the Six-Month Period Ending March 31, 1998
3. Investigative Referrals and Prosecutive Results
4. TVA Management's Report on Final Actions for the Six-Month Period Ending March 31, 1998
5. OIG Reporting Requirements

■ EXECUTIVE SUMMARY

This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending March 31, 1998.

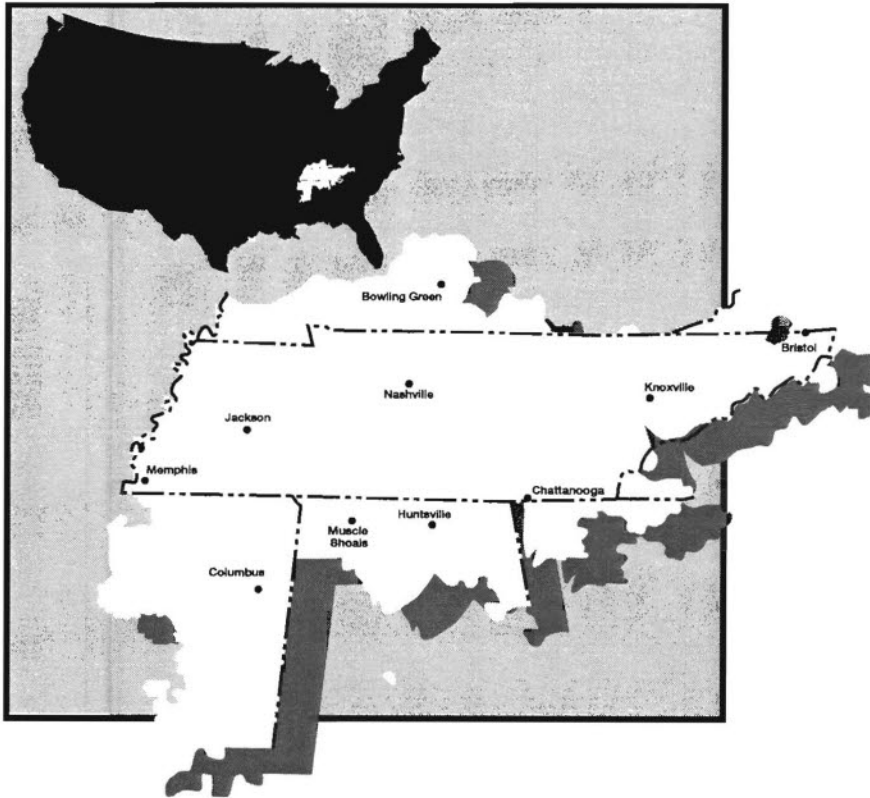
We continued our efforts to support TVA's goals by providing quality service with audits, investigations, and special projects. We completed 30 audits which identified almost \$1.2 million in questioned costs and more than \$2.3 million in funds that could be used more effectively. Thirteen special projects identified over \$840,000 in cost savings. We closed 74 investigations which led to over \$1.5 million in savings and recoveries. Investigations of alleged misconduct led to administrative action taken against 12 individuals.

Our audit activities included reviews of preaward contract proposals, contractor compliance, and performance of TVA operations. Representative audits include reviews of a proposal to provide security service to TVA nuclear plants and support for TVA Police; TVA contracts with a watershed development agency, a regional procurement assistance group, and a consulting firm; and TVA's prescription drug program.

Our audit group also conducts special project reviews of high-profile issues at management's request. During this reporting period, we responded to a request from Congressman Zach Wamp, Chairman of the TVA Caucus, to review TVA's management practices in seven areas. The areas we reviewed included

consultant contracts; TVA advertisements; property leases and purchases; the relocation of certain positions and programs to Nashville, Tennessee; bonuses and benefits for top-level management; spending for special events; and air transportation issues.

Our investigative activities included nuclear-related investigations and investigations of alleged product substitution, workers' compensation fraud, contractors' fraudulent claims for temporary living expenses (TLE), health care overpayments, and employee misconduct. Our investigative results included \$150,000 from a contractor to settle a claim that the contractor provided rebuilt equipment rather than contract-required new products; the conviction of a contractor employee and guilty pleas to criminal charges from three others for submitting fraudulent TLE reimbursement claims; and recoveries and savings of more than \$940,000 from our workers' compensation fraud cases. Several misconduct investigations included findings of former or current employees misusing a TVA credit card, TVA time and equipment, and a TVA vehicle for personal use.



TVA's 14,094 employees serve an 80,000-square-mile region spanning seven states.

TVA is a federal corporation responsible for developing and conserving the natural resources of the Tennessee River Valley.

TVA's 14,094 employees are involved in regional development, integrated resource management, and in the production of low-cost electricity. The power system is funded by power sales, and TVA's other programs are funded primarily by congressional appropriations.

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.

TVA's goals are Customer Driven, Employee Sensitive, Environmentally Responsible, and Growth Oriented. TVA's vision is "to be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs."

Organization

The OIG's Audit Operations unit consists of three operational departments. One is devoted to contract-related topics, both preaward and post award reviews; the two other departments focus on performance, financial, ADP-related issues, and special projects.

The OIG's Investigative Operations unit consists of an investigative services and hotline group and two investigative departments. One department focuses on contract issues, workers' compensation cases, and employee integrity matters; the other department focuses on environmental issues, nuclear issues, and benefits and entitlement programs.

Office Authority

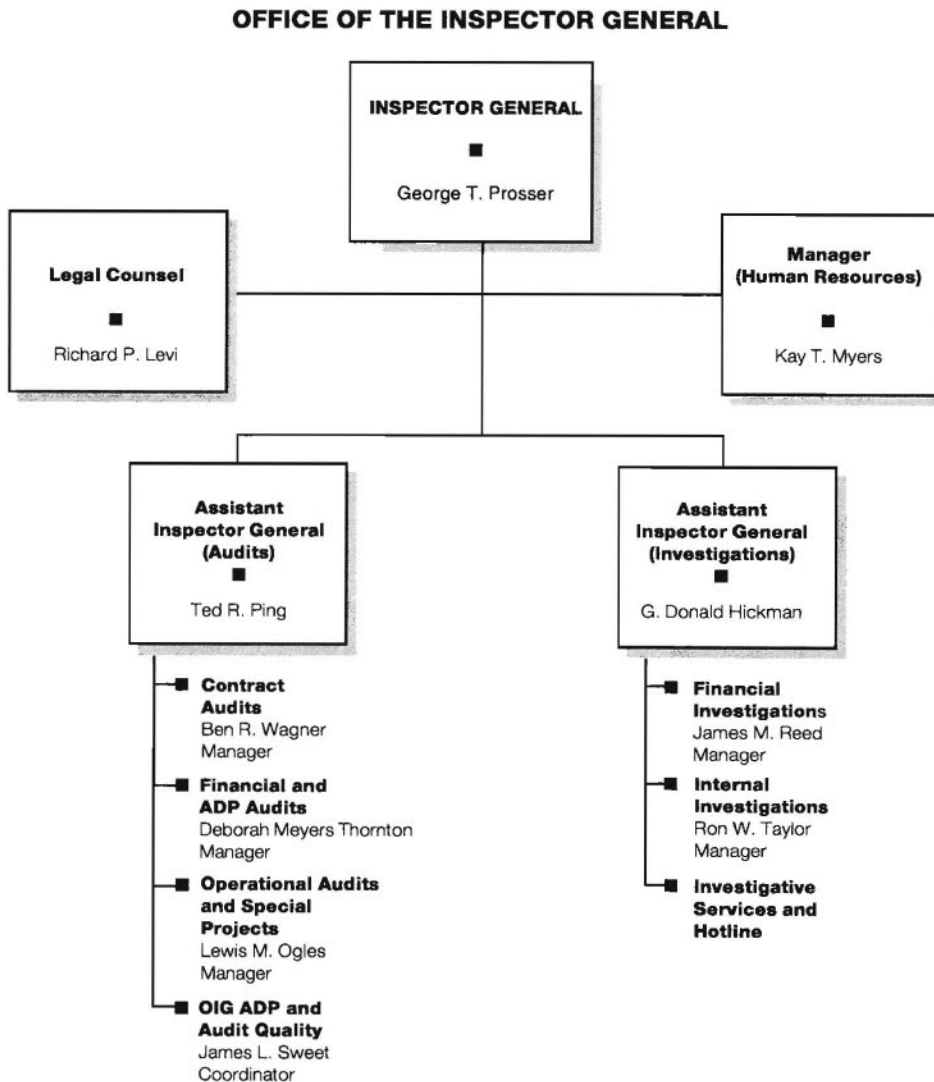
The TVA Board of Directors administratively established the OIG during October 1985. During its early years of operation, the OIG operated much like its statutory counterparts and exercised subpoena powers granted by a provision in a TVA appropriations bill. When Congress enacted the Inspector General Act Amendments of 1988, TVA's OIG became 1 of 33 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 fiscal year 1998 budget is about \$7.3 million, and during this reporting period, the OIG had 81 employees.



PREAWARD AUDITING—A TVA TEAM EFFORT

TVA management and the OIG have been working collaboratively for ten years to reduce TVA's contract costs through the use of preaward audits. As the name implies, preaward audits are performed before a contract is awarded or extended, with the objective of both determining if the contractor's proposed costs are fairly stated and providing whatever other assistance management may request to help negotiate the best deal for TVA.

During the past 10 years, we have performed over 200 preaward audits at the request of TVA management. Information provided by preaward audits, when coupled with other management initiatives, has helped TVA avoid unnecessary costs. Avoiding such costs is the result of many factors in addition to preaward audits, including management decisions to modify or not award the contract, effective management negotiations with vendors, improvements in TVA's procurement processes, and the efforts of procurement teams.

Although our preaward audits initially focused on major nuclear contracts, TVA management has recognized the usefulness of preaward audits in all types of procurements. Not only does man-

agement use our findings regarding the contractor's costs, but frequently we are able to provide other assistance as well. We have worked jointly with management by providing input regarding procurement strategy, evaluation criteria, contract language, and proposal evaluation. To avoid problems two to three years down the road, we also review the contractor's processes for accumulating costs and how the costs are used in invoice preparation.

During this reporting period alone, we conducted ten preaward audits for four TVA organizations. Management has successfully completed negotiations in two of those contracts and saved the entire amount we questioned. Examples of the types of problems that management effectively resolved through negotiations with the audited vendors included:

- A contractor proposed to recover payroll taxes and paid time off at the maximum cost the company could incur, rather than at the actual cost which probably will be incurred.
- Fringe benefit rates were overstated due to a calculation error.

These collaborative efforts between management and the OIG work to identify potential problems and reduce TVA's

costs at the front end of the contracting process. We believe this team approach has been of significant benefit to TVA over the past ten years and will continue to be so in the future.

OIG-DOJ TEAMWORK BRINGS RESULTS

During this reporting period, we continued our cooperative efforts with the U.S. Department of Justice (DOJ) in criminal cases and increasingly in civil false claims actions. We appreciate the outstanding support and cooperation we have received from the DOJ through the U.S. Attorneys' offices and the many Assistant U.S. Attorneys who have worked with us in pursuing fraud committed against TVA.

During this reporting period, seven individuals and one company were either indicted or convicted in four different judicial districts. As discussed elsewhere in this report, this cooperation resulted in convictions in the Eastern District of Tennessee and the Northern District of Alabama of former contractor employees

who fraudulently obtained temporary living expenses, an indictment in the Middle District of Florida of a husband and wife for workers' compensation fraud, and a guilty plea in the Western District of Virginia by a coal supplier for mail fraud in a product substitution case. We have numerous other cases pending in several districts awaiting prosecution decisions. Since October 1, 1990, this cooperation and support has resulted in the OIG reporting 102 convictions as a result of our investigations. These

convictions have included violations such as false claims, false statements, mail and wire fraud, theft, and embezzlement.

In addition, U.S. Attorneys' offices have

encouraged TVA to consider using the affirmative civil enforcement program (ACE) in cases where its use would be more appropriate than a criminal action. In coordination with TVA's General Counsel's office, we have been working several such cases with U.S. Attorneys' offices. For example, during this reporting period, in the Eastern District of Tennessee, a corporation agreed to pay



Pictured above is the team which obtained a 24-count conviction in a false claims case. Pictured left to right: Per Diem Fraud Team Leader Special Agent Robert S. Buck, Special Agent Randia Rathbone, Assistant U.S. Attorney Elizabeth Tonkin, Assistant U.S. Attorney Nancy Harr, and Special Agent James E. Hunter.

\$150,000 to settle a potential claim that it supplied two TVA nuclear plants with rebuilt equipment, instead of new equipment as called for in the contracts. This was the fourth settlement of a TVA ACE case, all either in the Eastern District of Tennessee or the Northern District of Alabama.

These combined efforts have led to fines, restitution, and recoveries of approximately \$1.9 million since October 1, 1990. We value both the positive comments we have received from the offices of the U.S. Attorneys about our work and their effort in working with us. We anticipate continued significant, positive results from these joint efforts.

WOMEN OF DISTINCTION AWARD

The TVA Board recently honored the contributions of "Women of Distinction" in the TVA workforce as part of National Women's

History Month. Among those recognized was Becky Pirtle, an administrative analyst in the OIG. Pirtle, a 26-year TVA employee, was recognized for her

volunteer work with The Ronald McDonald House and The Dream Connection, Inc.

Knoxville's Ronald McDonald House provides a supportive, temporary home for families with children in area hospitals or undergoing outpatient treatment. Among her many activities, Pirtle is involved in a campaign to refurbish an adjacent building as an annex that can house five more families each night.

Pirtle's association with The Dream Connection, Inc., involves fulfilling the special dreams of East Tennessee children who have life-threatening illnesses. Pirtle currently serves on the organization's Board of Directors and participates in all fundraising efforts.



Becky Pirtle, Recipient,
Women of Distinction Award

Audits are initiated from (1) the OIG annual workplan, (2) issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, or (4) concerns raised by TVA management or others. During this reporting period, we issued 30 audit reports which identified almost \$1.2 million in questioned costs and more than \$2.3 million in funds which could be put to better use (see Appendix 1).

Summary of Representative Audits

Our audits included performance reviews of TVA programs, processes, and systems, as well as compliance and preaward audits of TVA contractors.

PRESCRIPTION DRUG PROGRAM

Effective January 1, 1995, TVA entered into a contract for prescription drug benefit management services. The contract provided for the company to (1) maintain a single database for eligibility, drug utilization, and plan design; (2) process and adjudicate TVA's prescription drug claims; (3) perform uniform drug utilization reviews; (4) submit various standardized reports to TVA; and (5) issue checks to participating pharmacies on TVA's behalf.

During calendar years 1995 and 1996, the company processed over 1.2 million TVA drug claims with a cost to TVA of \$25.6 million. In addition, TVA (1) was invoiced administrative fees totaling \$565,220 and (2) received manufacturer drug rebates totaling over \$1 million.

We assessed the company's compliance with the cost provisions of the contract and TVA's oversight. In summary, we found:

- The company complied with the cost provisions of the contract except for certain duplicate claims, administrative fee overcharges, unsupported costs, and manufacturer drug rebates owed to TVA under the contract's minimum rebate guarantee.
- There were opportunities for improvement in certain areas of TVA's oversight.

TVA management generally agreed with our findings; whereas, the company disagreed with a portion of the amount questioned.

CONTRACT BETWEEN TVA AND DEVELOPMENT AGENCY

At the request of TVA Water Management, we performed a contract compliance audit of a watershed development agency. The purpose of the audit was to

verify that expenditures were for the purposes authorized by the contract. We found the agency (1) withdrew certain amounts from trust funds for contract activities which were not deposited in accounts from which contract expenditures were made and (2) used some contract funds for costs that were inappropriate, potentially personal, inconsistent with applicable budgets, fully or partially chargeable to other agency funds, or inadequately supported. We also identified several deficiencies in internal controls and contract administration which contributed to these circumstances. The parties have already taken steps to correct or improve some of these deficiencies. They are also working to resolve the other findings.

SUPPLIER MANAGED INVENTORY PROGRAM

At management's request, we audited a contractor which provides consumables for TVA's Supplier Managed Inventory Program at the Allen and Johnsonville Fossil Plants. We found that TVA overpaid the contractor because delivery tickets were altered and contract provisions were violated. We also found that as of the end of our audit fieldwork, the contractor had not invoiced TVA for three deliveries. The net supported and allowable amount of the three deliveries was deducted from the amount claimed

by TVA. Currently, TVA management is working with the contractor to resolve the audit findings and reach a final settlement.

PREAWARD AUDITS

We completed ten preaward audits during this reporting period. As discussed in the feature story, we work with TVA management in preaward audits to reduce contracting costs. Two representative preawards follow.

- We audited a contractor's proposal for providing security services at TVA's nuclear plants and support for the TVA Police. We suggested TVA adjust the proposed recovery rate for payroll tax and paid time off to a rate based on the company's actual cost each year. The proposed rates were based on the maximum cost that could be incurred, rather than actual cost which will probably be incurred. We also noted the fringe benefit rates proposed for two sites were overstated due to a calculation error, and salary rates proposed for the project management team included pay increases of more than 40 percent for some individuals.
- In another preaward for mapping services, we found the proposed indirect labor burden rates, the general and administrative (G&A) rate, and proposed subcontractor rates were overstated. We also found the cost

proposal did not comply with the Request for Proposals (RFP) requirements due to (1) the inclusion of labor categories not specified by the RFP; (2) burden rates which were not in the format specified by the RFP; and (3) the application of G&A to subcontractor costs.

In both cases, TVA management used our findings to help them negotiate a more favorable contract for TVA.

CONTRACTOR'S CHARGES OVERSTATED

We audited a consulting firm to determine if the firm complied with the terms and conditions included in its sole-source TVA consulting contracts. We found about \$50,000 in (1) overbilled professional fees; (2) overbilled, noncompliant, and unreasonable travel expenses; and (3) unallowable and duplicate miscellaneous expenses. Additionally, we found other miscellaneous expenses normally recovered through overhead that TVA should consider restructuring in any future contracts with the firm.

PERFORMANCE INDICATOR SYSTEMS

We reviewed the adequacy and reliability of the information systems that support the calculation of the Load Not Served (LNS) indicator. The LNS indicator is

used by TVA's Transmission & Power Supply Group as a measure of customer service performance. Based on our audit, management made improvements to the controls over the Service Interruption Database, which supports calculation of the LNS indicator.

PROCUREMENT ASSISTANCE GROUP REVIEW

A TVA-sponsored economic development Procurement Assistance Group Board requested the OIG review their financial records and internal controls from October 1, 1994 through September 30, 1997. We found the Procurement Assistance Group Board and its former Executive Director failed to adequately oversee operations resulting in a weakened internal control structure that adversely affected all aspects of the business.

The Procurement Assistance Group Board has taken steps to improve the internal control structure, and TVA management is in agreement.

**UNRESOLVED AUDIT REPORTS WHICH WERE
ISSUED PRIOR TO OCTOBER 1, 1997**

Listed below are audit reports we issued before this reporting period began and for which no management decision was made by March 31, 1998.

Date Issued	Audit Number	Report Title	Why Management Decision Has Not Been Made
7/8/97	94-035P-01	Review of TVA's Polychlorinated Biphenyls (PCBs) Elimination Strategy	TVA management is currently evaluating whether to implement an accelerated PCB elimination strategy.
7/21/97	97-047S	Preaward Audit	TVA management is performing further evaluation of this project and expects to arrive at a decision by 9/30/98.

In the last six months, we substantiated allegations in 29 of the 74 investigations we closed—over 39 percent. Our cases have resulted in over \$1.5 million in savings and recoveries, two subjects indicted, and six subjects convicted. Representative investigations are highlighted below.

Summary of Representative Investigations

CONTRACT-RELATED MISCONDUCT

Product Substitution

Our investigation revealed a California corporation furnished two TVA nuclear power facilities with shock arrestors which did not meet the requirements of the company's contracts with TVA. (Shock arrestors, also called "snubbers," are used to restrain piping systems and associated components and to protect them from potential shocks resulting from earthquakes or other significant vibrations.) According to the terms of the contracts, the company was to provide snubbers to TVA which were "new, unused, not surplus (never before sold for use), and not rebuilt." However, our investigation indicated the company supplied snubbers to TVA which it had previously sold and subsequently repurchased from third parties. As a result of our findings, a settlement was

reached, under which the company agreed to pay \$150,000. The Nuclear Regulatory Commission reviewed this issue and found no safety concern.

Procurement Fraud

Investigation revealed a southeastern coal company fraudulently sold 4,800 tons of petroleum coke (petcoke) to TVA's John Sevier Fossil Plant. Petcoke is a by-product of the petroleum refining process; and, although petcoke resembles coal, the two products are not interchangeable. The TVA contract under which the petcoke was purchased specifically prohibits the sale of petcoke. The coal company, however, presented the petcoke to TVA as coal, and TVA was invoiced and paid for coal. (The coal company bought the petcoke at \$12-\$14 per ton and included it in "coal" deliveries, selling it as coal to TVA.) During this reporting period, the company pled guilty in federal court to one count of mail fraud. The company was sentenced to two years' probation and ordered to pay \$53,863 in restitution to TVA and a \$48,000 fine.

WORKERS' COMPENSATION CLAIMS

As a result of our Federal Employees' Compensation Act fraud investigations, during this reporting period the Office of Workers' Compensation Programs (OWCP) (1) terminated benefits for one

former employee who pled guilty and agreed to make restitution and (2) declared forfeitures and overpayments on benefits received by two other individuals. These actions resulted in recoveries and potential long-term savings of over \$940,000. More specifically,

- A former TVA carpenter pled guilty to four counts of making false statements to obtain OWCP benefits. As part of the individual's plea, he agreed to make restitution in the amount of \$46,626. Additionally, OWCP terminated workers' compensation benefits for the individual, which resulted in potential long-term savings to TVA of \$580,871. The subject is awaiting sentencing.
- OWCP declared forfeitures and overpayments of \$312,939 on benefits received by a former TVA ironworker and a former steamfitter/welder.

Additionally, a federal grand jury indicted a former TVA steamfitter and his wife on seven counts, collectively, related to fraudulently obtaining OWCP benefits.

FALSE CLAIMS—TEMPORARY LIVING EXPENSES

We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible temporary living expenses (TLE) paid to TVA contractors. During

this reporting period, our investigations led to fines and recoveries of over \$84,000.

Convictions

- A former Browns Ferry Nuclear Plant contractor who pled guilty during the previous reporting period was sentenced during this reporting period to five years' probation and ordered to pay \$35,592 in restitution. (The individual, at various times, was an employee of Jesco, Pacific Atlantic Technical Services Company, and BCP Technical Services, Inc., and was a subcontractor employee for Bechtel and Stone & Webster Engineering Corporation.)

Four former United Energy Services Corporation contractors at the Watts Bar Nuclear Plant were convicted of fraudulently obtaining TLE as follows.

- A federal jury convicted a former contractor of 24 counts of submitting false claims totaling \$13,393. The subject is awaiting sentencing.
- One individual pled guilty in federal court to two counts of submitting false claims to receive TLE. Additionally, he stipulated his responsibility for the acts charged in 60 additional counts. The

individual fraudulently obtained over \$37,000 in TLE. The subject is awaiting sentencing.

- One individual pled guilty to one count of submitting a false claim. That individual fraudulently acquired \$21,880 in TLE and an additional \$16,813 in travel reimbursement to which he was not entitled. The subject is awaiting sentencing.
- One individual pled guilty to one count of submitting a false claim. He fraudulently acquired over \$12,000 in TLE. The subject was sentenced to three years' probation and ordered to pay full restitution and a \$5,000 fine.

HEALTH CARE INVESTIGATIONS

With the assistance of TVA's Compensation and Benefits department, we conducted reviews and investigations involving complaints related to health care issues. Together, we identified over \$136,000 in erroneous overpayments to health care providers.

EMPLOYEE MISCONDUCT

Investigation revealed a former employee charged over \$4,000 on a TVA credit card (1) to rent a car for her personal use over a three-month period, (2) for food and entertainment, and (3) to pay a bail bondsman. (The employee was arrested for selling cocaine to a county undercover officer; she conducted the transaction

from a TVA vehicle.) Our office has referred this matter to the U.S. Attorney's office.

Investigation revealed a former employee misused TVA time by working for another business as a contractor while on TVA time. The former employee also used TVA telephones and fax machines in support of unofficial business. During our investigation, we additionally found the individual intimidated a witness by threatening the employment of the witness immediately before the OIG interviewed the witness. Over \$4,000 was deducted from the individual's severance pay to cover the cost of his personal long-distance calls made from TVA telephones, personal calls using TVA cellular phones, and salary for days not taken as leave but used for personal business.

VEHICLE-RELATED MISCONDUCT

Investigation revealed an employee improperly used a TVA vehicle to haul his boat to a local lake. Another employee, while operating a TVA vehicle, was arrested for driving under the influence of alcohol. Both employees were suspended. The arrested employee additionally was denied TVA driving privileges for a minimum of one year.

ETHICS VIOLATIONS

An ongoing investigation of alleged federal employee ethics violations by a TVA manager at the Browns Ferry Nuclear Plant resulted in the revocation of the manager's nuclear security clearance and the manager's resignation from TVA for making false statements to TVA. Our investigation resulted in a savings of \$62,000 due to the early cancellation of a consulting contract which had been awarded by the former manager.

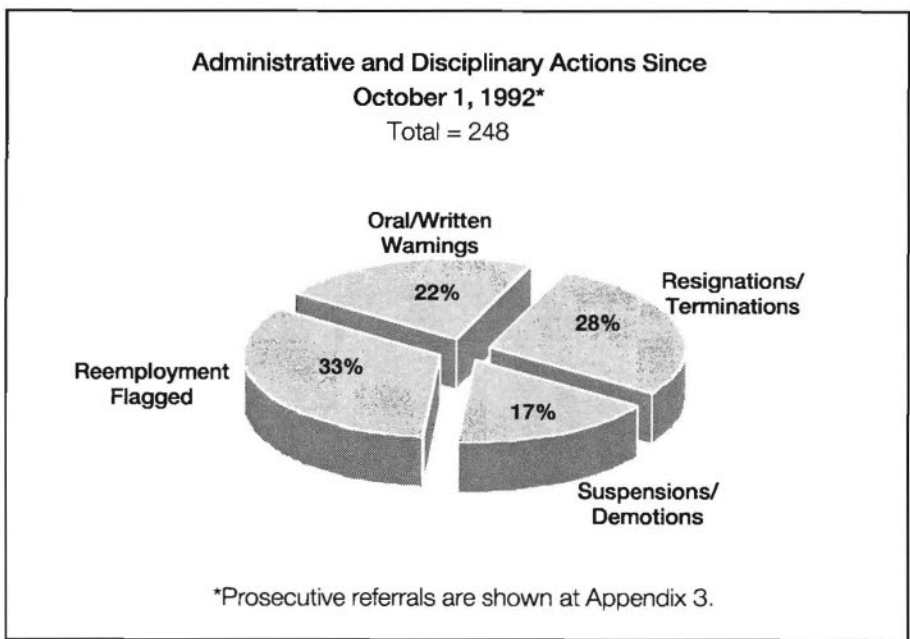
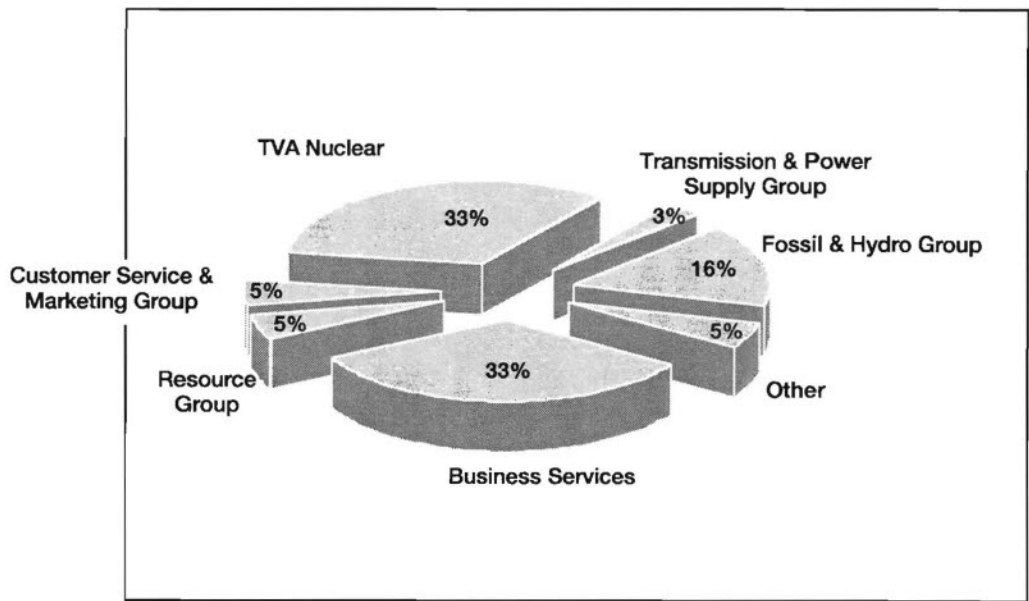
NUCLEAR-RELATED ISSUES

During this reporting period, we completed seven investigations involving nuclear-related issues, including three cases involving complaints filed with the U.S. Department of Labor under Section 211 of the Energy Reorganization Act. In each nuclear-related case we investigated, we found no misconduct. We investigated the Section 211 complaints at TVA management's request—to provide factual and independent information regarding potential employee misconduct related to hindering the expression of nuclear safety concerns.

BACKGROUND SUITABILITY INVESTIGATIONS

TVA continued to save money by using the OIG, rather than the U.S. Office of Personnel Management, to perform background investigations for certain positions. Background suitability investigations ensure employees being hired for sensitive positions meet applicable requirements.

The breakdown of the 74 closed investigations involving TVA organizations are shown below.



■ SPECIAL PROJECTS

In addition to conducting audits and investigations, our office continues to perform special projects upon request by our customers, primarily the Board of Directors, TVA executive management, and the Congress. During this reporting period, we conducted 13 such projects which identified over \$840,000 in potential savings.

CONSULTANT CONTRACTS

During this reporting period, TVA management took action to address the suggestions we made on TVA's consulting and training contracts. We previously had reviewed TVA's (1) sole-source personal and professional service contracts and (2) usage of consulting and training contracts. We also had audited seven consultants. We issued a special report which summarized the results of these reviews and identified potential vulnerabilities with sole-source contracts and problem areas in the administration of TVA's consulting and training contracts. Management promptly responded to our suggestions by taking the following broad actions to improve TVA's processes.

- Issued detailed guidance which requires all personal services contracts above \$25,000 to be competitively awarded, unless an exception such as an emergency applies.

- Committed to review every active sole-source contract listed by the OIG report under TVA's new and more stringent procurement policies to determine whether the contract should be terminated, reevaluated through a competitive process, or continued "as is" because it falls within one of the procurement policy's exception to competition.
- Ended TVA's current contracts for public relations counsel and issued an RFP in order to award one competitive contract in that area.
- Expanded the use of the Contracting Decision Model to determine whether to contract for consulting work or perform it in-house.
- Committed to increase the degree of scrutiny given to sole-source consultant contracts.
- Committed to increased preaward and post award reviews of consultant contracts.
- Centralized oversight of consultant contracts in TVA's procurement organization and committed to provide substantially more training to TVA's contract managers.

CONGRESSIONAL REQUEST

On August 12, 1997, Congressman Zach Wamp, Chairman of the TVA Caucus, asked us to review TVA's management practices in seven areas. On Decem-

ber 31, 1997, we issued seven reports in response to his request. The following lists the areas Congressman Wamp asked us to review and summarizes our findings.

- **Consultant Contracts** — We identified about 631 consulting or training contracts with about 350 different vendors. Payments under these contracts totaled about \$145.1 million with an average of about \$29 million per year for fiscal years 1992 through 1996. Our report discussed types of consulting and training contracts, organizational usage of contracts, and our previous reviews of consultant contracts.
- **TVA Advertisements** — Our report addressed the selection of an advertising agency, advertising strategies, and advertising costs. In summary, TVA evaluated 28 proposals before selecting Fitzgerald & Company as TVA's partner on communication strategies. TVA's primary advertising strategies are to (1) prepare for deregulation competition by increasing the public's awareness of and preference for TVA, (2) provide information on specific issues concerning TVA, and (3) promote TVA's energy right program. TVA has paid Fitzgerald almost \$26 million since 1994 to provide advertising. These

payments included fees for the agency's staff, design and production costs, media placement of advertisements, and market surveys. Market surveys show that other utilities also are advertising to prepare for deregulation. A comparison of 19 potentially competing utilities during the first half of 1997 indicated that TVA ranked sixth lowest in spending per customer.

- **Property Leases and Purchases** — Our report addressed active lease costs, lease and sublease revenue, terminated leases, and property acquisitions. As of September 25, 1997, TVA had 61 active lease agreements with an annualized cost to TVA of \$45.17 million. During the past ten years, TVA (1) received \$1.86 million in revenue from five leases and subleases of surplus office and lab space, (2) terminated 163 property leases with combined annualized costs of \$12.63 million, and (3) purchased 79 properties for about \$51.98 million.
- **Relocation of Personnel and Programs to Nashville** — During 1997, TVA relocated certain positions within TVA's newly created Customer Service and Marketing organization to Nashville. Our report addressed the basis for the relocation decision, the individuals/programs affected, the

cost, and the views of affected individuals. TVA believed the relocation would (1) improve the effectiveness of TVA's customer service, marketing, and economic development activities; and (2) raise TVA's profile in an important market. As of November 25, 1997, TVA had relocated 110 employees. The costs associated with the move included (1) \$1,080,946 for employee relocation, (2) \$2,384,280 to prepare leased office space, and (3) \$838,348 annually for the leased space. However, management stated the lease cost will be offset by termination of other leases no longer needed as a result of the move. Responses to our survey of 104 individuals who relocated to Nashville and 13 who chose not to relocate indicated the majority believed the relocation was not in TVA's overall best interest. Nonmanagement schedule employees who relocated and individuals who elected not to relocate were especially negative about the move.

- **Bonuses and Benefits for Top-Level Management** — We identified the compensation and benefits provided to TVA's higher-paid employees and compared the cash-related compensation of certain TVA positions to that of certain other utilities and federal/

state agencies. Since calendar year 1992, the number of higher-paid TVA employees has increased, while their average cash-related compensation has remained relatively constant. The average cash-related compensation of TVA's five highest paid employees was generally lower than the highest paid employees of other utilities. However, TVA's cash-related compensation for five selected positions was higher than similar positions in the other federal/state agencies. In addition to cash-related compensation, some TVA executives participate in a supplemental retirement plan designed to provide participants with a supplemental annuity upon retirement. According to TVA management, many private sector companies also provide a supplemental retirement plan for their executives as an inducement for continued employment. However, we are not aware of supplemental retirement benefits being provided to employees of other federal/state agencies.

Subsequent to our review, TVA management hired a consultant to review its executive compensation plan.

■ **Spending on Special Events, Including the TVA Barges** — We identified the types of special events, including barge events, types of guests, and their costs. We included special events which cost TVA at least \$10,000 and which involved non-TVA attendees, and we included all barge events. We identified 70 special events and 54 barge events that occurred during the past 3 fiscal years for a total cost to TVA of about \$4 million. Events were held for (1) customer appreciation, (2) conferences and workshops, (3) employee recognition, (4) community events, (5) receptions, (6) special groups, and (7) facility dedications. TVA believes special events are an effective means for enhancing communications with customers and economic development partners.

■ **Air Transportation, Including the Proposed Lease of a Corporate Jet** — Our review addressed types of air transportation used by TVA executives, comparative cost, and the proposed lease of a jet. TVA executives use (1) TVA's 1992 Beech Super King Air 350 turboprop airplane (King Air), (2) chartered flights, (3) commercial carriers, and (4) occasionally, TVA helicopters. Chartered flights have been more expensive than TVA King

Air flights or commercial flights.

However, TVA executives use the cheaper King Air almost four times as often as chartered flights, and they use commercial carriers almost three times as often as chartered flights. TVA management proposed the lease of a jet to expand the capabilities of TVA's fleet in view of increasing demands fostered by utility deregulation but decided not to do so.

The OIG relies on concerned employees and members of the general public to provide us with information regarding fraud, waste, and abuse in TVA's programs and operations. For this purpose, we established the TVA OIG Hotline in 1986. Our Hotline receives information 24 hours a day, 7 days a week, through our toll-free "800" telephone number (800-323-3835). The Hotline is operated by Investigative Services staff members during business hours, and callers can leave messages on a recorder after hours and on weekends. Concerned individuals can also access the Hotline through our home page at www.tva.gov/oig/.

The OIG Hotline receives a large volume of calls, which include not only complaints and concerns but also requests for general TVA information or expres-

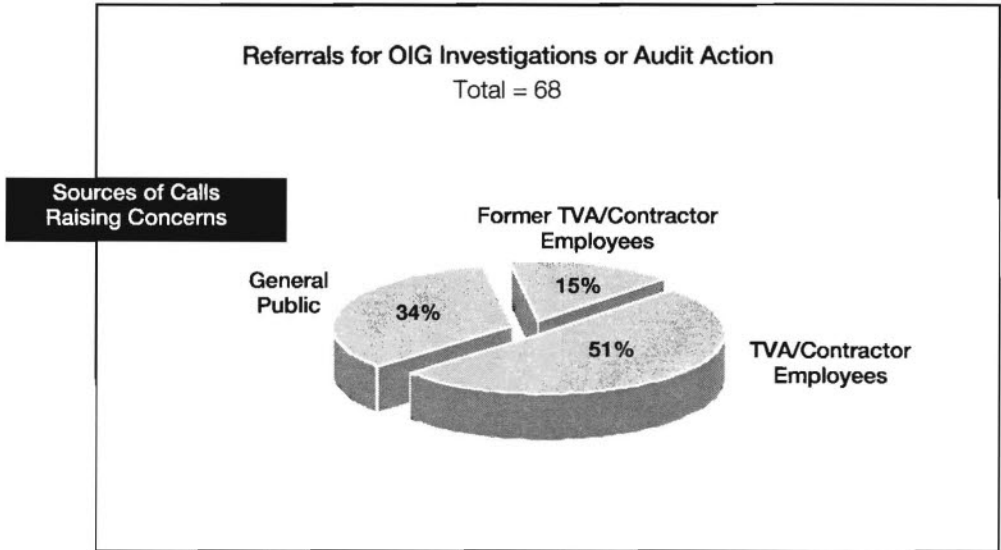
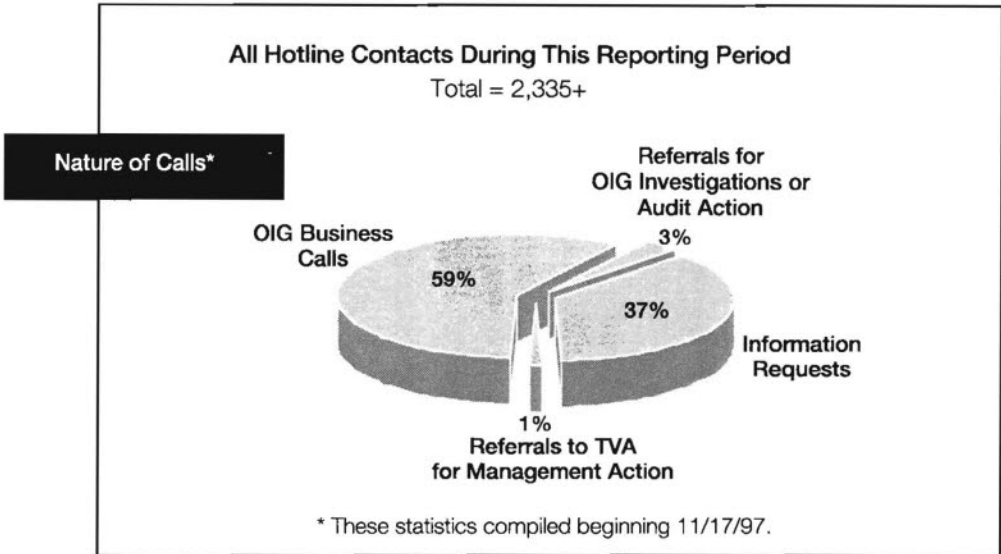
sions of operational concerns involving TVA. Our Hotline staff directs those callers to the appropriate TVA organization.

In addition to operating the Hotline, Investigative Services staff members provide administrative and analytical support to the OIG. Among these services are researching and abstracting documents in support of investigations, conducting pre-investigations of alleged violations, and tracking actions taken in response to OIG reports.

Callers may identify themselves or remain anonymous—we investigate both types of concerns. We do encourage callers to identify themselves, however, in case we need to contact them for additional information. We also can give confidentiality to Hotline callers.



Investigative Services and Hotline Staff
James Calloway, Jo Ann Hackler, and Cindy Stansberry



■ APPENDICES

**OIG AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING MARCH 31, 1998**

The following table summarizes final audit reports issued by the OIG from October 1, 1997 through March 31, 1998.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
10/1/97	97-039S	Porter-Walker, Inc.			
10/1/97	97-054S	Parsons Power/Gilbert Commonwealth			
10/1/97	97-055S	Preaward Audit			\$1,200,000
10/2/97	97-021S	Scott, Madden & Associates, Inc.	\$57,089		
10/2/97	97-041S	P&A Consultants, Corp.	5,353		
10/14/97	97-038S	Airweld, Incorporated			
10/17/97	97-067S	Borg-Warner Protective Services Corporation			666,000
11/7/97	98-001S	NPS Energy Services, Inc.			
12/4/97	97-064S	Operation Simulation Associates, Inc.			
12/31/97	98-007P	Economic Development Loans			
1/7/98	96-057C-02	G-UB-MK - Review of Craft Labor Costs	54,733		
1/8/98	98-010F	Greenhome & O'Mara, Inc.			89,000
1/8/98	98-011S	Vernon F. Meyer & Associates			53,492
1/8/98	98-012S	Southern Digital Services, Inc.			170,600
1/8/98	98-014S	ASI Technologies			179,000
1/15/98	97-052F	Chickasaw Glove and Supply, Inc.	48,820	\$6,919	
1/21/98	98-021S	Battelle TV-02803W			
2/3/98	97-068C	Stone & Webster Construction Company, Inc.			
2/13/98	98-015F	Comprehensive Services Program			

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
2/23/98	97-034P	Prescription Program Administered by Diversified Pharmaceutical Services, Inc.	\$409,817	\$8,963	
3/6/98	98-008P	TVA's Socially and Economically Disadvantaged Business Finance Program - Repayment Status of Loan Portfolio			
3/6/98	98-025S	DNL Risk Management Associates			
3/9/98	97-008C	Voith Hydro, Inc.			
3/9/98	97-008C-01	Voith Hydro, Inc.			
3/13/98	98-027S	Stone & Webster Engineering Corporation			\$700
3/26/98	97-023F	Tennessee Duck River Development Agency	585,244	65,854	
3/26/98	98-003F	Northeast Mississippi Contract Procurement Center, Inc.			
3/27/98	97-057F	Chattanooga Supply Company	29,476	3,924	
3/30/98	98-040F	System Reliability Performance Indicator			
3/31/98	98-002F	Controls in the IVR System That Protect Sensitive Information From Disclosure to Application Users			
Total	30		\$1,190,532	\$85,660	\$2,358,792

**OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE
SIX-MONTH PERIOD ENDING MARCH 31, 1998**

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	\$55,543	\$35,751
B. Which were issued during the reporting period	7	1,190,532	85,660
Subtotal (A + B)	11	\$1,246,075	\$121,411
C. For which a management decision was made during the reporting period	10	660,831	55,557
1. Dollar value of disallowed costs	9 *	636,050	55,557
2. Dollar value of costs not disallowed	4 *	24,781	0
D. For which no management decision has been made by the end of the reporting period	1	585,244	65,854
E. For which no management decision was made within six months of issuance	1	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.

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	3	\$4,737,549
B. Which were issued during the reporting period	7	2,358,792
Subtotal (A + B)	10	\$7,096,341
C. For which a management decision was made during the reporting period	4	703,749
1. Dollar value of disallowed costs	4*	695,807
2. Dollar value of costs not disallowed	1*	7,942
D. For which no management decision has been made by the end of the reporting period	6	6,392,592
E. For which no management decision was made within six months of issuance	1	4,700,500

* 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.

INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	11	2 Indicted 6 Convicted 7 Referrals Declined
Subjects referred to other agencies for investigative or administrative action	3	OWCP declared \$312,939 in overpayments on two individuals. OWCP terminated benefits for one individual, resulting in long- term savings of \$580,871.
TOTAL	14	



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

Craven Crowell
Chairman, Board of Directors

May 6, 1998

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 Inspectors General Act of 1978, as amended.

The members of the TVA Board appreciate the work of the Inspector General's office in helping TVA improve its efficiency, productivity, and competitiveness as we strive to meet our goals and position TVA to compete in the global marketplace of the 21st century.

Sincerely,

A handwritten signature in cursive script that reads "Craven Crowell".

Craven Crowell

Enclosure

TVA MANAGEMENT'S REPORT ON FINAL ACTIONS FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 1998

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 TO BY MANAGEMENT
A. For which final action by management had not been taken by the commencement of the period	10	\$6,269,508
B. On which management decisions were made during the reporting period	10	636,050
Subtotal (A + B)	20	\$6,905,558
C. For which final action was taken by management during the reporting period	10	3,901,956
1. Amounts that were recovered by management	8*	2,029,485
2. Amounts that were not recovered by management	6*	1,872,471
D. For which management has taken no final action by the end of the reporting period	10*	3,003,602

* The total number of reports differs from the sum of C.1 and C.2 when a final audit 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 TO BY MANAGEMENT
A. For which final action by management had not been taken by the commencement of the period	3	\$4,397,313
B. On which management decisions were made during the reporting period	4	695,807
Subtotal (A + B)	7	\$5,093,120
C. For which final action was taken by management during the reporting period	6	3,685,120
1. Dollar value of recommendations implemented by management	6*	695,807
2. Dollar value of recommendations not implemented by management	2*	2,989,313
D. For which management has taken no final action by the end of the reporting period	1*	1,408,000

* The total number of reports differs from the sum of C.1 and C.2 when the same reports contain both recommendations implemented and recommendations not implemented for a single audit report.

TABLE III
EXPLANATIONS FOR FINAL ACTIONS NOT TAKEN

AUDIT REPORT NUMBER	DATE ISSUED	DISALLOWED COSTS	FUNDS PUT TO BETTER USE	EXPLANATION FINAL ACTION NOT TAKEN
Review of Environmental Restricted Awards List Contracting Process 96-056P	1/3/97	N/A	N/A	TVA is coordinating with all organizations to improve the disposal of hazardous waste.
Westinghouse Electric Corporation - Contract 94NNX-112361 - Fixed Price Work 96-042C	3/7/97	\$14,121	N/A	TVA plans to incorporate final resolution of this report in conjunction with other ongoing audits with the contractor.

N/A - Not Applicable

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

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	*
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 5-22
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 5-22
Section 5(a)(3) — Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4) — Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 3
Sections 5(a)(5) — Summary of Instances Where Information and 6(b)(2) Was Refused	**
Section 5(a)(6) — Listing of Audit Reports	Appendix 1
Section 5(a)(7) — Summary of Particularly Significant Audits	Pages 8-11
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 11
Section 5(a)(11) — Significant Revised Management Decisions	***
Section 5(a)(12) — Significant Management Decisions With Which the Inspector General Disagreed	****

* There were no significant legislation or regulations reviewed during this reporting period.

** 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				
	MAR 31, 1998	SEPT 30, 1997	MAR 31, 1997	SEPT 30, 1996	MAR 31, 1996
ANNUAL BUDGET (In Millions of Dollars)	7.3	7.3	7.3	7.3	7.3
CURRENT STAFFING	81	83	86	94	95
AUDITS & SPECIAL PROJECTS					
AUDITS IN PROGRESS					
Carried Forward	40	34	41	42	29
Started	50	46	29	50	41
Canceled	(14)	(10)	(14)	(6)	(4)
Completed	(30)	(30)	(22)	(45)	(24)
In Progress at End of Reporting Period	46	40	34	41	42
AUDIT RESULTS (Thousands)					
Questioned Costs	\$1,191	\$552	\$602	\$2,555	\$2,600
Disallowed by TVA	636	530	542	2,756	408
Recovered by TVA	2,029	434	434	1,167	460**
Funds to Be Put to Better Use	\$2,359	\$10,585	\$1,671	\$28,276	\$10,909
Agreed to by TVA	696	5,707	5,262	31,576	3,899
Realized by TVA	696	1,078	4,494	22,950	3,859
SPECIAL PROJECT RESULTS					
Completed	13	24	15	19	7
Cost Savings Identified/ Realized (Thousands)	\$843	\$5,700	\$38,200	\$3,000	\$5,300
INVESTIGATIONS					
INVESTIGATION CASELOAD					
Carried Forward	139*	157*	157*	153*	138*
Opened	78	56	96	110	133
Closed	74	77	93	105	117
In Progress at End of Reporting Period	144	139	160	158	154
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$946	\$481	\$2,439	\$2,364	\$1,020
Savings	645	9	2,377	3,374	4,611
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	24	12	21	24	32
Actions Taken (# of Subjects)	12	14	15	17	35
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred	11	15	22	17	13
Indicted	2	7	1	1	7
Convicted	6	3	8	12	12

* Adjusted from previous semiannual reports.

** Excludes excess recovery of \$211.

OFFICE OF THE INSPECTOR GENERAL OF THE TENNESSEE VALLEY AUTHORITY
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KNOXVILLE, TENNESSEE 37902-1499