

TENNESSEE VALLEY AUTHORITY

**OFFICE OF THE
INSPECTOR GENERAL**



**SEMIANNUAL REPORT
NUMBER 7**

APRIL 1, 1989 - SEPTEMBER 30, 1989

TENNESSEE VALLEY AUTHORITY

OFFICE OF THE INSPECTOR GENERAL

Semiannual Report

April 1, 1989 - September 30, 1989

Report No. 7



INSPECTOR GENERAL

TENNESSEE VALLEY AUTHORITY

400 West Summit Hill Drive, ET 4A 14 H-K
Knoxville, Tennessee 37902

October 31, 1989

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

This is our seventh semiannual report to Congress. It summarizes our major activities and accomplishments from April 1, 1989 to September 30, 1989.

During this reporting period, we issued 31 final audit reports, 131 investigative reports, and 6 project reports to TVA management. These investigations and audits have demonstrated their cost-savings potential. For example, one investigative project--involving over 650 interviews--has resulted in TVA management's withholding over \$4.3 million from TVA contractors. Other investigations involving workers' compensation benefits may have saved TVA more than \$2.5 million over the long term in avoided disability benefits costs.

Our auditors are also working to save TVA money. Their reports have identified almost \$4 million in questioned costs and about \$27 million in funds that could be put to better use. For example, we conducted five preaward audits which questioned \$2.5 million of the contractors' proposed costs. We also completed two audits in support of litigation with TVA contractors which questioned over \$3 million of the \$5 million in claimed damages. TVA subsequently settled these lawsuits out of court and agreed to pay only \$260,000 of the \$5 million claimed.

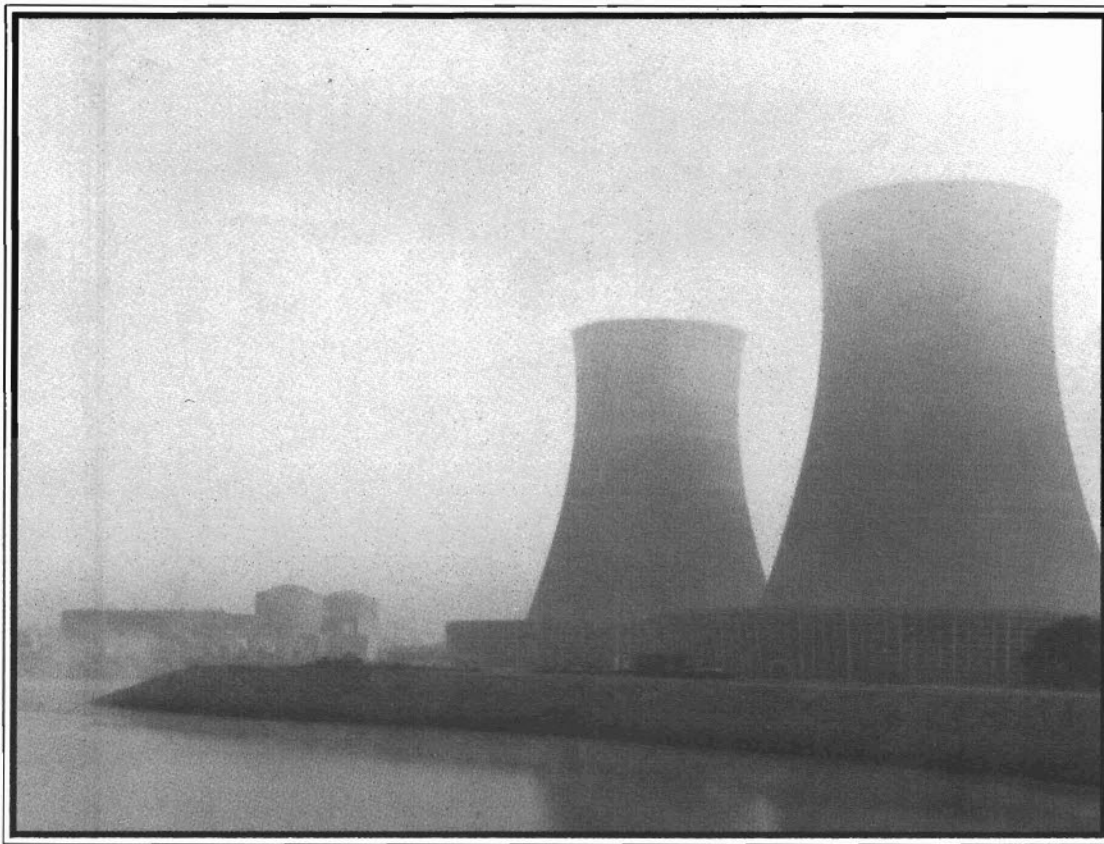
In pursuit of our goal to improve TVA, we have also identified instances of questionable conduct and needed improvements. However, the shortcomings identified in this report should not be viewed as characteristic of TVA. To the contrary, a significant number of our conclusions are favorable to TVA management and employees. For example, during this reporting period, approximately two-thirds of the allegations we investigated were not substantiated.

The support of TVA managers and employees makes possible many of the results documented in this report, and we are pleased to report this support is strong and continuing to increase. We draw strength and encouragement from this support and will continue to work to justify this trust.

Sincerely,

Norman A. Zigrossi
Inspector General

CONTENTS



1	EXECUTIVE SUMMARY
3	TVA PROFILE
5	OFFICE OF THE INSPECTOR GENERAL
7	CHAPTER I - AUDITS
8	Audit Statistics
9	Audit Resolution and Follow-up
11	SPECIAL FEATURE--Preaward Audits Question \$2.5 Million in Proposed Costs
14	Summary of Significant Audits
18	Audit Updates

19 **CHAPTER II - INVESTIGATIONS**

- 20 Investigative Caseload
20 Sources of Allegations
21 Classification of Investigations
22 Allegations in OIG Cases
23 Administrative and Disciplinary Actions
25 Investigative Referrals
26 Prosecutive Activities
28 SPECIAL FEATURE--OIG Investigations Question
 \$4.3 Million in Per Diem Payments to Contractor
 Employees
33 Other Representative Investigations

39 **CHAPTER III - OIG PROJECTS**

47 **CHAPTER IV - LEGISLATION AND REGULATIONS**

51 **CHAPTER V - OTHER OIG ACTIVITIES**

- 51 OIG Training Activities
57 The OIG's Use of Subpoenas
59 The OIG Hotline

APPENDICES

- 63 1. Inspector General Audit Reports Issued for the Six-
 Month Period Ending September 30, 1989
66 2. Glossary of Audit Terms
67 3. Report on Management Decisions for the Six-
 Month Period Ending September 30, 1989
69 4. TVA Management's Report on Final Actions for the
 Six-Month Period Ending September 30, 1989

EXECUTIVE SUMMARY

This is the Office of the Inspector General's seventh semiannual report and our first as a statutory office. This report summarizes our major activities and accomplishments from April 1, 1989 to September 30, 1989. Our activities and accomplishments are highlighted below.

AUDITS

Our audits identified almost \$4 million in questioned costs and about \$27 million in funds that TVA could put to better use. We issued 31 audit reports which included recommendations for, among other things, reductions of proposed costs for contract extensions, cost-saving measures for managing TVA's payroll, and changes that would increase TVA's efficiency and effectiveness. Some of our significant audit activities are described below.

- We conducted five preaward audits which questioned \$2.5 million of the contractors' \$27 million in proposed costs for contract extensions.
- We completed two audits in support of litigation with TVA contractors. We questioned over \$3 million of the \$5 million in claimed damages. TVA settled the lawsuits out of court and agreed to pay only \$260,000 of the \$5 million claimed.
- Our audit of certain aspects of TVA's payroll costs identified several opportunities for savings, including potential annual savings of \$6.2 million for ratepayers and \$8.7 million for TVA employees, if TVA paid all of its employees' health insurance costs and contributions to the retirement system and reduced employees' salaries by a like amount.

INVESTIGATIONS

Our investigative activities emphasized fraud and questionable claims, including possible contractor fraud and continued investigations of fraudulent workers' compensation claims. We opened 358 new cases and closed 282 cases, resulting in a caseload of 401 open cases as of September 30, 1989. Some of our investigative activities are highlighted below.

- We issued 131 investigative reports to TVA management.
- We issued 16 reports in which we questioned more than \$4.3 million in connection with our review of per diem payments and related travel costs under various TVA nuclear contracts. Based on information developed during more than 650 contractor employee interviews, we determined that over 290 individuals received \$4,313,239 in payments to which they were not entitled.
- We recommended management consider taking administrative or disciplinary action in 58 of the 282 cases we closed. Based on these and prior recommendations, management terminated seven employees, suspended three others, and issued written warnings to ten employees. Five other employees resigned during, or as a result of, our investigations.
- We referred 83 matters to federal or state prosecutors and other government officials, including 55 cases to United States Attorneys. These and prior referrals resulted in ten convictions during this reporting period.
- Our hotline received 194 calls--122 from TVA employees, 33 from former employees, and 39 from the general public.

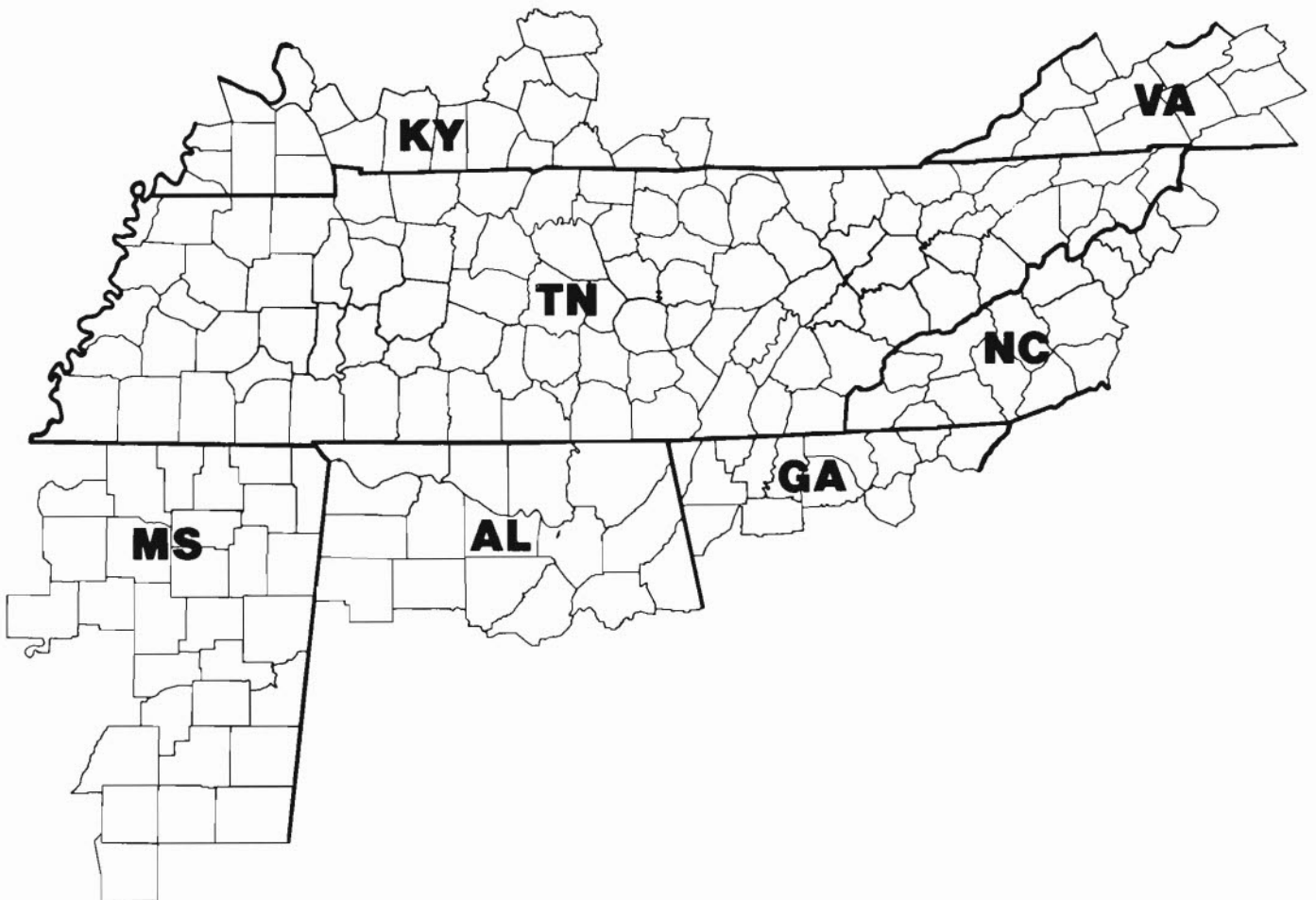
TVA PROFILE

TVA is an independent corporate agency of the federal government. Congress established TVA in 1933 and charged it with developing and conserving the natural resources of the Tennessee Valley--a seven-state, 80,000 square-mile service area.

To achieve its broad mission, TVA is involved in producing and distributing electric power and in agricultural, economic, and natural resource development. Revenues from power sales fund the power system, and TVA's remaining programs are funded by congressional appropriations and other revenues. Corporate responsibility is vested in a three-member Board of Directors who are appointed by the President and confirmed by the Senate. Directors are appointed for nine-year terms, and the President designates one director as Chairman. TVA's three directors are Charles H. Dean, Jr., John B. Waters, and Marvin T. Runyon (who became TVA's Board Chairman during February 1988).

TVA currently has approximately 25,600 employees.

TENNESSEE VALLEY REGION



OFFICE OF THE INSPECTOR GENERAL

OFFICE AUTHORITY

The TVA Board of Directors administratively established the OIG during October 1985 to address employee concerns, increase public trust, and promote TVA's cost-effective operation. As provided in the Board resolution that created the OIG, the OIG's duties and authority were virtually the same as those of Inspectors General established under the Inspector General Act of 1978. During our initial years of operation, the OIG operated much like its statutory counterparts and exercised subpoena powers that were granted by a provision in TVA's annual appropriations bill. 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. Under these amendments, the OIG's duties and authorities were, by force of law, virtually the same as offices with a presidentially appointed Inspector General.

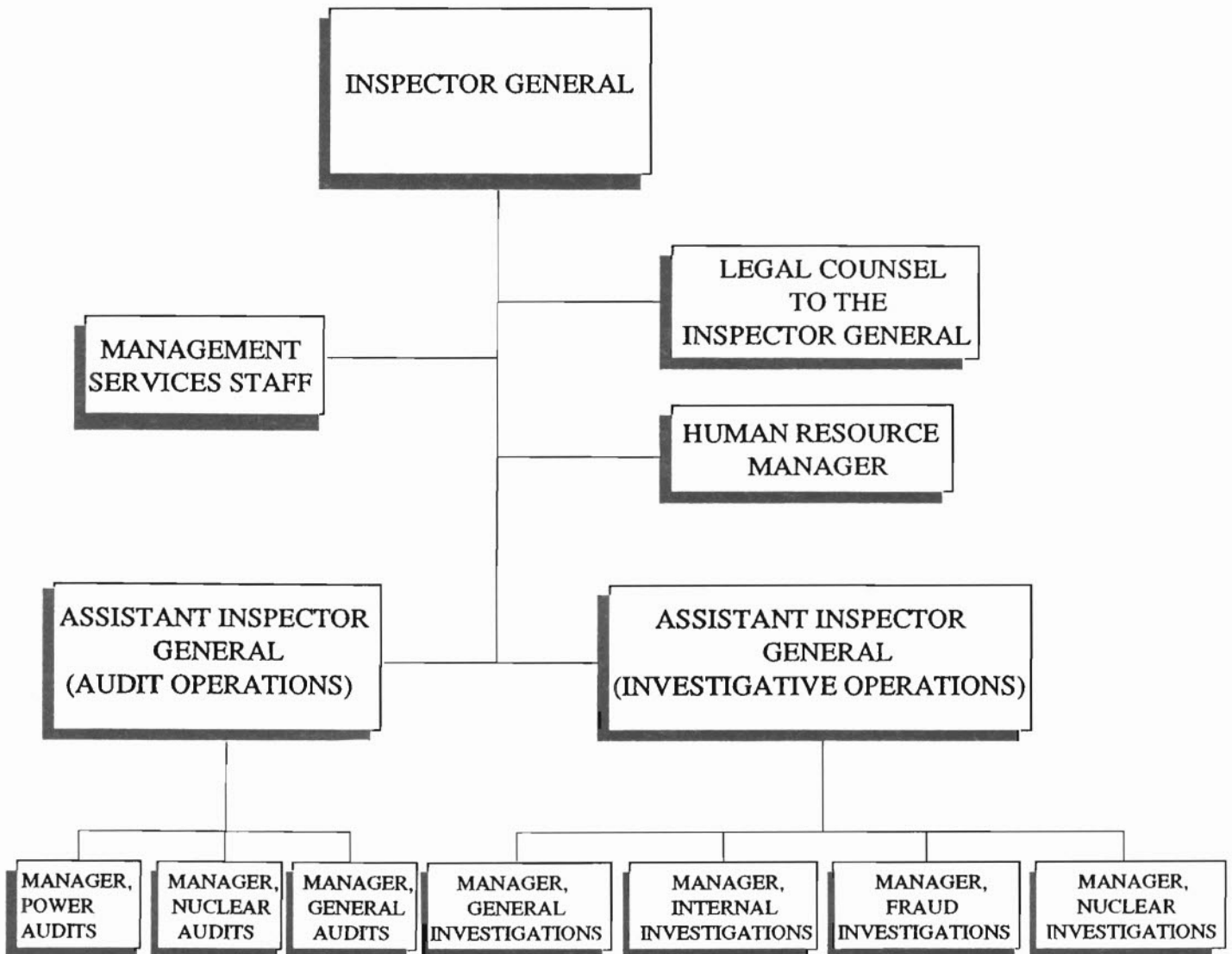
TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors. The Inspector General reports matters to Congress through semiannual reports and interim reports.

STAFFING AND BUDGET

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee. The OIG functions through two operational units--Audits and Investigations. Each unit is headed by an Assistant Inspector General. Additionally, the OIG has a Legal Counsel who provides legal advice in connection with matters of particular significance to the OIG.

The OIG's approved fiscal year 1989 budget was approximately \$10.5 million. Its fiscal year 1990 budget is approximately \$10 million and includes 155 budgeted positions.

OFFICE OF THE INSPECTOR GENERAL



AUDITS



BROWNS FERRY NUCLEAR PLANT

During this reporting period, our auditors issued 31 audit reports identifying almost \$4 million in questioned costs and about \$27 million in funds that could be put to better use (see Appendix 1 for listings). We recommended, among other things, reductions of proposed costs for extensions of Nuclear Power contracts, cost-saving measures for managing TVA's payroll, and changes in procedures to increase TVA's efficiency and effectiveness. A description of our audit activities follows.

AUDIT STATISTICS

Status of Audit Projects

Carried Forward 4/1/89	48	
Started	42	
Less: Postponed or Cancelled	<u>(4)</u>	
Total Active Projects	86	
Less: Completed	<u>(31)</u>	
Total Projects in Progress 9/30/89		<u>55</u>

Audit Results

Specific terms used to describe our audit results are defined in Appendix 2 of this report.

Audit Reports Issued: 31

Questioned Costs:

Unsupported Costs	\$3,666,163	
Other Questioned Costs	<u>308,344</u>	
Total Questioned Costs:		\$ 3,974,507
Funds to Be Put to Better Use:		<u>26,916,883</u>
TOTAL		<u>\$30,891,390</u>

AUDIT RESOLUTION AND FOLLOW-UP

OIG audits have resulted in over 500 recommendations to TVA management since 1986. Management's responses to our recommendations and the status of those recommendations are described below.

Status of Recommendations	Number of Recommendations	Questioned Costs (Dollars)	Funds to Be Put to Better Use (Dollars)	Total Dollars
Total Recommendations:				
Final Action Taken (Note)	425	\$53,280,486	\$ 98,580,201	\$151,860,687
Final Actions Not Taken*	115	6,620,615	51,531,039	58,151,654
Total Recommendations:	<u>540</u>	<u>\$59,901,101</u>	<u>\$150,111,240</u>	<u>\$210,012,341</u>
*Final Actions Not Taken:				
Management Decision Made	71	\$ 6,508,089	\$ 27,010,281	\$ 33,518,370
Management Decision Not Made	44	112,526	24,520,758	24,633,284
Final Actions Not Taken:	<u>115</u>	<u>\$ 6,620,615</u>	<u>\$ 51,531,039</u>	<u>\$ 58,151,654</u>
<p>Note: Amounts in this schedule are those contained in final audit reports. Final actions which TVA management took resulted in additional net savings or benefits exceeding \$31 million. Therefore, total net savings or benefits resulting from TVA management's final actions exceed \$183 million (\$152 million plus \$31 million).</p>				

Appendix 3 contains the status of management decisions for final audit reports issued with recommendations for dollar savings or benefits. Management has made decisions on all audit reports which were issued over six months ago. We have not disagreed with any significant final management decision which was made during this period.

We are pleased to report that final actions are complete for all management decisions made over a year ago. Appendix 4 contains TVA management's report on the status of final actions for audit reports with management decisions.

PREAWARD AUDITS QUESTION \$2.5 MILLION IN PROPOSED COSTS



*PICTURED ABOVE ARE REPRESENTATIVES OF PREAWARD AUDIT TEAMS
FROM THE THREE DEPARTMENTS IN AUDIT OPERATIONS*

We are assisting Nuclear Power contract administrators in evaluating proposals under which contractors would provide services at TVA's nuclear plants. By performing preaward audits, we develop valuable information that Nuclear Power management may use during the formative stages of the contracting process. In our view, the preaward audit process is an effective way the OIG can work in tandem with TVA management to prevent unnecessary or questionable expenditures before they occur. It is also an effective use of our audit resources since, in the typical case, a preaward audit can be completed more rapidly and with less manpower than an audit after the contract has been completed. More specifically, our preaward audits help TVA management in the following ways.

-
- We give the contract administrator an inside objective look at the contractor's cost estimates for supplying the proposed services. This information helps the contract administrator reach a more informed decision about the contractor's proposal and its pricing data, including whether the various elements of the pricing data should be accepted or rejected.
 - Our preaward audits help identify ambiguous or incomplete contract provisions which could cause misunderstandings or inconsistent interpretations between the contractors and contract administrators.

During this reporting period, we performed five preaward audits of proposed extensions of Nuclear Power contracts. Our preaward audits focused, among other things, on detecting unsupported or inappropriate cost estimates that the contractors may have used to formulate the hourly labor rates they would charge TVA. (Any overstatement of these hourly labor rates could increase the contractor's profits and unnecessarily increase TVA's costs.)

As a result of our five preaward audits, we questioned \$2.5 million of the contractors' \$27 million in estimated costs that were associated with the proposed contract extensions. These questioned costs included, among other things, overstated base labor costs, overstated subcontractor costs, inconsistent treatment of direct and indirect labor, and inconsistently calculated and applied indirect expense rates.

Nuclear Power used the information we provided in negotiating three contract extensions but decided not to extend the other two contracts. Nuclear Power attributed its decision not to extend one of the contracts to our audit results. The work that was to be performed under the other contract will be combined with other similar work under a new contract. We anticipate conducting a preaward audit in connection with that new contract.

These first five preaward audits conducted by the OIG have demonstrated the value of this approach at TVA. Moreover, our initial preaward audit activities have already produced positive results for TVA and benefitted the ratepayers by lowering TVA's cost of doing business.



"We expect to continue and expand our preaward audit program, particularly for Nuclear Power contracts for services."

**William L. Perry, Jr.
Manager, General Audits**

SUMMARY OF SIGNIFICANT AUDITS

THE OIG CONTINUES ITS LITIGATION SUPPORT

We completed two litigation support audits which were in progress during the last reporting period. Both lawsuits involved contractors that provided services to TVA fossil plants. The claimed damages totalled \$5 million. We questioned over \$3 million of the two claims. TVA ultimately reached an out-of-court settlement totalling \$260,000.

IMPROVEMENTS NEEDED IN TVA'S COAL QUALITY EVALUATION

TVA purchases over \$1 billion of coal annually to fuel its fossil plants. TVA samples the coal to ensure it meets quality standards which are specified in the contracts. Payments to contractors are increased when quality standards are exceeded and are reduced when quality standards are not met. Our audit revealed TVA could improve its process for determining and reporting coal quality by:

- Revising existing procedures to reflect current policy.
- Establishing new procedures in certain critical areas.
- Complying with existing procedures.

We recommended these actions to help ensure that TVA is receiving the quality of coal specified in its contracts and to ensure that TVA's payments for coal are adjusted to reflect quality variances. In addition, some of our recommendations were designed to reduce the risk of fraud or abuse associated with the receipt, sampling, and payment for coal TVA receives at its 11 major fossil plants. TVA management has agreed with our recommendations and is in the process of implementing them.

PAYROLL CASH MANAGEMENT COULD SAVE TVA MILLIONS

We reviewed certain aspects of TVA's payroll costs to identify measures that would save money for both TVA employees and the ratepayers. A description of the potential annual savings we identified follows.

-
- TVA employees and ratepayers would save about \$8.7 and \$6.2 million, respectively, if TVA paid the employees' share of health insurance costs and contributions to the retirement system and reduced employees' salaries by a like amount.
 - Ratepayers would save about \$3.3 million if TVA changed its basis for computing hourly rates of pay from a 2,080 hour work year to a 2,087 hour work year. Such a change would more closely reflect actual hours worked in a year. This action, however, would reduce employee net pay by about \$2.1 million. Other federal organizations have already implemented a similar recommendation that was originally made by the United States General Accounting Office (GAO).
 - Ratepayers would save up to \$1.9 million if TVA paid its employees (1) every four weeks rather than biweekly or (2) eight days after the end of a pay period rather than just one day after the pay period ended.

Recently, TVA implemented a plan which allows employees to pay for their share of health insurance costs with pretax dollars. TVA estimates this plan will annually save employees about \$2.7 million and ratepayers about \$700,000. This change, in effect, partially implemented our recommendations.

We reviewed a contract with a company which provided accident investigation training to Nuclear Power employees. We found TVA could have saved about \$146,000 if similar training had been performed in-house and had been limited to employees whose positions required the training. We also estimated TVA could avoid about \$576,000 in future costs associated with this training.

**ACCIDENT
INVESTIGATION
TRAINING CAN
BE REDUCED**

IMPROVEMENTS NEEDED IN PERSONAL SERVICES CONTRACTS	Our review of TVA's personal services contracting process--a process which generated \$590 million in outstanding contracts as of September 30, 1988--disclosed a need for more comprehensive policies and procedures which would provide guidance to contracting officers and create more uniformity among TVA organizations on contracting matters. Such changes in the contracting process could provide significant benefits to TVA. Management has agreed with and is implementing our recommendations.
---	--

HARTSVILLE NEEDS UP-TO-DATE INVENTORY RECORDS	TVA is using the cancelled Hartsville nuclear project site in middle Tennessee for the auxiliary storage of materials needed by other TVA Power and Nuclear Power plants. At the time of our audit, there were inadequate inventory records for over 4,000 items--with an estimated value of \$28 million--which had been sent to Hartsville from the Browns Ferry Nuclear Plant.
--	---

During the audit, we identified the need for a physical inventory to identify the various types of materials in storage and update inventory records. As we recommended, Nuclear Power conducted such an inventory and is considering a new inventory system to improve the management of materials stored at Hartsville as well as at other nuclear sites.

TVA HAS COSTLY VACANT SPACE	TVA is actively trying to dispose of vacant office and other space that is no longer needed due to reorganizations and reductions in TVA's work force. However, at the end of July 1989, TVA had approximately 530,000 square feet of vacant space under lease at a cost of almost \$7.9 million annually.
--	--

TVA is continuing its efforts to sublease as much of the vacant space as possible and to seek relief from the provisions of other leases. While encouraging these ongoing efforts to reduce TVA's cost of doing business, we recommended that future leases provide TVA increased flexibility to minimize costs when unanticipated changes occur in TVA's space needs.

TVA conducted a major reduction in force (RIF) during fiscal year 1988 as part of its overall efforts to operate more competitively and hold power rates constant for three years.

**RIFS--CHANGES
NEEDED IN TVA
POLICIES**

As an incentive, TVA offered increased severance benefits to departing employees and, between April and October 1988, over 5,800 employees left TVA. These departures reduced the amount TVA had budgeted for salaries and benefits for fiscal year 1989 by over \$138 million.

Our review of the application of TVA's RIF policies during 1988 indicated some changes were needed. For example, 45 RIF'd employees received double severance pay totalling over \$460,000 and were soon reemployed by TVA. Other RIF'd employees were temporarily appointed to TVA jobs for unspecified periods of time and continued to work for TVA nearly a year after the effective date of their RIFs.

On the basis of our recommendations, TVA's Vice President of Human Resources issued a memorandum during March 1989 stating that no individual who leaves TVA by volunteering for a RIF will be eligible for reemployment for three years from the date of his or her termination. Human Resources is presently studying our recommendation to place certain restrictions on the temporary appointments of individuals RIF'd from annual salaried positions.

Also, we noted that duplicate accounting entries resulted in a \$2 million overstatement in the total amount of severance pay TVA expensed during fiscal year 1988. TVA's Chief Financial Officer corrected these duplicate entries which resulted from a miscommunication of instructions to accounting personnel.

AUDIT UPDATES

The following significant actions occurred during this semiannual reporting period in response to audit reports we previously issued.

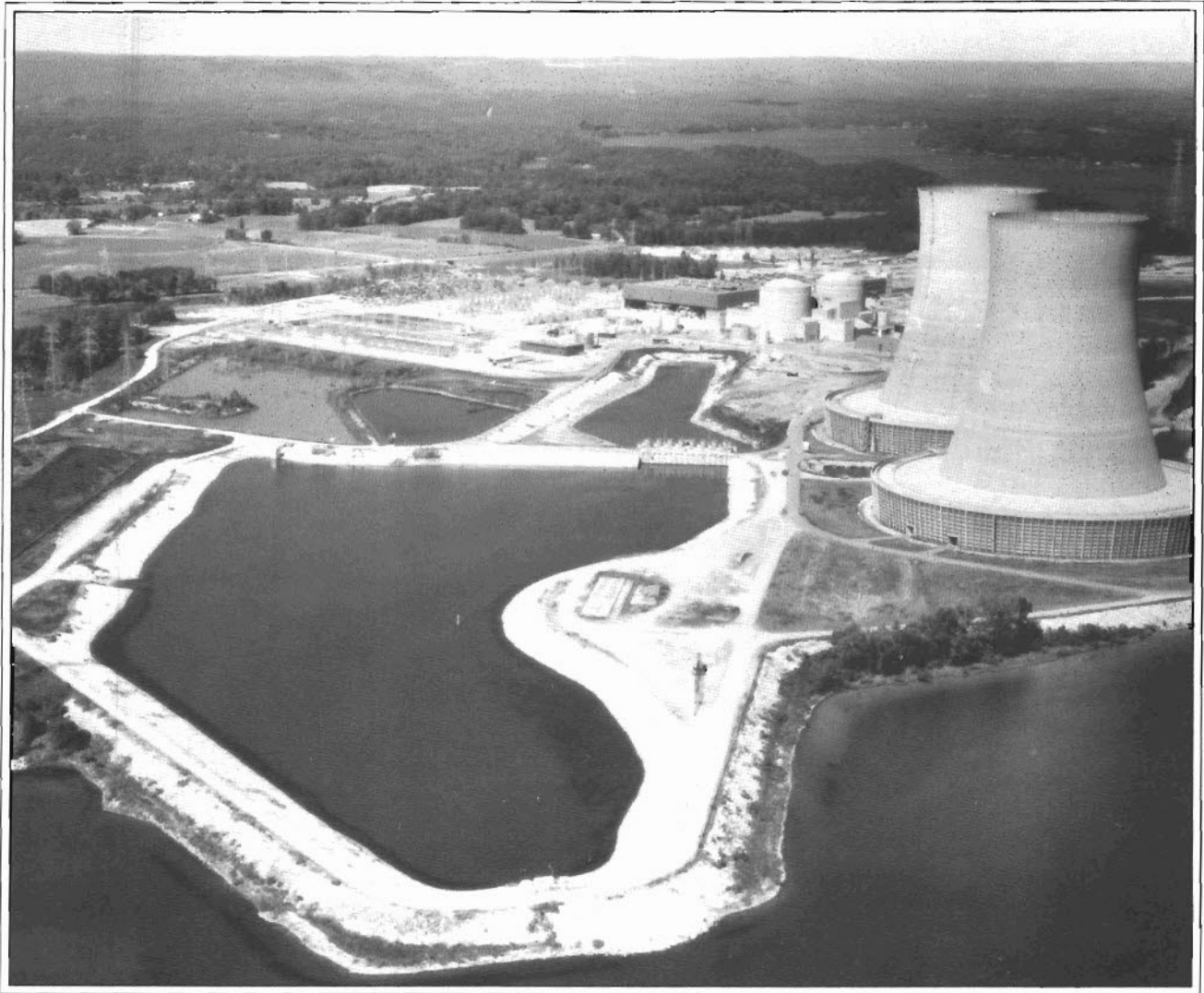
**CONTRACTOR
AGREES TO PAY
TVA OVER
\$2.5 MILLION**

Our previous audit of two TVA contracts with a company to provide engineering and related support services at a TVA nuclear plant resulted in questioned costs of over \$4.4 million. On September 27, 1989, the TVA Board of Directors approved a negotiated settlement which totalled \$2,575,000 to resolve the costs we questioned and other outstanding issues between TVA and the company. Under this settlement, TVA receives \$800,000 in cash and \$1,775,000 in discounts on future services the company would perform for TVA.

**STATE AGENCY
AGREES TO
CONTRACT
REDUCTION**

In our last semiannual report, we questioned \$1.2 of \$1.7 million TVA paid to a state agency for offsite Radiological Emergency Plans involving TVA's nuclear plants. Since we issued that report, TVA and the state agency have renegotiated their contract. The new contract will cost TVA about \$300,000 less than the previous contract, even though the scope of work the state agency will perform has increased.

INVESTIGATIONS



SEQUOYAH NUCLEAR PLANT

During this reporting period, special agents completed over 280 investigations, made 55 referrals to U.S. Attorneys for prosecution, and obtained 10 convictions. We also issued 131 formal investigative reports to TVA management.

A description of our overall investigative activities follows.

INVESTIGATIVE CASELOAD

Investigations Carried Forward as of March 31, 1989	325
Investigations Opened this Reporting Period	358
Investigations Closed this Reporting Period	282
Total Investigations in Progress as of September 30, 1989	401

SOURCES OF ALLEGATIONS

<u>Source of Allegation*</u>	<u>Number of Cases</u>
OIG Hotline	63
Concerns Mailed In	25
Referrals From Other TVA Offices	36
Audit Referrals	5
TVA's Employee Concern Program	6
Congressional Inquiries	7
TVA Board	1
OIG Employee Applicants	7
OIG Special Agents Developed	167
Other	<u>44</u>
TOTAL	361

* Some allegations were from more than one source.

CLASSIFICATION OF INVESTIGATIONS

Classification of Cases		Number of Investigations			
		Carried Forward 3/31/89	Opened	Closed	In Progress 9/30/89
1.	Employee Misconduct	13	19	17	15
2.	Employee Concern				
	Program Matters	42	46	39	49
3.	Misuse or Abuse of				
	Government Property	8	12	13	7
4.	Vehicle Operations	5	15	15	5
5.	Substance Abuse	6	1	4	3
6.	Personnel Matters	25	28	38	15
7.	Terrorism and Sabotage	0	1	0	1
8.	Discrimination and Harassment	4	6	8	2
9.	Safety	0	0	0	0
10.	Trades and Labor	0	2	0	2
11.	Theft	13	28	22	19
12.	Falsification of Records	41	31	31	41
13.	Contract-Related Misconduct	44	23	25	42
14.	Fraud and Waste	101	125	48	178
15.	General Criminal Activities	1	3	2	2
16.	Employment Suitability	6	7	11	2
17.	Public Concerns	0	2	1	1
18.	Board Concerns	1	0	1	0
19.	Archaeological Resources Protection	0	0	0	0
20.	Special Projects	12	9	6	15
21.	OIG Personnel Matters	2	0	0	2
22.	Other	1	0	1	0
TOTAL		325	358	282	401

ALLEGATIONS IN OIG CASES

Many of the 282 cases we completed this reporting period contained multiple allegations. More specifically, these 282 cases contained 451 separate allegations. Of these allegations, 295 (almost two-thirds) were not substantiated, 122 were substantiated, and 34 were not resolved. The following chart describes these allegations.

Classification of <u>Allegation</u>	<u>Total Number</u>	<u>Number Substantiated</u>	<u>Number Not Substantiated</u>
1. Employee Misconduct	41	8	33
2. Employee Concern Program Matters	50	14	30
3. Misuse or Abuse of Government Property	22	7	13
4. Vehicle Operations	15	4	2
5. Substance Abuse	9	2	7
6. Personnel Matters	75	1	69
7. Terrorism and Sabotage	0	0	0
8. Discrimination and Harassment	15	0	15
9. Safety	0	0	0
10. Trades and Labor	1	0	1
11. Theft	48	18	30
12. Falsification of Records	63	40	22
13. Contract-Related Misconduct	38	12	26
14. Fraud and Waste	56	15	41
15. General Criminal Activities	2	1	1
16. Employment Suitability	11	N/A	N/A
17. Public Concerns	1	0	1
18. Board Concerns	1	0	1
19. Archaeological Resources Protection	0	0	0
20. Special Projects	3	0	3
21. OIG Personnel Matters	0	0	0
22. Other	0	0	0
TOTAL	451	122*	295*

* Thirty-four allegations were not resolved and were not reportable as substantiated or unsubstantiated.

ADMINISTRATIVE AND DISCIPLINARY ACTIONS

We recommended TVA management consider taking administrative or disciplinary action in 58 of the 282 cases we closed during this six-month reporting period.

Administrative and Disciplinary Actions Management Took.

During this reporting period, TVA managers took the following administrative and disciplinary actions.

Terminations	7
Suspensions	3
Written Warnings	10
Oral Warnings	5
Reemployment Flagged	12
Resignations	<u>5</u>
TOTAL	42

These figures also contain disciplinary actions which were taken this reporting period but were based on reports we issued during previous reporting periods.

Examples of Actions Management Took. Described below are examples of disciplinary actions TVA management took in response to our investigative findings.

- A clerk was terminated for stealing TVA office supplies from a TVA office. The clerk rented a commercial storage unit where she stored TVA supplies which were subsequently identified by a TVA manager.

TERMINATIONS

-
- Two custodians were terminated for stealing materials from the TVA Livewell Center supply room. The custodians initially denied any wrongdoing until they saw a Public Safety Service surveillance film that showed them stealing TVA property.
 - A Nuclear Security Officer was terminated for his involvement in gambling activities (and his work record) at one of TVA's nuclear plants.

SUSPENSIONS

- A Public Safety Officer received a three-day suspension for misusing (for personal reasons) her official government credentials, posing as a deputy sheriff, and trying to get local police officers to investigate her former boyfriend.

WRITTEN WARNINGS

- As alleged, a Power engineering aide wrecked a TVA vehicle and was subsequently charged with driving while intoxicated and without a license. TVA gave him a written warning. In addition, we found the aide had a substance abuse problem for which he completed a 28-day rehabilitation program and continues to seek professional help.

INVESTIGATIVE REFERRALS

We referred 83 matters to federal or state prosecutors and to other officials during this reporting period. These referrals are described below.

<u>Investigative Referrals</u>	<u>Subjects</u>	<u>Results This Period*</u>
Subjects referred to U.S. Attorneys	55	8 Convictions
Subjects referred to State prosecutors	0*	2 Convictions
Cases referred to and accepted by the Federal Bureau of Investigation (FBI) for investigation	2	
Cases referred to the OIG's Audit Operations	1	
Cases referred to other agencies for administrative action (e.g., questionable workers' compensation benefits we investigated)	<u>25</u>	OWCP declared \$258,665 in overpayments and may have saved TVA more than \$2.5 million in long-term potential savings.
TOTAL	83	

* Some results are from referrals that were made during prior reporting periods.

PROSECUTIVE ACTIVITIES

During this reporting period, we referred 55 cases to U.S. Attorneys for possible prosecution. The results of those referrals are described below.*

Total Number of Subjects in Cases We Referred	55
Subjects Accepted	11
Subjects Declined	54
Convictions	8
Referrals Pending	10

* These actions include the results of referrals made during previous reporting periods.

The convictions which occurred during this reporting period are described below.

- Former TVA Employee Convicted of Unauthorized Possession of TVA Property. A former TVA employee was convicted in federal court of possessing stolen government property after we recovered TVA tools at his business. (The tools had been stolen from a TVA nuclear plant.) The former employee was placed on three years' probation and fined \$1,250.
- Four Former TVA Employees Convicted for Fraudulent Travel Claims. Four former TVA employees were convicted in federal court after our investigation revealed they submitted fraudulent travel vouchers to TVA. Three of these individuals were placed on one-year probation and required to make restitution to TVA while one individual was required to make restitution. (These individuals had inflated their requests for travel reimbursement by submitting fraudulent lodging receipts to TVA.)

-
- Three Former TVA Employees Convicted of Theft. Three former TVA nuclear plant employees pled guilty in federal court to stealing government property. The FBI recovered more than \$8,500 worth of TVA property from two of the former employees' residences. One of the individuals was sentenced to one year in prison and fined \$2,000. He was placed on two years' probation after serving 30 days in jail. The other two individuals were sentenced to two years in prison and fined \$500 each. Both were placed on two years' probation after serving 60 days in a halfway house.
 - Flea Market Vendor Jailed. A local flea market vendor pled guilty to a misdemeanor in state court after an OIG agent purchased TVA property--which was stolen from a TVA fossil plant--from him. The vendor was sentenced to 11 months, 29 days in jail and fined \$250 plus court costs. The vendor served 30 days in jail and was placed on probation for the remainder of his sentence.
 - Private Citizen Sentenced for Stealing TVA Property. A private citizen pled guilty in state court to stealing TVA property valued at more than \$1,300. The individual was sentenced to one year and one day in jail and was ordered to pay restitution of \$1,000 to TVA. He was given credit for time served, and the remainder of his sentence was suspended.

OIG INVESTIGATIONS QUESTION \$4.3 MILLION IN PER DIEM PAYMENTS TO CONTRACTOR EMPLOYEES



THIS OIG CONTRACTOR PER DIEM INVESTIGATIVE TEAM CONSISTS OF AN INVESTIGATIVE RECORDS REPRESENTATIVE, SPECIAL AGENTS, AND LEGAL SERVICES REPRESENTATIVES

During this reporting period, we issued 16 reports--questioning more than an estimated \$4.3 million--in connection with our review of per diem payments and related travel costs under various TVA nuclear contracts.

Our review initially was based on allegations that two former TVA employees were improperly receiving per diem payments while living in the same residences they had lived in while working for TVA. During our investigation of these allegations, we discovered that per diem and related travel payments had been made under that contract to numerous employees who were not entitled to

receive those payments. Based on the extent of questioned payments in that investigation, we opened investigations into other similar contracts.

Our reviews revealed that while some contractors took steps to ensure that their employees were eligible for per diem payments, other contractors did not, thereby creating a situation that allowed contractor employees to receive per diem payments to which they were not entitled.

Contractor employees were eligible for per diem if their bona fide residence (a full-time domicile for income tax purposes) was located more than 50 miles from where they were assigned to work. Contractor employees generally received \$45 per day for per diem, and they were allowed to take one round-trip home per month at TVA's expense.

We interviewed over 650 contractor employees during this review. We also closely coordinated our efforts with TVA's General Counsel and Nuclear Power. Based on information developed during our interviews, the OIG and the General Counsel's office made initial determinations that over 290 individuals received payments to which they were not entitled. Those not entitled to receive payments included individuals who had been living near the TVA worksite before being hired by a TVA contractor and individuals whose only residence was near the TVA worksite.

In general terms, our review revealed that TVA reimbursed these contractors for the following questionable per diem and related travel payments. These payments were made under these contracts between April 1987 and February 1989. These figures are based on initial determinations and may vary upward or downward when documentation requested from the contractors is reviewed.

-
- TVA reimbursed a contractor \$1,111,834 for payments to 74 individuals and the same contractor received \$835,383 (under another contract) for payments to 63 individuals who were not entitled to those payments.
 - Under 6 separate contracts, TVA reimbursed the contractors a total of \$1,410,924 for payments to 91 individuals who were not entitled to those payments.
 - TVA reimbursed 3 other contractors, respectively, \$353,307 for payments to 17 individuals; \$153,246 for payments to 11 individuals; and \$158,965 for payments to 16 individuals who were not entitled to those payments.
 - TVA reimbursed 3 other contractors \$289,580 for payments to 22 individuals who were not entitled to those payments.

Some representative examples of the types of situations that our review revealed are outlined below. In each of the following examples, our initial review indicated the contractor employee was not entitled to the per diem payments he or she received.

- A contractor employee, who received more than \$20,000 in per diem, acknowledged the home he lived in while working for TVA was his permanent residence. He had been working on contracts for TVA since 1980, his wife was a permanent TVA employee, and he did not own a home anywhere.
- One contractor employee, who received more than \$18,000 in per diem, claimed his permanent residence was his father's home in Pennsylvania. However, the employee had been residing in a home he purchased in Tennessee near his assigned workstation since 1985.

-
- A contractor employee, who received more than \$5,000 in per diem, claimed his permanent residence was at his father's home in Tennessee where they shared a post office box. The employee actually resided in the same house where he had lived for 13 years while working for TVA.
 - One contractor employee, who received over \$6,000 in per diem, claimed his permanent residence was his parents' home in Tulsa, Oklahoma. However, the employee moved near the TVA workstation before being assigned to work at TVA, bought a house near the TVA workstation after his TVA assignment ended, and acknowledges this is now his permanent residence.
 - A contractor employee, who received over \$13,000 in per diem, claimed his permanent residence was his mother's home in Mobile, Alabama. However, he lived near the TVA work location while unemployed, his family stayed there while he worked in another state, and they are now living in a house they built near the TVA work location.
 - A contractor employee, who received more than \$8,000 in per diem, claimed her permanent residence was her aunt's home. However, the employee, in fact, lived with her sister. Moreover, both her sister's and aunt's homes were within 50 miles of where the employee was assigned to work.
 - A contractor employee, who received more than \$20,000 in per diem, claimed his permanent residence was his brother-in-law's residence in Pennsylvania. However, the employee had not lived at that residence since 1980, and his current residence was near his assigned workstation.

-
- A former TVA painter fraudulently received disability benefits for almost ten years. This employee claimed he injured his shoulder at work when, in fact, his injury was not work-related. OWCP subsequently terminated his benefits, resulting in potential long-term savings of more than \$457,000 for TVA.
 - A former TVA data entry operator was engaged in a physical activity that was inconsistent with her back injury for which she was receiving disability benefits. OWCP subsequently terminated her benefits, resulting in potential long-term savings of more than \$435,000 for TVA.
 - In our last semiannual report, we reported that a TVA ironworker failed to inform OWCP of his self-employment activities. We determined the ironworker was involved in buying, restoring, and reselling vehicles and, in connection with this work, was engaged in activities that were inconsistent with his medical restrictions. (TVA terminated the ironworker after our investigation revealed he falsified his TVA medical records by failing to report his previous back injuries.) During this reporting period, OWCP determined the former employee was overpaid more than \$39,000.
 - A former TVA ironworker failed to report his employment activities to OWCP while he was receiving federal disability benefits. OWCP subsequently determined the ironworker was overpaid more than \$4,700 based on the fact he falsified an annual disclosure statement by denying he had returned to work.

Wife Submits False Insurance Claims. A Nuclear Power electrician's wife submitted false insurance claims concerning the medical services his married daughter received. The electrician voluntarily repaid the improperly obtained benefits (\$4,056) to the insurance carrier.

Employee Submits Inaccurate Travel Claims. A Nuclear Power supervisor admitted that on several travel vouchers he submitted to TVA, he inaccurately claimed he stayed at his temporary lodging when he actually stayed at his residence. In addition, on ten occasions the supervisor claimed he was in Chattanooga participating in TVA's Physics Degree Program (PDP) when, in fact, he had returned to his regular duty station and was not in travel status.

Employee's False Travel Claims Not Intentional. As alleged, a Nuclear Power supervisor submitted inaccurate travel vouchers when he reported he was in Chattanooga participating in the PDP. In fact, the supervisor had actually returned to his regular duty station and was not in travel status. However, our investigation revealed no evidence the supervisor intentionally submitted falsified travel claims.

Former Manager Improperly Uses TVA-Issued Credit Card. As alleged, a Nuclear Power manager's relocation reimbursement claim contained false information concerning travel and temporary quarters expenses for his spouse. In addition, the manager improperly used a TVA-issued credit card after he left TVA. (The manager was terminated during a RIF.)

Former Electrician Owes TVA More Than \$7,000. As alleged, a Nuclear Power electrician submitted false travel claims (totalling \$5,129) and overtime claims (totalling \$1,897) in connection with his temporary assignment to the Sequoyah Nuclear Plant. While living in a Chattanooga apartment, the electrician falsely claimed

travel and overtime reimbursement for purported daily trips between the nuclear plant and his home.

**INTIMIDATION
AND
HARASSMENT**

Nuclear Power Manager Harassed Subordinate. As alleged, a Nuclear Power manager harassed a subordinate manager for expressing a differing view. TVA management acknowledged that the manager's management style was a problem and stated they would counsel the manager and require him to improve his management of subordinates.

**CONTRACT-
RELATED
MISCONDUCT**

Contractor Delivered Poor Quality Rock. As alleged, a contractor delivered poor quality rock fill and riprap to the Nottely Dam. In addition, the contractor used a dual-weight ticket system and short-weighted deliveries to Nottely Dam. TVA withheld \$48,000 from the contractor's payment.

Contractor Changes Quality Assurance Documents. We reviewed Nuclear Quality Assurance's (NQA) investigation of the Browns Ferry Nuclear Plant's standby diesel generator restart test 82. (NQA determined a contractor made unauthorized entries and changes to restart test 82 quality assurance documents.) Our review generally confirmed NQA's findings.

**MISUSE OF
TVA VEHICLE**

Inspector Misuses TVA Vehicle. As alleged, a Nuclear Power inspector misused a TVA vehicle when she (1) drove to Knoxville, Tennessee, on personal business while on annual leave and (2) drove to Atlanta, Georgia, to conduct personal business.

**OTHER
MISCONDUCT**

Employee Threatens to Kill Himself and Others. An anonymous male caller telephoned the Knoxville Department of Labor and threatened to take his life and the lives of TVA employees with an AK-47 assault rifle. Our office investigated the matter and determined the caller was a Nuclear Power employee who had recently been told that he would be losing his job through a RIF. The

employee had also recently learned that his disability retirement application would probably be denied. We referred this matter to the U.S. Attorney who declined federal prosecution.

Employee Violates Hatch Act. As alleged, a Bellefonte Nuclear Plant crane operator violated federal law when he ran for public office during June 1988.

Employee Starts Non-TVA Job While On Sick Leave From TVA. A former Nuclear Security Officer admitted that while he was on sick leave from TVA he started working for a railroad company. Subsequently, TVA terminated him and changed his sick leave (more than a month) to leave without pay. Our investigation revealed the officer was allowed to remain on sick leave for over a month because of an administrative error. However, management implemented changes to prevent a similar situation from reoccurring.

Managers Showed Preferential Treatment. As alleged, two nuclear plant managers showed preferential treatment to a white male by selecting him--instead of a black male who was the more qualified candidate--for a supervisor's position. Our investigation revealed the two white managers (1) selected the white employee although he did not have the required educational qualifications and (2) placed the white employee in the job on a temporary basis until he could obtain the necessary educational qualifications. One manager received a written warning, and the other manager volunteered for a RIF. Management subsequently promoted the black male to a General Foreman position.

OIG PROJECTS



WORK ACTIVITIES AT A TVA FOSSIL PLANT

We issued several reports describing the results of projects we completed this reporting period. These reports presented the results of our assessments of various TVA activities and represented the efforts of OIG auditors, investigators, legal staff, computer specialists, and other personnel. Descriptions of some of the projects we completed this reporting period follow.

**FOSSIL PLANT'S
HANDLING OF
ACCIDENTS**

We investigated several complaints about the way one of TVA's fossil plants handled claims for workers' compensation benefits. (The complaints involved purported work-related injuries that occurred at the plant between October 1985 and November 1986.)

Several of the complainants alleged their claims were handled improperly and that improper actions were taken to prevent the plant from being charged with a lost-time accident. Our investigation revealed that in some instances, the statements plant management sent to OWCP to contest an injured employee's claim for benefits contained some incorrect or misleading information. Our investigation also revealed instances where actions taken by management appeared to be an attempt to avoid reporting a lost-time accident. For example, management had injured employees return to work although they could not perform any productive tasks after they returned.

We referred our findings to TVA's Occupational Health and Safety (OCH&S) for a determination of whether the plant should be charged with lost-time accidents in certain instances. Subsequently, OCH&S determined these instances were not lost-time accidents under the presently existing criteria.

We are pleased to report that in response to our reports, the Senior Vice President of Power agreed to take, or has already taken, the following actions, among others.

- Management issued guidelines to its power production managers for handling return-to-work situations following a work-related injury. Included in the guidelines is a policy that all job-related injuries, no matter how minor, be reported and investigated according to established TVA procedures.

-
- Management agreed to issue directives to ensure that managers do not manipulate lost-time accident determination procedures in order to avoid being charged with a lost-time accident.
 - Management disseminated our reports to each fossil plant manager for review and instructed managers to ensure that all statements contesting an employee's claim for workers' compensation benefits are accurate.
 - In cooperation with Medical Services, management is developing a training package (for use by compensation clerks, supervisors, and foremen) on processing OWCP claims.
 - Management discontinued use of TVA vehicles to provide home-to-work transportation for injured employees.

The Senior Vice President of Power also asked that we establish a unit to investigate questionable OWCP claims which Power line managers identify. Under this arrangement, line managers would continue to be responsible for investigating accidents but would immediately notify our office of suspected fraudulent claims.

Accordingly, we have assigned additional special agents to investigate OWCP claims where fraud is suspected and have established an investigative team that is available to investigate questionable claims which site managers identify. We have also conducted a computer matching program using TVA records. The purpose of this matching program is to identify any workers' compensation recipients who have unreported earned income or who may be working jobs that are inconsistent with their purported work-related injury. (Currently, about 80 such investigations are underway.)

**COMPLIANCE
WITH THE
IMMIGRATION
REFORM AND
CONTROL ACT
OF 1986**

We reviewed TVA's compliance with a recordkeeping requirement of the Immigration Reform and Control Act of 1986 (Act)--a law to preserve U.S. jobs for citizens and aliens who are eligible to work in America. The Act requires employers to verify and document on a form I-9 an employee's identity and eligibility to work in America. We reviewed personnel files and estimated the required forms were completed 89 percent of the time. Moreover, our review of TVA's Employee Information System data indicated the required forms were properly completed over 93 percent of the time.

However, we also estimated that incorrectly completing the required forms could expose TVA to potential civil fines in excess of \$100,000.

TVA management confirmed the accuracy of our report and has taken action to (1) correct the potential problem areas we identified, (2) properly instruct TVA's Human Resource Managers about the importance of complying with the Act, and (3) provide for a periodic review to ensure continued compliance.

**MANDATORY
PAY INCREASES
UNDER TVA'S
NEW PAY PLAN**

We reviewed the new pay plan which TVA implemented during March 1989 to determine whether any TVA employees were inappropriately being paid less than the minimum for their pay group. We are pleased to report that our review revealed, as of mid-June, TVA management had correctly implemented this aspect of the pay system in 98 percent of the cases we examined. Moreover, by the time we completed our review, TVA management had increased the pay for those employees who were erroneously being paid less than the minimum for their pay group. A few employees--those whose classification could be affected by a change in their organization or position--did not have their pay increased. However, this result--no pay increase for such employees--was in accordance with TVA's pay plan.

We reviewed TVA's call-by-name procedure for staffing trades and labor (T&L) hourly positions. Among other things, our review revealed that:

**TVA'S CALL-
BY-NAME
PROCEDURE**

- There is nothing inherently improper about the call-by-name procedure.
- While the call-by-name procedure occasionally resulted in a violation of the federal nepotism statute and TVA policy on relatives, there was no evidence the abuse was widespread.
- Since TVA adopted the call-by-name procedure, the percentage of minorities, women, and veterans in T&L hourly positions decreased.
- TVA does not consistently notify veterans that they are required to specifically register in order to be accorded veterans' preference for employment in T&L hourly positions.
- TVA selects nonveteran union members before veterans who are not union members.

Among other things, we recommended TVA consider:

- Developing and implementing a plan to use the call-by-name procedure to increase women and minority employment at TVA and to reemploy, where appropriate, former TVA employees who are still drawing unemployment compensation benefits.
- Publishing the call-by-name guidelines as part of TVA's Administrative Releases to add guidance for making T&L employee selections on the basis of merit and efficiency and

in compliance with statutory requirements related to nepotism, veterans' preference, and equal employment opportunity.

**REVIEW OF
CONTROL
EVALUATIONS**

During 1988, TVA created the position of Chief Financial Officer (CFO) in order to organize TVA in a more businesslike fashion. Under the CFO concept, one senior manager would be responsible for TVA's overall financial plans, policies, and practices. Central to this concept was the creation of an arm of the CFO that would work to assure adequate accounting and reporting systems, financial controls, and debt and risk management. Based upon these considerations, TVA established Control Evaluations during May 1988.

During 1989, we completed a review of certain Control Evaluations activities. This review revealed, among other things, that Control Evaluations was primarily engaged in internal audit activities that extended beyond the CFO's program responsibilities and replicated the OIG's role as TVA's internal auditor. More specifically, our review indicated Control Evaluations audit activities:

- Unnecessarily duplicated the OIG's existing audit coverage at a cost to TVA of over \$2 million annually.
- Indicated that Control Evaluations was proposing to serve as a second internal audit organization within TVA, with independent audit coverage extending over all TVA programs.
- Were inconsistent with a requirement of the Inspector General Act that internal audit activities be consolidated under and managed by the Inspector General. (In connection with its audit of the OIG, the GAO also expressed concern that Control Evaluations internal audit activities were not consistent with the Inspector General Act.)

Following our review of Control Evaluations, the Inspector General and CFO reached an agreement which recognizes the OIG's role as TVA's internal auditor and eliminates Control Evaluations' duplication of the OIG's audit coverage.

We conducted a limited review of TVA's personnel security and suitability program to obtain an overview of the way TVA conducts required background security checks of new and current employees. Based on our informal review, we made the following observations, among others.

**TVA'S SECURITY
AND SUITABILITY
PROGRAM**

- TVA is not complying with the requirements for background checks of non-nuclear employees, primarily because of a backlog of pending investigations for unescorted nuclear plant access.
- The backlog of pending non-nuclear security checks is substantial. Estimates on the backlog prior to a July 1, 1988, reorganization ranged from 7,000 to 8,000. Because of RIFs after July 1, 1988, estimates indicate there is a backlog of approximately 4,000 non-nuclear security checks.
- Nuclear Power should be able to reduce projected future costs by limiting the scope of planned non-nuclear security checks.

Among other things, we recommended that TVA management consider developing a plan to eliminate the backlog of pending security checks and to conduct future checks in a timely manner.

LEGISLATION AND REGULATIONS



TVA'S CORPORATE HEADQUARTERS AT KNOXVILLE, TENNESSEE

GENERAL ACCOUNTING OFFICE REVIEW OF THE OIG

On July 3, 1989, the GAO reported the results of its audit of the OIG to the Chairman of the Senate Governmental Affairs Committee. The GAO report included the following findings.

OIG Operations Generally

- The Inspector General's powers and duties are similar to those of other Inspectors General. The resolution of the TVA Board of Directors which initially established the OIG assigned it the responsibility for conducting audits and investigations; reporting on the overall economy, efficiency, and effectiveness of TVA programs and operations; and detecting and preventing fraud, waste, and abuse.
- The Inspector General has been independent. The sample of OIG audits and investigations that GAO reviewed did not reveal any instances in which the Board of Directors or senior TVA management interfered with the OIG's work at TVA. In addition, the GAO cited two specific instances in which the OIG had clearly demonstrated its independence from top TVA management.
- The TVA Board of Directors has provided the OIG with the resources necessary to do its job.

OIG Investigative Operations

- GAO reviewed 49 of 503 investigative cases the OIG completed during October 1987 through March 1988 and found satisfactory compliance with investigative standards.
- Of the 49 investigative cases reviewed, GAO found that each case was planned and executed in accordance with investigative standards.
- The evidence in each case file supported the conclusions of the OIG's report to management and the disposition of each of the cases reviewed.

OIG Audit Standards

- GAO reviewed 23 of the 43 audit reports the OIG issued during April 1987 through March 1988 and found generally satisfactory compliance with auditing standards.
- Of the 23 audit reports reviewed, nearly 87 percent were adequate while 13 percent were not.
- Of the three performance-type audit reports that were not adequate, GAO noted that the OIG had only completed four such audits during the review period and that its review of four subsequent performance-type audits did not reveal any problems.
- The audit reports GAO reviewed satisfactorily complied with audit planning, fieldwork, and follow-up standards.

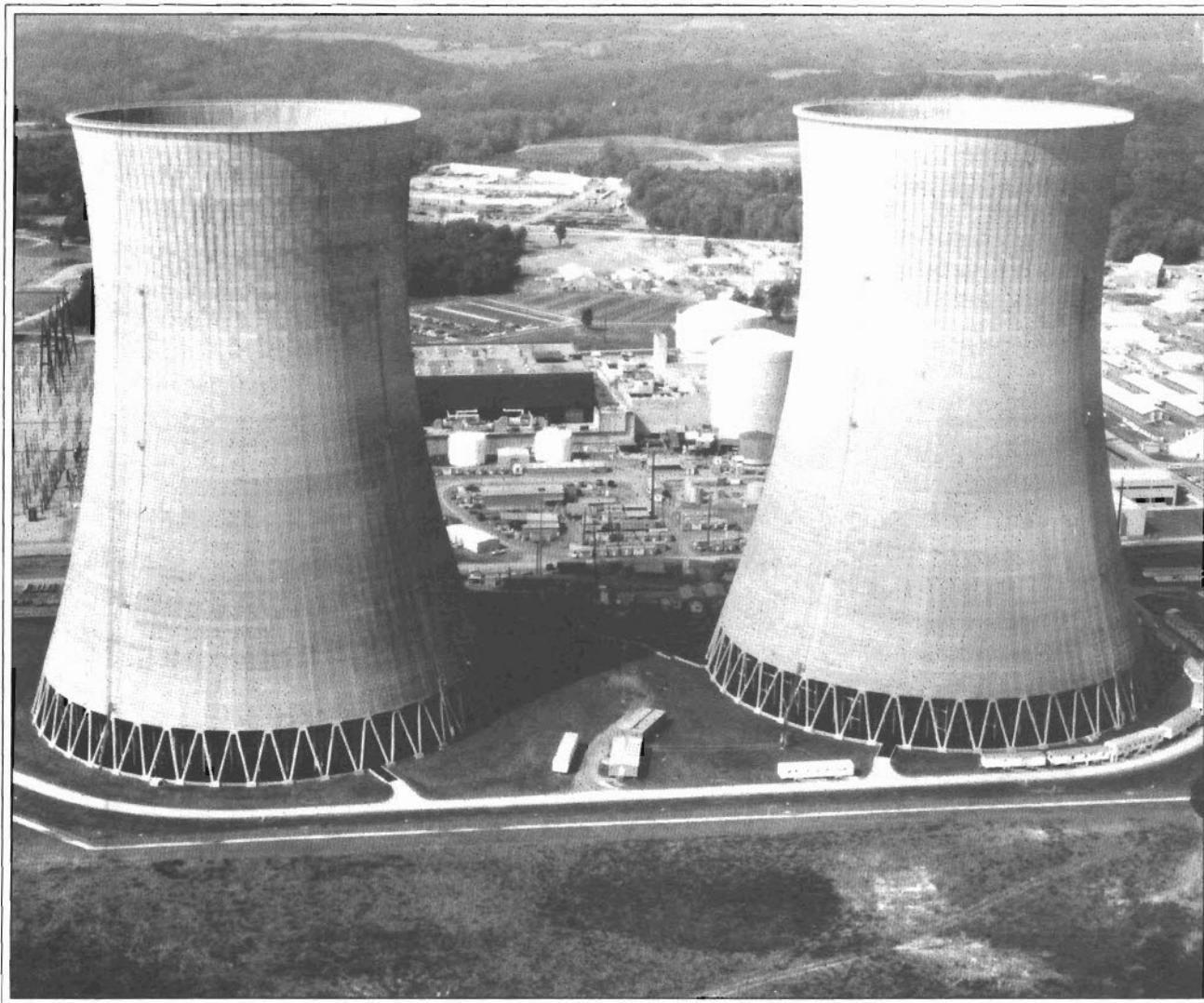
GAO Recommendations

- The GAO report contained two recommendations. The first recommendation involved the Inspector General's term of office. (Initially the Inspector General, unlike other senior TVA officials, was appointed to a specific three-year term of office.) The Board of Directors has fully addressed this recommendation by appointing the Inspector General for an indefinite term of office and agreeing to notify Congress if the Inspector General is removed from office.

-
- GAO's second recommendation focused on the allocation of audit functions between the OIG and TVA's CFO. However, the Inspector General and CFO have agreed to a division of responsibilities that centralizes audit functions under the OIG in a way that is consistent with GAO's recommendations. More specifically, under this agreement, the OIG will:
 - Conduct audits of entities receiving TVA financial assistance.
 - Conduct audits of TVA's contracts.
 - Conduct audits that assess the economy, efficiency, and effectiveness of TVA's programs and operations.

The GAO report did not contain a recommendation that TVA's Inspector General be presidentially appointed. Instead, GAO concluded that the TVA Board of Directors has taken measures in establishing the OIG which will safeguard its independence and the current Board-appointed Inspector General has carried out his responsibilities independently and objectively.

OTHER OIG ACTIVITIES



WATTS BAR NUCLEAR PLANT

OIG TRAINING ACTIVITIES

The OIG conducts a number of informational activities which increase TVA employees' awareness of their responsibility to prevent, detect, and report instances of fraud, waste, and abuse. In addition, we provide training to OIG employees to improve their job performance. A description of some of our training and integrity awareness activities follows.

**INTEGRITY
AWARENESS
TRAINING**

We developed and presented training to increase employee awareness of integrity issues, including harassment, intimidation, and fraud-related issues. More specifically, we presented the following integrity awareness training to TVA employees.

- Procurement Fraud. The Department of Defense's OIG conducted this seminar for 135 persons, including TVA OIG employees as well as employees from Nuclear Power, Power, Purchasing, and TVA's General Counsel. The seminar was designed to make participants more sensitive to their role in preventing, detecting, and eliminating fraud, waste, and abuse in TVA's procurement processes.
- OWCP Fraud. We conducted seminars for Medical Services employees and fossil plant managers concerning our investigation of fraudulent OWCP claims. The seminar included explanations of criminal and administrative abuses, fraud indicators, and investigative techniques. We used actual cases to illustrate areas where Medical Services line managers and the OIG can enhance their efforts to prevent and detect fraud and abuse of OWCP benefits.
- Falsification of Records. A number of TVA travel clerks, compliance officers, and employment compensation managers received OIG training regarding the submission of false documents, with an emphasis on false travel claims and vouchers. The training included presentations on legal considerations, OIG responsibilities, ethical considerations, procedural suggestions for handling suspected instances of false documents, and a review of case-file examples of false travel claims and vouchers.

-
- Maintaining a Work Environment Free of Intimidation and Harassment/Discrimination. An OIG presentation to managers at the Watts Bar Nuclear Plant focused on OIG policies, organization, and function in connection with the investigation of misconduct and intimidation and harassment/discrimination. To date, 153 Nuclear Power managers have attended the OIG's training.
 - Orientation to Nuclear Supervision. Selected employees at Knoxville, Chattanooga, and the Browns Ferry Nuclear Plant received OIG training on ethics and conduct as part of their orientation to nuclear supervision course.

On July 6, 1989, the Tennessee Board of Accountancy approved the OIG as a sponsor of continuing professional education courses. This ensures our employees that OIG-provided training will satisfy the Certified Public Accountant continuing education requirements.

**THE OIG'S CPE
CREDITS**

During April 1989, we hosted the quarterly meeting of the Southeastern Intergovernmental Audit Forum which was attended by 61 audit managers and guest speakers. Members of the Forum are audit managers from various federal, state, and local government agencies. An additional 30 staff auditors from these agencies attended training that was conducted concurrently with the Forum meeting. The theme of the Forum meeting and training was "Managing Computer Resources in an Audit Organization." Our Manager of General Audits and several OIG auditors developed and conducted the two-day training sessions.

**OIG HOST TO
SOUTHEASTERN
AUDITORS**

During this reporting period, we provided the following in-house training. Much of this training will count toward meeting the requirements of the Government Auditing Standards (General Accounting Office, 1988). These standards require 80 hours of continuing education for auditors every two years.

**IN-HOUSE
TRAINING**

-
- Train-the-Trainer. This training covered the basics of training program design and delivery and will enable the OIG to conduct more in-house training.
 - Time Management. This course covered the basics of time management and how the use of a day planner can help in managing time.
 - New Employee Orientation. We developed this course--an orientation to TVA and the OIG--for new OIG employees.
 - Initiating Business Relationships. This course focused on first impressions and how they affect the outcome of the initial meeting as well as setting the tone for any continuing business relationship.
 - Confidentiality, Aggravating and Mitigating Circumstances. OIG's Legal Services staff discussed recent policy changes in the area of confidentiality and employee discipline matters.
 - Administrative Warnings. OIG's Legal Services staff conducted a refresher course for OIG special agents on the various types of warnings that may be given in the course of criminal and administrative investigations. This included warnings that are given in custodial and noncustodial situations as well as those situations in which an employee may be required to answer OIG questions or be subject to disciplinary action.
 - Federal Disability Claims Procedures. TVA's specialists for workers' compensation benefits conducted a one-day course on the FECA claims process and related procedures. OIG

special agents who investigate allegations of FECA fraud and OIG administrative analysts who conduct quality assurance reviews and report the results of such investigations attended this training.

- Contract Auditing. This course, which was conducted through the USDA Graduate School, covered the key principles of contract auditing--knowledge of acquisition regulations and cost accounting standards, the procurement process, distribution of costs, quantitative audit techniques, and methodology of auditing cost proposals and overheads.
- Auditor in Court. This course (with the assistance of TVA's General Counsel's office) covered testifying in court in defense of audit findings and the auditor's role as an expert witness.
- Developing and Presenting Audit Findings. This course, which the USDA Graduate School conducted at TVA, covered the common characteristics of a well-developed audit finding and the need for sufficient qualitative and quantitative evidence to support audit findings.
- Computer Security and Crime Research. This course, which the FBI conducted, addressed techniques in computer security and crime research.
- Computer Matching. OIG's Legal Services staff described the scope and restrictions on computer matching in connection with federal programs as well as the new procedural requirements that must be met in connection with many computer matching programs.

-
- Sworn and Unsworn Statements and Subpoenas. OIG's Legal Services staff covered decisions regarding the use of subpoenas, forms for sworn and unsworn statements, content of statements, procedures for taking sworn statements, and a general refresher on subpoenas.
 - Grand Jury Materials. OIG's Legal Services staff provided an overview of grand jury secrecy issues that can arise in connection with OIG audits, an explanation of the restrictions on the acquisition and dissemination of materials obtained through a grand jury, and ways to avoid or eliminate problems associated with grand jury secrecy, including the use of OIG administrative subpoenas--rather than grand jury subpoenas--to obtain documentary evidence.

THE OIG'S USE OF SUBPOENAS

During this reporting period, we issued 38 subpoenas for documents. All of the subpoenas were issued in connection with OIG investigations and sought information related to the following topics.

Workers' Compensation Fraud	20
Contract-Related Fraud	5
Falsification of Educational and Occupational Records	3
Falsified Travel Claims	2
Theft and Fraud Against the Government	4
Conflict of Interest	2
Wrongdoing in Connection with TVA Employment	2

Several representative investigations in which subpoenas played an important role are described below.

- Two subpoenas produced business and financial records which indicated a recipient of federal workers' compensation benefits operated three businesses and earned unreported income.
- Through the use of a subpoena, we were able to determine the extent to which a senior manager collected frequent flier bonus points--in his personal account--while he travelled on official TVA business.
- We issued four subpoenas to investigate allegations that a contractor improperly used TVA resources and was not qualified to perform a multimillion dollar TVA contract. This investigation is ongoing.

-
- We issued three subpoenas in connection with our investigation of charges for health care treatment (in excess of \$190,000) that a federal workers' compensation benefits recipient received. We issued the subpoenas to determine whether health care providers charged unreasonably and received double payments--from OWCP and a health insurance company. This investigation is ongoing.
 - Through the use of a subpoena, we determined that a former TVA employee worked for a private company and received unemployment compensation benefits while still a TVA employee (although he was suspended at the time for threatening another employee). TVA subsequently terminated the employee for cause.

THE OIG HOTLINE

<u>Classifications</u>	April 1, 1989-September 30, 1989	
	<u>Number of Calls</u>	<u>Percentage of Calls</u>
1. Employee Misconduct	14	7.2
2. Employee Concern		
Program Matters	19	9.9
3. Misuse or Abuse of		
Government Property	7	3.6
4. Vehicle Operations	13	6.7
5. Substance Abuse	2	1.0
6. Personnel Matters	62	31.9
7. Terrorism and Sabotage	1	0.5
8. Discrimination and Harassment	19	9.9
9. Safety		
10. Trades and Labor	2	1.0
11. Theft	11	5.7
12. Falsification of Records	2	1.0
13. Contract-Related Misconduct	6	3.1
14. Fraud and Waste	20	10.3
15. General Criminal Activities		
16. Employment Suitability		
17. Public Concerns	<u>16</u>	<u>8.2</u>
TOTAL	194	100.0

WHO CALLED

Employees	122	62.9
Former Employees	33	17.0
Public	<u>39</u>	<u>20.1</u>
TOTAL	194	100.0

APPENDICES

**INSPECTOR GENERAL AUDIT REPORTS ISSUED
FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1989**

<u>DATE ISSUED</u>	<u>REPORT NUMBER</u>	<u>REPORT TITLE</u>	<u>QUESTIONED COSTS (DOLLARS)</u>	<u>UNSUPPORTED COSTS (DOLLARS)</u>	<u>FUNDS TO BE PUT TO BETTER USE (DOLLARS)</u>
04/14/89	88-0129	Manville Sales Corporation - Unabsorbed Cost Claim on Contract 80K52-825640 - July 1, 1984 through March 15, 1986	\$ 288,392	\$ 288,392	
04/21/89	89-027P	Southeastern Electric Reliability Council - Statement of Cash Receipts and Disbursements for the Year Ended December 31, 1988	1,752	1,752	
04/26/89	88-9-3-4	Burns and Roe Company - Contract TV-65377A	105,319	7,024	
04/26/89	89-011P	Duke Engineering & Services, Inc. - Contract TV-65607A - Proposed 160-Megawatt Atmospheric Fluidized Bed Combustion Demonstration Plant - October 1, 1987 through November 30, 1988	3,987		
05/02/89	88-0180	Appropriated Fund Accounting - October 1, 1987 through September 30, 1988			
05/09/89	88-0191	Envirotech Corporation - Claim on Contract 78K36-822842	2,843,789	2,843,789	
05/16/89	88-0189	Fluor Constructors, Inc. - Contract TV-65580A - Construction Costs of 160-Megawatt Atmospheric Fluidized Bed Combustion Demonstration Plant	127,263		
05/16/89	89-018G	Lee County Industrial Development Trust Fund - May 1, 1986 through February 29, 1988			
05/26/89	88-0166	General Physics Corporation - Contract TV-67404A - April 15, 1985 through October 2, 1987	70,307	48,714	
05/26/89	88-0185	Policies for Reemployment of Employees Affected by the Fiscal Year 1988 Reduction in Force - April through December 1988			\$2,000,000

APPENDIX 1

Page 2 of 3

<u>DATE ISSUED</u>	<u>REPORT NUMBER</u>	<u>REPORT TITLE</u>	<u>QUESTIONED COSTS (DOLLARS)</u>	<u>UNSUPPORTED COSTS (DOLLARS)</u>	<u>FUNDS TO BE PUT TO BETTER USE (DOLLARS)</u>
05/26/89	89-008G	TVA Personal Services Contracting Process as of September 30, 1988			
06/02/89	89-005G	Materials Inventories Maintained at the Hartsville Nuclear Plant			
06/19/89	88-6-5	Alabama Elk River Development Agency - Contract TV-42893A - Financial Statements for the Year Ended September 30, 1987			
06/19/89	89-009G	Overtime Payments as of December 31, 1988			
06/21/89	88-0181	Equal Opportunity Payments - October 1, 1985 through September 30, 1988			
06/22/89	89-041P	Stone & Webster Engineering Corporation - Preaward - Contract TV-73035A		\$ 125,042	
06/27/89	88-188-10	BCP Technical Services, Inc. - Contract TV-67403A - Claim for Interest on Late Payments	\$ 6,613	6,613	
06/30/89	89-042P	Nuclear Energy Consultants - Preaward - Contract TV-73029A			\$ 183,602
07/10/89	89-016P	Enercon Services, Inc. - Contract TV-71448A - September 1, 1987 through February 29, 1988	105,913	100,449	
07/10/89	89-020P	Peabody Coal Company - Contract 69P-87-T1 - Overland Beltline Costs Incurred - January 1, 1987 through December 31, 1987	14,040		
07/17/89	88-182-30	Accident Investigation Training Performed at Sequoyah Nuclear Plant by EG&G Intertech, Inc.			575,911
08/11/89	89-031G	Nuclear Fuel Financing - October 1, 1988 through December 31, 1988			
08/17/89	89-028N	Management of Cash - Payrolls			13,900,000

APPENDIX 1

Page 3 of 3

<u>DATE ISSUED</u>	<u>REPORT NUMBER</u>	<u>REPORT TITLE</u>	<u>QUESTIONED COSTS (DOLLARS)</u>	<u>UNSUPPORTED COSTS (DOLLARS)</u>	<u>FUNDS TO BE PUT TO BETTER USE (DOLLARS)</u>
08/30/89	89-017P	Herndon C. Baker & Sons, Inc. - Claim on Contract 86P57-451826	\$ 407,132	\$ 369,430	
08/31/89	89-006G	Tennessee Valley Center for Minority Economic Development - October 1, 1983 through December 31, 1988			
09/08/89	89-003P	Determining and Reporting Coal Quality - October 1, 1987 through September 30, 1988			
09/20/89	89-057G	Gilbert/Commonwealth, Inc. - Preaward - Contract TV-72370A			\$1,991,853
09/29/89	89-033G	Leases and Charges for Office Space			7,900,000
09/29/89	89-055G	Survey of Trust Funds			
09/29/89	89-059N	United Engineers & Constructors, Inc. - Preaward - Contract TV-72992A			152,994
09/29/89	89-060P	Sargent & Lundy Engineers - Preaward - Contract TV-69885A			87,481
TOTAL	31		\$3,974,507	\$3,666,163	\$26,916,883

GLOSSARY OF AUDIT TERMS

The terms we use in reporting our audit statistics are defined below.

Questioned Cost. A cost we have questioned because of an alleged violation of law, regulation, contract, or other agreement governing the expenditure of funds; such cost is not supported by adequate documentation; or the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Unsupported Cost. A cost we have questioned because of a lack of adequate documentation at the time of the audit.

Other Questioned Costs. A cost we have questioned for reasons other than lack of adequate documentation.

Funds To Be Put To Better Use. Funds we have identified in an audit recommendation that could be used more efficiently by reducing outlays; improving TVA, contractor, or grantee operations; avoiding unnecessary expenditures noted in preaward contract audits; deobligating program or operational funds; or taking other efficiency measures.

Management Decision. Management's evaluation of our audit findings and recommendations and issuance of a final decision concerning management's response to such findings and recommendations.

Final Action. The completion of all management actions that are described in a management decision with respect to our audit findings and recommendations. If management concluded no actions were necessary, final action occurs when a management decision is issued.

REPORT ON MANAGEMENT DECISIONS
FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1989

STATUS OF MANAGEMENT DECISIONS FOR FINAL REPORTS ISSUED WITH DOLLARS	NUMBER OF REPORTS	QUESTIONED COSTS (DOLLARS)	UNSUPPORTED COSTS (DOLLARS)	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE (DOLLARS)
I. Audit reports <u>without</u> management decisions at <u>beginning</u> of period					
A. Audit reports issued in previous periods	6	6,216,798	1,263,649	1	20,000,000
B. Audit reports issued during the period	11	3,974,507	3,666,163	9	26,916.883
C. Total of A and B*	17	10,191,305	4,929,812	10	46,916.883
II. Audit reports <u>with</u> management decisions made <u>during</u> the period					
A. Amounts agreed to by management	14	8,724,476	3,598,354	4	2,396,125
B. Amounts not agreed to by management	5	1,354,303	1,224,396	1	20,000,000
C. Total of A and B*	15	10,078,779	4,822,750	5	22,396,125
III. Audit reports <u>without</u> management decisions <u>at the end</u> of period (I.C. less II.C.)*	2	112,526	107,602	0	-0-
IV. Audit reports without management decisions within six months after report issuance	0	-0-	-0-	0	-0-

* The number of reports shown will differ from the arithmetic total when two or more recommendations in the same report have different statuses.

TENNESSEE VALLEY AUTHORITY
KNOXVILLE, TENNESSEE 37902-1499

OFFICE OF THE BOARD OF DIRECTORS

November 8, 1989

TO THE UNITED STATES CONGRESS:

Enclosed is the Report on Final Actions on Inspector General recommendations for which management decisions have been made, as required by Section 5(b) of the Inspector General Act of 1978, as amended. I am pleased to report that TVA has taken final action on all audit reports on which management decisions were made prior to October 1, 1988.

Best regards,

A handwritten signature in black ink, appearing to read "Marvin Runyon", followed by a horizontal flourish line.

Marvin Runyon
Chairman

Enclosure

TVA MANAGEMENT'S REPORT ON FINAL ACTIONS
FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1989

STATUS OF MANAGEMENT DECISIONS FOR FINAL REPORTS ISSUED WITH DOLLARS	NUMBER OF REPORTS	QUESTIONED COSTS (DOLLARS)	UNSUPPORTED COSTS (DOLLARS)	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE (DOLLARS)
I. Audit reports <u>without</u> final actions at <u>beginning</u> of period					
A. Management decisions made in previous periods	2	152,417	124,863	2	6,701,637
B. Management decisions made during the period	14	8,724,476	3,598,354	4	2,396,125
C. Total of A and B	16	8,876,893	3,723,217	6	9,097,762
II. Audit reports <u>with</u> final actions taken <u>during</u> the period					
A. Amounts Realized as Agreed	9	3,675,212	3,508,635	2	2,087,481
B. Amounts Realized in Excess of Agreement	2	1,743,776	-0-	1	538,032
C. Amounts Not Realized as Agreed	2	40,560	40,560	0	-0-
D. Total of A and B*	11	5,418,988	3,508,635	2	2,625,513
III. Audit reports <u>without</u> final actions <u>at the end</u> of period (I.C. less II.A. and C.)*	6	5,161,121	174,022	4	7,010,281
IV. Audit reports without final actions within one year after management decision	0	-0-	-0-	0	-0-

* The number of reports shown will differ from the arithmetic total when two or more recommendations in the same report have different statuses.

NOTES

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

400 West Summit Hill Drive
Knoxville, Tennessee 37902

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

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. One of the OIG's primary goals is to help TVA operate more effectively and economically by identifying ways to improve TVA's operations and to remove any impediments to those operations.

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

OIG TELEPHONE HOTLINE

Knoxville: (615) 632-3550

Toll-free in Tennessee:
1-800-423-3071

Toll-free Outside Tennessee:
1-800-323-3835

