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OFFICE OF THE INSPECTOR GENERAL

9

SEMIANNUAL REPORT

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APRIL 1, 1995 - SEPTEMBER 30, 1995

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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

October 31, 1995

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This is our nineteenth semiannual report; it describes our office's accomplishments for the six-month period ending September 30, 1995.

During this reporting period, we issued 43 audit reports which identified over \$4.3 million in questioned costs and \$9 million in funds which could be put to better use. Our auditors emphasized contract-related issues while also reviewing topics as diverse as TVA's procurement process, hazardous wastes, computer network security, and the management of a \$15 million fund for disadvantaged businesses. They are also working with our investigators and an outside consultant to identify overpayments in TVA's health care system.

Our investigations group completed 147 cases and has over 130 cases under active investigation. During this reporting period, they recovered approximately \$940,000, and their work resulted in five indictments and seven convictions. An investigation focusing on coal purchases resulted in an indictment for conspiracy, bribery, illegal gratuities, false statements, and obstruction of justice. We also continued our efforts to identify fraudulent temporary living expenses paid to TVA contractors. These cases resulted in avoided costs and realized or potential recoveries of approximately \$375,000 for living expenses that were paid based on fraudulent claims.

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

Our accomplishments reflect the dedication and skill of the men and women who work here. As always, they are striving to serve as a catalyst for excellence at TVA and to justify our office's reputation as an effective and objective factfinder.

Sincerely,

A handwritten signature in black ink that reads "George T. Prosser". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

George T. Prosser

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OFFICE OF THE
INSPECTOR
GENERAL

SEMIANNUAL
REPORT

APRIL 1, 1995
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■ EXECUTIVE SUMMARY

This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending September 30, 1995.

During this reported period, we continued our efforts to support TVA's goals by providing quality and timely service with a reduced workforce. Overall, we completed 43 audits which identified over \$4.3 million in questioned costs and \$9 million in funds that could be used more effectively. We also completed 147 investigations which have provided more than \$939,000 in monetary recoveries to TVA. In addition, we reallocated our resources to better accommodate our customers. Some highlights from this reporting period are described below.

Our audit activities ranged from preaward audits at Watts Bar Nuclear Plant to working with OIG investigators and an outside consultant to identify health care overpayments due to fraud, error, and abuse. We also completed more narrowly focused reviews on topics such as the management of a \$15 million fund for disadvantaged businesses, security of TVA computer networks, long-distance telephone service, and a follow-up on our previous report on TVA's handling of polychlorinated biphenyls.

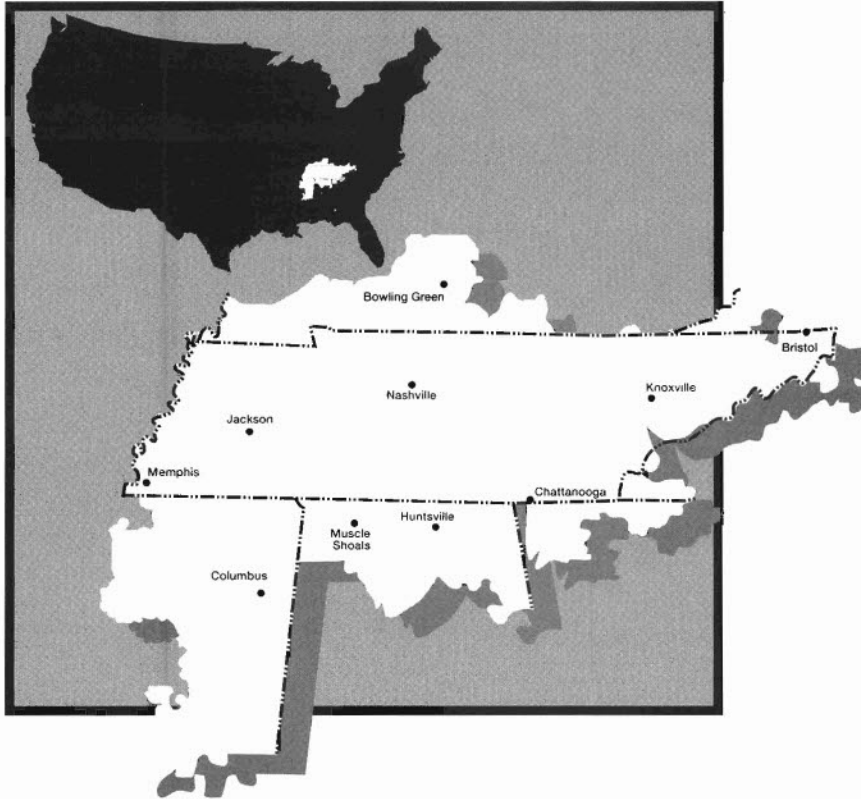
Our investigators continued to focus on cases with a potential dollar impact on TVA and integrity issues. One investigation focusing on TVA coal purchases resulted in an indictment for conspiracy, bribery, illegal gratuities, false statements, and

obstruction of justice. In another contract area, we are continuing our investigation of fraudulent claims for temporary living expenses by contract employees.

Another ongoing investigation—involving TVA energy conservation loans in the Memphis area—resulted in three new convictions and a total TVA recovery of over \$85,000. More than 130 cases are currently under active investigation.

Effective October 1, 1995, we made an organizational change to, among other things, provide a better response mechanism for customer requested services from TVA senior management and the Board of Directors. Over the last year, we have experienced an increase in requests for work from the TVA Board and executive management. To address such requests, we have reallocated resources to focus on these high-profile, quick turnaround projects. These resources will come from the audit and investigations departments and the OIG Projects Manager.

■ TVA PROFILE



*TVA's 16,621
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 16,621 employees are involved in economic, natural resource, and agricultural development and in the production of low-cost electricity. The power system is funded by power sales, and TVA's other programs are funded 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." TVA's values are Integrity, Respect for the Individual, Teamwork, Innovation and Continuous Improvement, Honest Communication, Leadership, and Flexibility.

Organization

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; and the other department focuses on environmental issues, nuclear issues, and benefits and entitlement programs.

The OIG's Audit Operations unit consists of four departments, two of which are devoted to contract-related topics and high-profile customer requested services. Two other departments focus on performance, financial, and ADP-related issues.

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 new statutory offices whose Inspector General was appointed by the agency head. TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors.

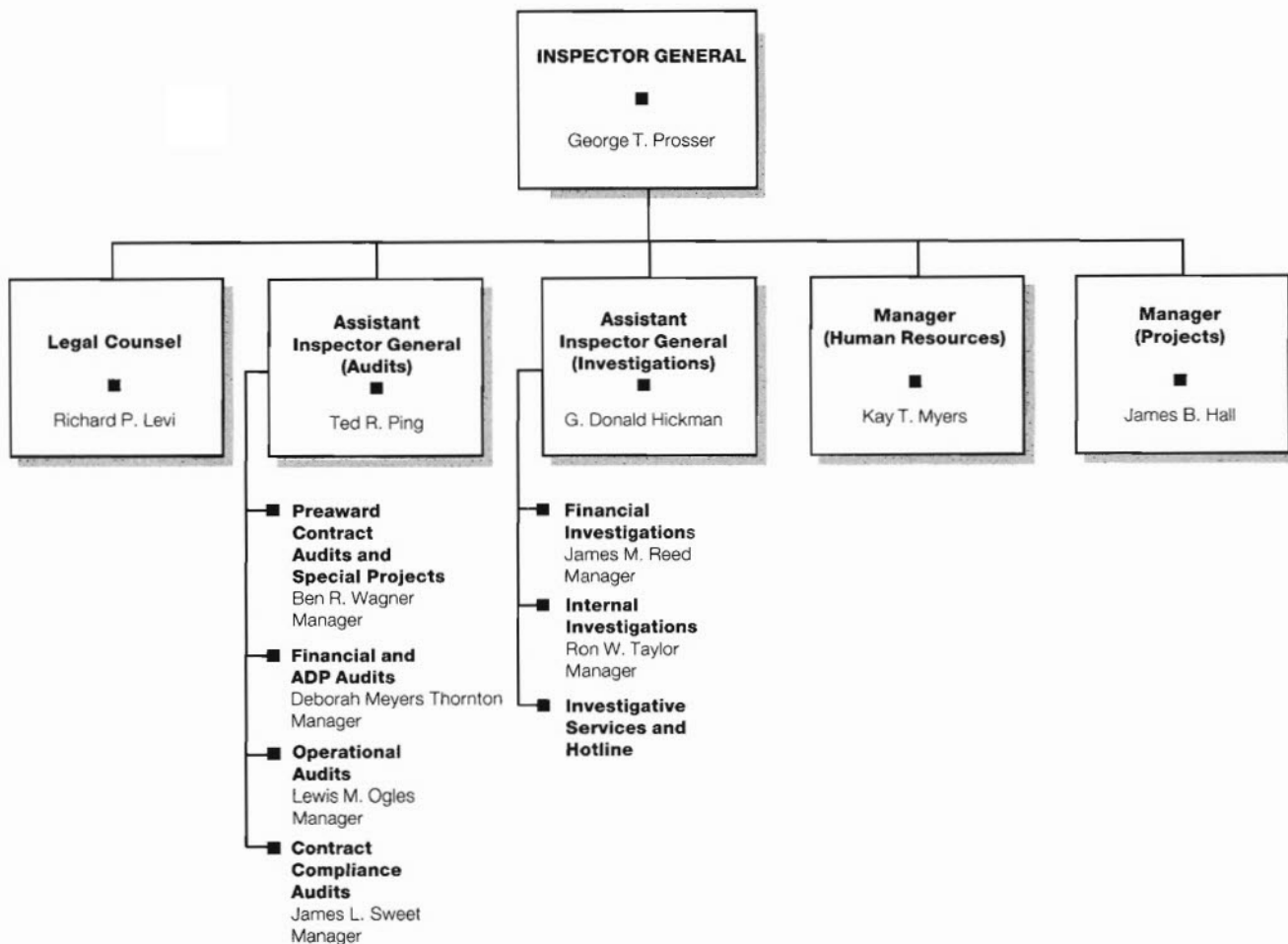
George T. Prosser became TVA's third Inspector General on April 1, 1994.

Staffing and Budget

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee. The OIG also has investigative satellite offices in Chattanooga, Tennessee, and Huntsville, Alabama.

The OIG's fiscal year 1996 budget is about \$7.3 million, and during this reporting period, the OIG had approximately 95 employees.

OFFICE OF THE INSPECTOR GENERAL (As of 10/1/95)



Health Benefits Review

Studies have shown that the amount of money lost to health care fraud, waste, and abuse in the United States is about \$90 billion per year. Due to the magnitude of potential losses in this field, we are devoting increased resources to identifying and preventing fraud, waste, and abuse in TVA's health care program.

CLAIMS REVIEW

TVA operates a "self-insured" plan servicing about 75,000 employees,



retirees, and their dependents at an annual cost of about \$100 million. TVA contracts with third-party administrators to process and pay claims submitted under the plan.

Our review of health care claims is being conducted in cooperation with TVA management and assisted by an outside contractor. The heart of the program is a computer-based review of all claims to identify overpayments resulting from such items as:

- Coding manipulation, duplicate bills, excessive charges.
- Unnecessary services/supplies.

- Services never rendered, miscoded services, and billing errors.

Based on this review, we will conduct further audits and investigations, as appropriate. In addition, we will continue to review TVA's health care program for other improvement opportunities.

HEALTH CARE FRAUD

Our efforts have included participating in a Health Care Fraud Working Group sponsored by the United States Attorney, Eastern District of Tennessee. In addition, we worked with the Department of Justice and TVA's General Counsel's office regarding settlement of claims against a health care provider who filed fraudulent claims under various government employee health care programs. TVA recovered approximately \$80,000 as a result of that settlement.

MANAGEMENT ASSISTANCE

In February 1995, TVA issued a request for proposal for design and implementation of an integrated health and wellness data management system. We provided evaluation input to the team regarding the technical attributes of the systems and the demonstration efforts. This evaluation contributed in the selection of a new TVA health management system.

Watts Bar Nuclear Plant

During this reporting period, TVA continued its efforts to start the Watts Bar Nuclear Plant (WBN). In connection with TVA's efforts, we completed a special project and several investigations involving WBN. These activities included the following.

SPECIAL PROJECT

Concerns Resolution Staff (CRS) Program Review

We periodically review the CRS program in response to requests from TVA Nuclear management and commitments to the Nuclear Regulatory Commission (NRC). Last year, we completed a comprehensive CRS review—involving over 1,750 interviews. Our findings were generally positive for TVA.

In 1995, TVA Nuclear management asked us to review WBN's CRS due to NRC interest in the program and TVA Nuclear's desire to identify and resolve any problems.

We interviewed approximately 400 randomly selected TVA and contractor employees and reviewed over 100 recently closed CRS and Employee Concerns Program (ECP) files. Further, we interviewed a number of individuals

who were on site and who had registered concerns with CRS or their employer's ECP.

Our review found:

- Contractors and employees overwhelmingly feel free to raise nuclear safety or quality concerns, and virtually all would report such issues via some avenue at WBN.
- About 95 percent of TVA employees and contractors would report nuclear safety or quality concerns to CRS or ECP, if the need arose.
- Of those employees who expressed an opinion, a strong majority had a favorable view of the CRS or ECP and about 90 percent would report intimidation and harassment to the CRS or ECP. (Some others would report these issues elsewhere.)



For the second year in a row, our review of the CRS Program at WBN produced positive results.

- Contractors and employees believe WBN is handling nuclear safety and quality problems “well” or “very well.”

During September 1995, our special project team briefed senior NRC officials in Washington, D.C., on the results of this review. Other OIG employees also attended this meeting and discussed the results of various OIG investigations at WBN of particular interest to the NRC.

INVESTIGATIONS

We completed five investigations involving allegations that WBN management violated Section 211 of the Energy Reorganization Act by discriminating against employees or contract employees because they reported safety concerns. We did not find that any current or former TVA employee or contractor engaged in misconduct. In addition, we also investigated whether a contractor’s policies and actions discouraged employees from raising safety or quality concerns.

Section 211

During one investigation, two WBN employees reported experiencing a chilling effect when a coworker was transferred twice in one year, allegedly for casting negative votes in a group decisionmaking process. The evidence

indicated the chilling effect they experienced was attributable to their perception of events, not any misconduct by management.

Contractor Investigation

We investigated several allegations involving a WBN contractor. Our investigation addressed whether the contract employees would fail to raise nuclear safety or quality concerns because their management allegedly (1) required or encouraged employees to obtain supervisory input before initiating a Problem Evaluation Report (PER), and (2) acted in an intimidating or pressuring manner toward employees who had initiated PERs. We interviewed a judgmental sample of 46 contract employees to address this issue. Our survey showed that some individuals did respond negatively to the contractor’s policy and to management’s action regarding the PERs. However, everyone we interviewed said they would raise any nuclear safety or quality concerns they had.

Our investigation also revealed that a contractor field engineer made intimidating remarks concerning a PER to his subordinate and pressured his subordinate to invalidate some of the issues in the PER against the employee’s better judgment. In addition, a contractor senior

construction engineer admitted he talked to a subordinate about his contacts with the NRC. We found the supervisor's actions were not consistent with TVA's policy on expressing concerns and differing views. Subsequently, the contractor counseled the two engineers.

AUDITS

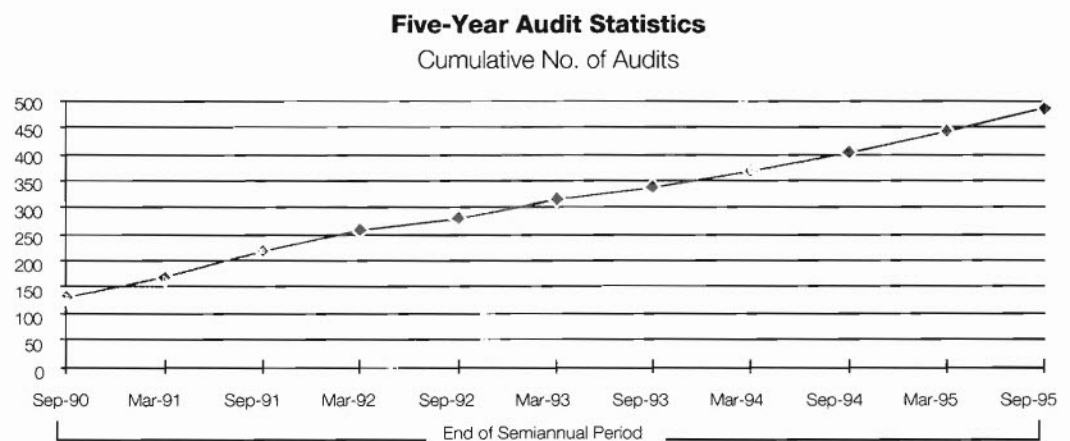
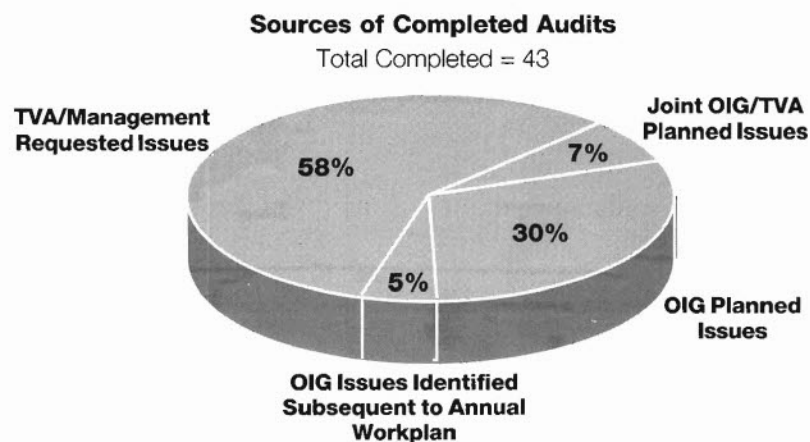
In addition to our activities directly relating to WBN's start-up, we also completed nine audits during this period which reviewed other issues and contracts at WBN. Three contract compliance audits identified almost \$1.2 million of questioned costs, and three preaward contract audits identified almost \$3 million in possible future savings for TVA. We also issued three performance audits related to WBN issues, addressing topics such as environmental compliance, long-distance telephone usage, and contractor air travel. Additional information about these nine audit reports is included in the audit section of this report.

■ AUDITS

We issued 43 audit reports that identified over \$4.3 million in questioned costs and \$9 million in funds which could be put to better use (see Appendix 1).

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. The chart below shows the percentage of completed audits this period from these four sources.



Summary of Representative Audits

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

PROCESS AND PROGRAM REVIEWS

We completed a number of reviews that focused on the efficiency and effectiveness of various TVA activities. Representative audits are highlighted below.

TVA Procurement Process

We defined ten fundamental steps in TVA's procurement processes. However, there are many variations of the fundamental procurement process because one or more steps can be executed several different ways by numerous TVA and contractor personnel. We also found the procurement processes and systems do not meet TVA's current or future needs primarily because (1) TVA's procurement has no clear direction or controlling organization, (2) the supporting computer systems are numerous and unreliable, and (3) the procurement approval process is cumbersome and duplicative. We recommended that management appoint

an executive level official to oversee and reengineer TVA's procurement processes and information systems.

TVA's Local Area Networks Were Unsecure

We audited TVA's local area networks which use Novell software to determine if the networks were adequately secured. Approximately one-half of TVA's 189 Novell networks were not secure. We were able to copy sensitive information from several of the networks illustrating that TVA's data on local area networks was susceptible to being compromised by computer hackers. We issued a "Management Alert" in December 1994 to TVA management indicating that immediate action was necessary to secure these networks. Organizations began to take corrective actions and significant improvements in access security have been accomplished since February 1995.

Management of \$15 Million Investment Fund

During 1991, TVA entered into a cooperative agreement with a contractor to manage a \$15 million fund established by TVA to promote the development of socially and economically disadvantaged

businesses. The contractor had loaned about \$6.8 million to 16 participants and had earned \$1.6 million since inception.

In summary, we found:

- The contractor complied with the loan aspects of the agreement and guidelines, except for two provisions related to investment monitoring.
- The contractor obtained warrants convertible into common stock for a nominal fee in 6 of the 16 participating businesses. In two of these businesses, the contractor placed the program in the position of potentially having majority ownership. Although consistent with the guidelines, we believe such extensive equity participation is excessive and inconsistent with the program's original intent.
- The TVA-approved guidelines appeared to expand program eligibility to include geographic considerations regardless of race or income. Four loans were made to companies where at least one principal in each company was a millionaire.
- A subcontractor responsible for management of unused funds violated the investment guidelines, thereby reducing the earnings potential of the fund.

Management and the contractor agreed to revise the investment monitoring guidelines. However, they did not believe the other guidelines needed to be revised. Regarding the investment of unused funds, the subcontractor was dismissed and investment of the funds was assumed by the principal contractor.

Long-Distance Telephone Service

To determine whether abuse of long-distance service exists in TVA, we analyzed calls made from six major TVA locations during October 1994. A broad analysis of all calls did not show gross indicators of abuse. However, a detailed examination of a sample of calls showed possible patterns of isolated abuse. We identified (1) cases of abusive calling patterns which indicated TVA is paying for unauthorized long-distance use; (2) instances of numbers of calls and lengthy calls being made from telephones in conference and other common use areas in Chattanooga and Knoxville; and (3) authorization codes at nuclear plants that may not adequately restrict long-distance access and provide accountability. TVA senior managers have taken corrective action regarding long-distance usage.

Polychlorinated Biphenyls (PCBs)

We conducted a follow-up review of management actions in response to a previous OIG report on TVA's handling of PCBs. We found management had implemented five of the seven recommendations included in our prior report. To resolve the two outstanding recommendations, we (1) decided to initiate a separate audit to address the risks and potential liabilities to TVA associated with TVA's current inventory of PCBs, and (2) recommended that TVA contractually define with its distributors the division of responsibility relating to PCB disposal in the event of a future liability.

Hazardous Waste Contractors

We assessed TVA's efforts to minimize its risks in dealing with hazardous waste contractors (HWC), on-site contractors, and companies with leases or easements to use TVA land. We concluded that recently revised processes for selecting HWCs should minimize the environmental risk to TVA for work performed by these contractors. We also found that TVA's practice of self-insurance and other actions appeared reasonable and were helping minimize TVA's exposure to potential environmental liabilities.

Hazardous Waste Disposal

We reviewed five TVA contracts to determine if TVA had reasonable assurance that the contractors were properly disposing of hazardous wastes and complying with the terms of the contracts. We found that TVA had reasonable assurance that the contractors (1) complied with the applicable regulations with regard to the disposal of hazardous wastes and (2) were billing in accordance with the contract terms.

CONTRACT REVIEWS

Many of our audits focused on large TVA contracts and those with the potential to significantly affect TVA. More specifically, we completed 13 preaward reviews, 13 post award reviews, and 6 other contract-related audits. A representative sampling of these reviews are highlighted below.

Audits of TVA Nuclear Contracts

During this reporting period, we completed seven contract audits involving TVA's nuclear operations. Examples of these audits are highlighted below.

Watts Bar Construction Services

During 1991~1994, TVA paid one of its nuclear contractors over \$282 million for construction services at WBN. Our review of this contract revealed (1) TVA

was entitled to recover over \$1.1 million for payroll taxes billed to TVA, which exceeded the amount actually paid by the contractor; and (2) TVA paid approximately \$100,000 for relocation payments and nonmanual labor charges that were not in accordance with the contract; however, the contractor's incentive fees were calculated accurately and supported by adequate source documentation. TVA appropriately paid this contractor approximately \$14.1 million in incentive fees on this contract.

Watts Bar Engineering Services

The proposed labor rates for the extension of a \$292 million contract to provide engineering services for WBN were reviewed. We estimated that TVA could save up to \$1.6 million relating to this \$25 million contract extension by negotiating more competitive field engineering and home office rates. In addition, TVA could save an additional \$1.4 million by not granting the contractor's request to adjust the rates retroactively.

Domestic Field Allowances (DFA) at Browns Ferry Nuclear Plant (BFN)

An audit of the DFA charged by a contractor during 1991~1994 at BFN revealed overpayments of \$2.2 million due to unallowable markups for overhead

and fringe benefits and certain excessive DFA charges. TVA management is pursuing recovery of these charges.

Modification and Maintenance Work at Sequoyah Nuclear Plant (SQN)

During 1991~1994, TVA paid a nuclear contractor over \$92 million for modification and supplemental maintenance work at SQN. We reviewed over \$27.6 million of these payments and found that various charges for site labor, subcontractor billings, and fees were properly supported and billed in accordance with the contract. However, we did identify about \$60,000 in questionable payments for relocation and other expenses.

Watts Bar Labor Rates

The proposed nonmanual labor rates for the extension of a \$497 million contract to provide construction services for WBN were reviewed. The extension of this contract was for \$43 million, and the time was extended to May 31, 1996. The contractor proposed a total overhead markup rate of 72 percent; however, TVA management aggressively negotiated this to a 60-percent rate. We found the rates negotiated by TVA were reasonable.

Audits of Fossil and Hydro Power Contracts

This reporting period, we completed 12 audits involving TVA's Fossil and Hydro Power operations. Some of these audits are highlighted below.

Cumberland Fossil Plant (CUF) Rate Adjustment

During 1990~1994, TVA paid a contractor over \$440 million for work on the Flue Gas Desulfurization retrofit project at CUF. This project assists TVA in meeting the Clean Air Act requirements for emissions from coal-fired plants. Our audit focused on the contractor's adjustment of provisional rate charges to actual costs for this four-year period. We determined the contractor's adjustments for 1990~1993 were based on actual (but unaudited) incurred costs, while no rate adjustments had been made for 1994. We also found that applying Defense Contract Audit Agency (DCAA) data to the 1990~1991 rates would result in credits to TVA of over \$80,000. Additional follow-up will be scheduled to ensure that appropriate credits are applied to this contract as DCAA rates are calculated for 1992~1994.

Modification and Maintenance Services

A preaward audit of a proposal to provide modification and maintenance services under a partnering arrangement for three years and approximately \$225 million revealed the vendor overstated its fringe benefit costs and overtime indirect expenses. Following our audit visit, the vendor revised its proposed rate schedule to adjust for these overstated costs. We estimate the revised rate schedules will save TVA \$2.3 million over the three-year contract period.

Fire Protection Systems

We audited a contractor's three-year \$25 million proposal to provide fire protection systems. We concluded TVA could save about \$1.5 million by including discounts the contractor received from affiliated companies and subcontractors and by eliminating certain duplicate insurance costs.

Water Treatment Facilities

Our review of a two-year \$28.3 million proposal to provide water treatment facilities at TVA fossil plants revealed TVA could save about \$470,000 by aggressively negotiating a reduction in the vendor's overhead to eliminate marketing expenses and reduce profit markup rates.

Contractor's Task Costs

We examined a contractor's completion of 24 tasks for \$17.5 million under a \$100 million partnering agreement. We conducted a limited scope review of the contractor's processes for estimating and accumulating task costs and suggested six areas for consideration by TVA management in estimating future tasks.

Audits of Other Contracts

During this reporting period, we completed 13 other contract audits. A description of two such audits follows.

Economic Development Contract

We reviewed a \$178,000 contract for economic development activity in a Kentucky city. We found the project was poorly managed because only 14 percent of the contractor's funding was spent for specific economic development projects. The remaining funds were used for compensation, administrative expense, real estate, miscellaneous expenses, or were not accounted for by the contractor. Issues involving overstated costs, missing funds, and contract violations have been referred to OIG Investigative Operations.

Resource Group Contract

We reviewed the contractor's methods of accounting for projects under a TVA contract and found the contractor had commingled the costs of TVA's projects with costs of other projects. Also, the contractor calculated no interest on TVA funds advanced under the contract. We estimated TVA may be due about \$578,000 in interest and that continuation of the present funding practice could cost TVA about \$964,000 of lost interest in the next five years.

Our investigations continue to emphasize two types of cases—those with a potential monetary impact on TVA and allegations concerning integrity issues. Our investigations included alleged bribery in connection with coal contracts, theft, false claims, contract fraud, workers' compensation, and misuse of government property.

In the last six months, we substantiated 43 of the 148 allegations we investigated—almost 30 percent. Our cases also led to more than \$939,000 in monetary recoveries, five indictments, and seven convictions. Representative investigations are highlighted below.

Summary of Representative Investigations

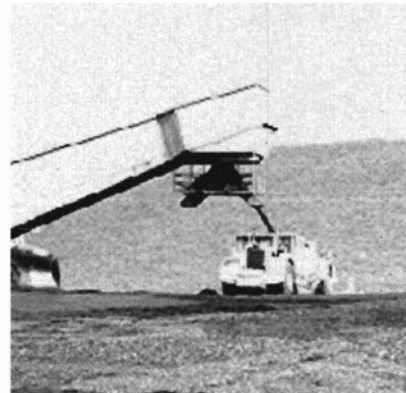
ALLEGED BRIBERY

Three people, including a former TVA transportation specialist and a coal brokerage business president, were indicted by a federal grand jury for conspiracy, bribery, illegal gratuities, false statements, and obstruction of justice.

- The coal brokerage president allegedly gave bribes and illegal gratuities to the TVA transportation specialist in return for access to confidential coal bid information. The TVA employee, who was a procurement official, negotiated

transportation rates for coal and had access to confidential coal bid information.

- The indictment alleges a conspiracy—which lasted from May 1988 to September 1992—involving the president's payment of bribes, gratuities, and money to the TVA employee in return for confidential coal procurement information and other assistance. During this time period, TVA paid the company over \$171 million for coal.
- As part of the conspiracy, the indictment charged that the TVA employee tried to conceal his receipt of money and gratuities from the coal brokerage president. The TVA employee was charged with making false statements and obstructing justice by first telling OIG investigators that the payments from the president



were in fact from his mother and then persuading another individual to provide false information by saying the payments were from him. The TVA employee finally admitted to the OIG investigators during a later interview that the payments were actually from

the president. The other individual also was charged with making false statements and obstructing justice for telling OIG investigators that he had loaned money to the TVA employee. If convicted, the former TVA employee faces maximum cumulative penalties of 95 years in prison and \$1.5 million in fines, and the coal brokerage president faces up to 65 years in prison and \$1.5 million in fines. The other individual faces up to 15 years in prison and \$750,000 in fines.

THEFTS

Representative theft investigations include the following.

Theft of Computer Equipment

A former TVA systems analyst at BFN pled guilty in federal court to stealing government property. He pled guilty after a search of his residence revealed a substantial amount of evidence linking him to the (1) theft of TVA property and (2) sale of the stolen property through a computer consulting business. The analyst sold stolen TVA property to individuals, a school, and several Alabama businesses. He was sentenced to eight months in prison, three years' supervised release, and was ordered to make \$12,756 in restitution to TVA.

Forged Travel Advances

A former TVA secretary pled guilty to theft after our investigation revealed she stole more than \$1,300 from TVA. The former secretary prepared applications for travel advances and forged her supervisor's signature. She then submitted the applications and obtained travel advances to which she was not entitled. She was sentenced to two years in prison but was placed in a judicial diversion program. She was required to make restitution to TVA.

Theft of Tools

A former TVA contract employee working at BFN was indicted by a federal grand jury for theft of government property. A search of the former employee's home revealed about \$2,000 worth of TVA tools and other property.

FALSE CLAIMS

We continue to investigate false claims in several areas, including temporary living expenses and energy conservation loans.

Temporary Living Expenses (TLE)

We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible TLE paid to TVA contractors. During this reporting period, our efforts resulted in (1) recoveries of more than

\$124,000; (2) cost avoidance of more than \$53,000 through four employees being taken off TLE; and (3) TVA management agreeing to seek recovery of more than \$199,000 from three contractors. In addition, prosecution is pending on eight contractor employees who submitted false claims for TLE totaling more than \$214,000.

Energy Conservation Loans

Three people were convicted and sentenced in connection with our investigation of defaulted TVA Commercial and Industrial (C&I) energy conservation loans in the Memphis, Tennessee, area. Further, two individuals, who were convicted during previous semiannual periods, were also sentenced. Our investigation focused on 22 C&I loans which were in default. To date, our investigations have resulted in the following.

- Our investigations have generated more than \$83,000 in recoveries, restitutions, and fines.
- One contractor was found guilty of five counts of mail fraud and five counts of making false statements. He was sentenced to 20 months in prison, five years' probation, and was fined \$4,500.

- A former TVA employee, who earlier admitted accepting money from two contractors in return for falsifying loan program inspection reports, was sentenced to 12 months and 1 day in prison, two years' probation, and was ordered to serve 250 hours' community service.
- Another contractor who was also involved in this scheme was sentenced to eight months in prison, two years' probation, 200 hours of community service, and was ordered to make restitution of \$12,790.
- A third contractor who admitted to mail fraud in connection with a loan was sentenced to 20 months in prison, three years' probation, and was also required to make \$4,800 restitution.
- A restaurant owner who admitted falsifying documents to obtain an \$11,000 loan was sentenced to six months' house arrest, five years' probation, and was ordered to make restitution of more than \$9,800.

Fraudulent Timesheets

A former contract employee pled guilty to making a false statement after our investigation revealed he submitted false timesheets to his employer. The former employee continued to submit biweekly timesheets to his employer after he had left the company. Subsequently, the

company reimbursed TVA \$15,960 for money they paid this individual while he was no longer their employee. He was sentenced to five years' probation and was ordered to pay more than \$7,500 in restitution to his former employer.

Fraudulent Sales Reports

During this reporting period, a company leasing TVA property reimbursed TVA more than \$52,700 after our investigation revealed the contractor was concealing sales in order to avoid paying TVA a fee based on such sales. In addition, after our investigation began, the contractor significantly increased the amount of sales he reported to TVA. For example, during 1992~1994, the contractor's payments to TVA averaged about \$3,600 per quarter. During 1995, his payments increased to an average of more than \$47,000 per quarter.

Credit Card Fraud

A TVA contractor admitted that he fraudulently charged \$15,200 to a TVA VISA card assigned to a TVA project manager. The contractor stated he made the bogus charges because he needed money for his rental business. After he was confronted with the fraudulent charges, he repaid TVA \$15,200.

WORKERS' COMPENSATION BENEFITS

Our ongoing reviews of workers' compensation payments have resulted in long-term avoided costs of about \$1 million. More specifically, our investigation disclosed a former electrician at BFN who was on total disability had returned to work. The Department of Labor subsequently agreed the former employee was capable of working and stopped payments of approximately \$27,000 a year in benefits.

MISUSE OF TVA PROPERTY

Representative investigations of misuse of government property include the following.

Misuse of Internet

A programming technician resigned, and TVA management suspended an electrician foreman for misusing TVA property, including accessing the Internet for non-work-related activities. The technician resigned after he admitted spending three to four hours a day for two weeks browsing through the Internet for non-work-related activities, including accessing nude imagery. In the other instance, the foreman was suspended for ten days for using his computer to access the Internet to obtain

pornographic photographs and computer videos and then displaying the pictures to his coworkers.

Misuse of Equipment

A line crew lineman used TVA equipment to clear the lot where he was building his home. The lineman's foreman authorized the use of the equipment to help the lineman develop his property and authorized three of his subordinates to

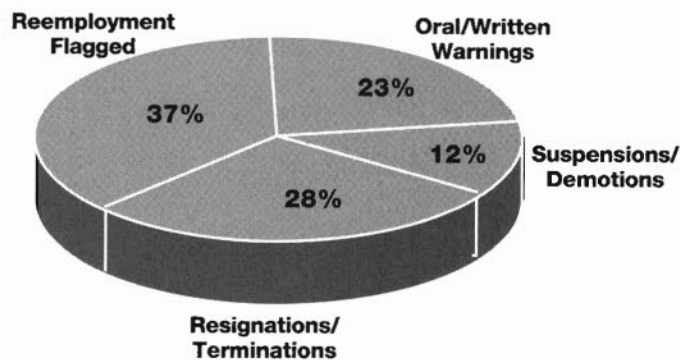
help the lineman work on this property on TVA time. In addition, the lineman and foreman stole TVA property—a steel culvert and gravel—and used that stolen property on the lineman's lot.

Our investigations involve programs and activities affecting many TVA organizations. These organizations are shown below, for the cases we closed this reporting period.



Administrative and Disciplinary Actions Since October 1, 1990*

Total = 391



*Prosecutive referrals are shown at Appendix 3.

HOTLINE

The Hotline provides a nationwide 24-hour-a-day service for reporting instances of waste, fraud, and abuse involving TVA. The Hotline, which is an integral part of our Investigative Operations, is staffed by experienced OIG employees trained in telephone interviewing techniques. Serious allegations are immediately assigned to OIG special agents, while other more routine—but nonetheless important—allegations are handled by our Hotline staff. Some examples of successful investigations which began with a Hotline call or were handled by our Hotline staff are highlighted below.

Embezzlement

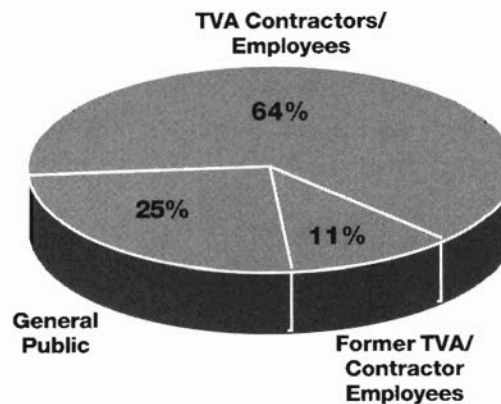
A Transmission Line Construction materials clerk embezzled and stole more than \$38,900. Initially, the clerk—who was in charge of collecting the mail and preparing field purchase orders—stole checks that vendors returned to TVA as overpayments. Subsequently, she devised a scheme where she took legitimate vendor invoices and altered key information, including inserting her own address (i.e., a post office box) on them. She then attached the falsified vendor invoices to field purchase orders—which she prepared—and submitted them for payment. Subsequently, TVA sent checks to the clerk's post office box. TVA management has terminated the employee, and we

have referred this matter to the United States Attorney's office for possible prosecution.

Misuse of Vehicle

A TVA photographer resigned during our investigation regarding his misuse of a TVA vehicle. The photographer was arrested for driving under the influence of alcohol while operating a TVA vehicle. Our investigation revealed that he had operated the vehicle for personal use for an extended period of time.

**Calls Made to the OIG Hotline
During this Reporting Period**



Our office completed a number of projects that were requested either by the Board of Directors or TVA executive management. Two such projects are highlighted below.

Coal Procurement Process Review

In response to a request from TVA's Board of Directors, we compared TVA's coal procurement to that of other utilities. We interviewed over 70 coal producers and brokers and surveyed 20 of the top 30 United States utilities ranked by installed coal capacity. Our review revealed that coal vendors had generally favorable opinions about TVA's process and viewed it as comparable to that of other utilities—an opinion that was confirmed by our comparison of TVA's process with the process used by the 20 utilities we surveyed. Moreover, based on delivered coal cost, TVA's process compared favorably to a number of TVA's competitors. The OIG continues to address this vital \$1 billion area of TVA's business and has future reviews in its 1996 workplan.

Sick Leave Review

At the request of the President of TVA Nuclear, we reviewed sick leave usage at BFN and SQN. We determined a significant percentage of sick leave taken at these facilities appears to be control-

lable and that TVA Nuclear could reduce such sick leave use by establishing a computerized screen which identifies employees whose absences fall into certain suspicious or unusual patterns. When we applied our screen, we identified over 130 BFN employees whose sick leave appeared excessive in comparison to that of their counterparts. Many of these employees also took sick leave in patterns that appeared unusual or suspicious and were disproportionately concentrated in specific work groups. Although not as pronounced, we found similar patterns at SQN and identified nearly 100 employees whose sick leave use appeared excessive or unusual. TVA Nuclear is reviewing the leave use of the 230+ employees our review identified and is implementing computerized screens to identify potential sick leave abuse.

■ APPENDICES

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**OIG AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1995**

The following table summarizes final audit reports issued by the OIG from April 1 through September 30, 1995.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
04/07/95	95-041S	Valmont Industries, Inc. - Preaward Audit - Request for Price Increase - Contract 94-PA2-100328-001			\$206,000
04/12/95	95-038S	Siskin Steel & Supply Co., Inc. - Preaward Audit - Request for Price Adjustment - Contract 92PBA-39306C-000			45,000
05/25/95	95-047S*	Vega Corporation - Preaward Audit for Maintenance & Renovation Services at Watts Bar Nuclear Plant			
05/30/95	95-012C	Voith Hydro, Inc. - Contract 93PBL-79099E			
05/30/95	95-030S	Electric Power Research Institute, Inc. - Preaward Audit for Tailored Collaboration Master Agreement	\$578,000		1,078,313
06/12/95	95-061S	NPS Energy Services, Inc. - Preaward Audit			2,304,500
06/13/95	95-003C-01	Williams Power Corporation - Contract 93PGB-77793B			
07/10/95	95-046S	F. E. Moran, Inc. - Audit of Proposed Costs for Fire Protection Systems			1,571,700
07/14/95	95-063S	Global Power Company - Preaward Audit for Fossil & Hydro Power/GUBMK	19,700		31,650
07/27/95	95-064S	ACANDS Inc. - Preaward Audit for Fossil & Hydro Power	88,250		82,350

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DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
07/28/95	95-009F	Review of Tennessee Valley Authority's Novell Networks Access Security			
07/31/95	95-040C	ENSR Consulting and Engineering - Contract TV-91532V	\$23,736		
08/08/95	94-015C-01	Ebasco Constructors, Inc. - Contract 91NNP-44970C	95,160		
08/10/95	94-064P-01	Potential Issues Affecting TRDA'S Financial Records			
08/11/95	95-056F	Thomas R. Childress Personal Injury Claim - Present Value Analysis of Future Lost Wages	29,157	\$29,157	
08/11/95	95-035P	Review of TVA'S Socially and Economically Disadvantaged Business Finance Program			
08/21/95	95-037C	Raytheon Engineers & Constructors, Inc. - Contract 90P2S-79058B - Provisional Rate Adjustments	81,045	81,045	
08/28/95	95-050C	Porter Walker, Inc. - Contract 93XS3-45247C-01			
08/31/95	94-015C-02	Ebasco Constructors, Inc. - Contract 91NNP-44970C - Provisional Payroll Tax Rates	1,102,089		
08/31/95	95-069S	Dillard Paper Company - Preaward Audit of Request for Price Increase - Purchasing Contract 93XS4-45268C	2,141		\$34,800
08/31/95	95-070S	Raytheon Engineers & Constructors, Inc. - Preaward Audit for Watts Bar Nuclear Plant			2,983,000
09/11/95	95-018F	Long-Distance Telephone Usage			
09/12/95	95-014P	Review of Nuclear Contractor Air Travel			195,000

Appendix 1

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DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
09/18/95	95-051C	Diversified Supply, Inc. - Contract 94XG9-110846	\$14,373		
09/19/95	95-049C	Tool Smith, Inc. - Contract 93XS3-45247C-02			
09/19/95	95-080S	Raytheon Constructors, Inc. - Preaward Audit for Watts Bar Nuclear Plant			
09/20/95	95-068S	Sverdrup Corporation - Preaward Audit - Makeup Water Supply Upgrades			\$471,440
09/22/95	94-046P-03	Review of Contract 92PQH-03063B Rollins Environmental Services, Inc.			
09/26/95	94-015C-03	Ebasco Constructors, Inc. - Contract 91NNP-44970C - Incentive Fees			
09/28/95	95-055F	Costs Incurred by Records and Information Management Services for Paper, Scanned and Microfilm Records			
09/28/95	94-035P	Follow-Up Review of TVA's Management of Polychlorinated Biphenyls (PCBs)			
09/28/95	94-049P-02	Billing of Contractor Air Travel - United Engineers & Constructors	41,109 **	\$17,588	
09/28/95	95-025P	Visions Development, Inc. - Contract TV-70152A			
09/29/95	94-066C	Bechtel Power Corporation - Contract 92NLA-86916B	61,996		
09/29/95	95-003C-02	Williams Power Corporation - Contract 93PGB-77793B - Materials and Equipment Rental			
09/29/95	95-004C	Bechtel Power Corporation - Contract TV-83425V - Review of Domestic Field Allowance	2,181,817		

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DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
09/29/95	95-072C	Intersteel, Inc. - Prevailing Wage Rates			
09/29/95	95-010F	Calculation of TVA's Damages Under Contract 86P-16-71 With Southern Illinois Mining Company			
09/29/95	95-021F	Review of TVA's Procurement Processes and Systems			
09/29/95	94-046P-02	Review of Hazardous Waste Disposal - Contractors			
09/29/95	95-029P	Environmental Liability Due to Contractors			
09/29/95	95-075P	Review of Fossil Plant Storeroom Operations			
09/29/95	95-065S	Science Applications International Corporation - Contract TV-90216V - Preaward Audit for Transmission/Power Supply			
TOTAL	43		\$4,318,573	\$127,790	\$9,003,753

* Contract not awarded.

** Questioned costs include \$17,511 for unreasonable or unnecessary expenditures not recoverable.

Appendix 2

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OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1995

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	\$ 464,428	\$ 0
B. Which were issued during the reporting period	13	4,318,573	127,790
Subtotal (A+B)	17	\$4,783,001	\$127,790
C. For which a management decision was made during the reporting period	13*	2,452,125	110,202
1. Dollar value of disallowed costs	13	2,319,527	110,202
2. Dollar value of costs not disallowed	4	132,598	0
D. For which no management decision has been made by the end of the reporting period	4	2,330,876	17,588
E. For which no management decision was made within six months of issuance	0	0	0

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

Appendix 2

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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	6	\$ 3,415,500
B. Which were issued during the reporting period	11	9,003,753
Subtotal (A+B)	17	\$12,419,253
C. For which a management decision was made during the reporting period	12*	8,655,813
1. Dollar value of disallowed costs	12	8,111,803
2. Dollar value of costs not disallowed	4	544,010
D. For which no management decision has been made by the end of the reporting period	5	3,763,440
E. For which no management decision was made within six months of issuance	0	0

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

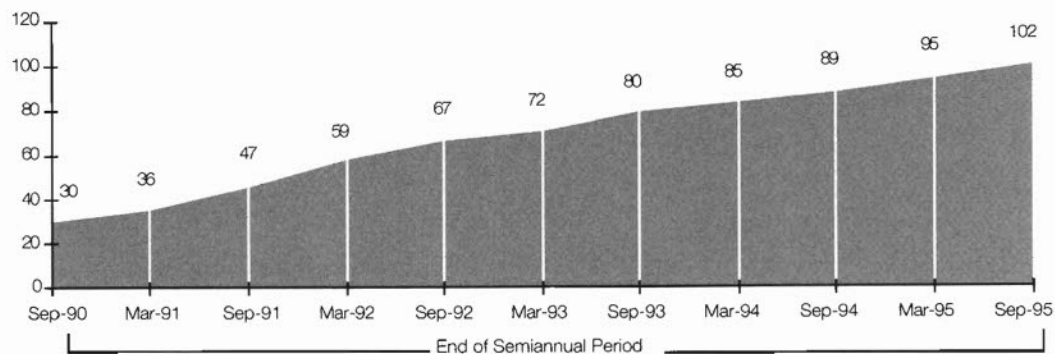
Appendix 3

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INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	17	5 Indictments 7 Convictions 11 Declinations
Subjects referred to other agencies for investigative or administrative action	0	OWCP declared \$2,476 in overpayments and saved TVA more than \$1 million in estimated long- term workers' compensation costs.
TOTAL	17	

Convictions Since October 1, 1989
(Cumulative)





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

Craven Crowell
Chairman, Board of Directors

November 3, 1995

TO THE UNITED STATES CONGRESS:

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

As TVA begins its ninth consecutive year of having no increase in electric power rates, we welcome the continued support of the Inspector General in meeting our goals of being customer driven, employee sensitive, environmentally responsible, and growth oriented.

Sincerely,

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

Craven Crowell

Enclosure

Appendix 4

Page 2 of 4

TVA MANAGEMENT'S REPORT ON FINAL ACTIONS FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1995

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

TABLE I
DISALLOWED COSTS

AUDIT REPORTS	NUMBER OF REPORTS	AMOUNTS AGREED BY MANAGEMENT
A. For which final action by management had not been taken by 3/31/95	9	\$3,319,896*
B. On which management decisions were made from 4/1/95 through 9/30/95	13	2,319,527
Subtotal (A + B)	22	\$5,639,423
C. For which final action was taken by management from 4/1/95 through 9/30/95		
1. Amounts that were recovered by management	9	493,277**
2. Amounts that were not recovered by management	4	709,113
D. For which management has taken no final action by 9/30/95	9	4,437,033

* This number differs from the prior report's ending number due to a data entry error on a management decision in the prior report.

** Excludes excess recovery of \$42,745.

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

AUDIT REPORTS	NUMBER OF REPORTS	AMOUNTS AGREED BY MANAGEMENT
A. For which final action by management had not been taken by 3/31/95	6	\$1,799,436
B. On which management decisions were made from 4/1/95 through 9/30/95	12	8,111,803
Subtotal (A + B)	18	\$9,911,239
C. For which final action was taken by management from 4/1/95 through 9/30/95		
1. Dollar value of recommendations implemented by management	13	8,143,201
2. Dollar value of recommendations not implemented by management	1	34,800
D. For which management has taken no final action by 9/30/95	4	1,733,238

Appendix 4

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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 Fossil's Capital Project Estimating Process 93-012P-05	5/25/94	N/A	N/A	Final resolution was received October 1995.
LAN and WAN Management and Operation 93-029F	12/20/93	N/A	N/A	Final resolution is expected during FY 1996.
Special Opportunities for Counties Program 94-014P	5/26/94	N/A	N/A	Final resolution is expected during FY 1996.
SOC Project Account Verification 94-028P	9/14/94	N/A	N/A	Final resolution was received October 1995.

N/A - Not Applicable

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

Appendix 5

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OIG REPORTING REQUIREMENTS

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

Section 4(a)(2) — Review of Legislation and Regulations	*
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 5-20, 22
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 5-20, 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 10-15
Section 5(a)(8) — Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 2
Section 5(a)(9) — Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 2
Section 5(a)(10) — Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period	***
Section 5(a)(11) — Significant Revised Management Decisions	****
Section 5(a)(12) — Significant Management Decisions With Which the Inspector General Disagreed	*****

* There were no 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 unresolved audit reports in this category during this reporting period.

**** There were no significant revised management decisions.

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

■ HIGHLIGHTS

	FOR SEMIANNUAL REPORTING PERIODS				
	SEPT 30, 1995	MAR 31, 1995	SEPT 30, 1994	MAR 31, 1994	SEPT 30, 1993
ANNUAL BUDGET (In Millions of Dollars)	8.5	8.5	8.7	8.7	8.7
CURRENT STAFFING	95	98	118	119	126
AUDITS					
AUDITS IN PROGRESS					
Carried Forward	37	31	29	27	21
Started	43	48	43	36	34
Canceled	(10)	(6)	(7)	(3)	(3)
Completed	(43)	(36)	(34)	(31)	(25)
In Progress at End of Reporting Period	27	37	31	29	27
AUDIT RESULTS (Thousands)					
Questioned Costs	\$4,319	\$7,042	\$10,948	\$6,708	\$ 11,517
Disallowed by TVA	2,320	2,711	9,900	1,649	10,291
Recovered by TVA	493	3,933	8,054	1,268	10,673
Funds to Be Put to Better Use	\$9,004	\$4,355	\$3,791	\$2,043	\$ 636
Agreed to by TVA	8,112	1,610	4,004	171	104,955
Realized by TVA	8,143	632	1,477	92	120,833
INVESTIGATIONS					
INVESTIGATION CASELOAD					
Carried Forward	158	174 *	149	135	163
Opened	128	120	155	122	99
Closed	(147)	(136)	(150)	(108)	(127)
In Progress at End of Reporting Period	139	158	154	149	135
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	30	18	38	22	35
Actions Taken (# of Subjects)	21	23	23	19	44
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referrals	17	7	19	8	38
Indictments	5	2	4	2	6
Criminal Complaints	0	0	3	0	0
Convictions	7	6	4	5	8

*Adjusted from previous semiannual reports.

OFFICE OF THE INSPECTOR GENERAL OF THE TENNESSEE VALLEY AUTHORITY

400 WEST SUMMIT HILL DRIVE

KNOXVILLE, TENNESSEE 37902-1499