

OFFICE OF THE INSPECTOR GENERAL

SEMIANNUAL REPORT

OCTOBER 1, 1989 - MARCH 31, 1990

TENNESSEE VALLEY AUTHORITY

OFFICE OF THE INSPECTOR GENERAL

Semiannual Report

October 1, 1989 - March 31, 1990

INSPECTOR



GENERAL

TENNESSEE VALLEY AUTHORITY

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

April 30, 1990

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

This is our eighth semiannual report to Congress. It summarizes our significant audit and investigative activities from October 1, 1989 to March 31, 1990. This report also reflects the new reporting requirements of the Inspector General Act Amendments of 1988.

TVA is taking aggressive steps to constantly improve the way it does business, and we are committed to assist this process by, among other things, working cooperatively with TVA management and assuring that our activities contribute to TVA's overall goals.

During this reporting period, some of our more noteworthy contributions to TVA's efficient operation included (1) our timely completion of preaward audits, which collectively identified more than \$16 million which could be put to better use; (2) our continued identification of workers' compensation fraud; and (3) our investigation of alleged intimidation and harassment in TVA's Nuclear Power program.

We are pleased to report that TVA management has been responsive to our audit recommendations and investigative findings and has taken administrative and disciplinary actions and implemented policy and procedures which saved TVA millions of dollars and increased its efficiency.

We are committed to helping TVA achieve its overall mission and will continue to do our part to detect and eliminate fraud, waste, and inefficient or unnecessary operations. We are encouraged by TVA management's strong support, responsiveness, and cooperation and believe their actions materially contribute to the success of our activities.

Sincerely,

A handwritten signature in dark ink, appearing to read "Norman A. Zigrossi".

Norman A. Zigrossi
Inspector General

CONTENTS



1	EXECUTIVE SUMMARY
5	TVA PROFILE
7	OFFICE OF THE INSPECTOR GENERAL
9	AUDITS
10	Audit Statistics
11	Audit Resolution and Follow-Up
14	SPECIAL FEATURE--Preaward Audits Pay Off for TVA
19	Summary of Significant Audits

25 **INVESTIGATIONS**

- 26 Investigative Caseload
26 Sources of Allegations
27 Classification of Investigations
28 Allegations in OIG Cases
29 Administrative and Disciplinary Actions
32 Investigative Referrals
33 Prosecutive Activities
36 SPECIAL FEATURE--OIG Investigations of Alleged
 Intimidation and Harassment in Nuclear Power
39 Other Representative Investigations

41 **OIG PROJECTS**

45 **OTHER OIG ACTIVITIES**

- 45 The OIG Hotline Calls Bring Results
47 The OIG Hotline
48 The OIG's Use of Subpoenas

APPENDICES

- 50 1. Inspector General Audit Reports Issued for the Six-
 Month Period Ending March 31, 1990
55 2. Glossary of Audit Terms
57 3. TVA Management's Report on Final Actions for the
 Six-Month Period Ending March 31, 1990

EXECUTIVE SUMMARY

This semiannual report--our eighth--summarizes our major activities and accomplishments from October 1, 1989 to March 31, 1990. These activities and accomplishments are highlighted below.

AUDITS

During the past six months, we focused primarily on preaward audits and promptly completed our review of various contract proposals in order to provide a useful service to TVA management. We issued 36 audit reports which collectively identified over \$120 million in questioned costs, of which \$6 million is potentially recoverable, and \$25 million in funds that could be put to better use. Some of our significant audit activities are described below.

- Twenty-one of the thirty-six audits we completed during the first half of fiscal year 1990 were preaward audits which identified \$16 million which could be put to better use.
- We are pleased to report that, with one exception, management has made decisions on all audit reports issued over six months ago.
- Our audit of TVA's vehicle use and disposal practices identified several opportunities for savings. We recommended that, among other things, TVA consider selling and not replacing at least 400 vehicles. During fiscal year 1989, TVA sold about 940 vehicles in its fleet, with about half of those sold after we completed our audit field work. The fiscal year 1989 fleet reduction and vehicle sales could save TVA as much as \$6.3 million.
- Our audit of TVA's checking account arrangements with the U.S. Treasury Department (USTD) identified measures to reduce interest costs and improve internal controls. TVA would

save about \$4.2 million annually if TVA reimbursed USTD for checking account services and paid interest to USTD commencing with the dates checks are cashed rather than the dates checks are issued. Further, TVA would gain the capability to perform bank reconciliations and quickly retrieve cancelled checks. TVA initiated commercial bank arrangements that should accomplish many of the potential cash management benefits our audit cited.

INVESTIGATIONS

Special agents opened 328 new cases and closed 285 cases, resulting in a caseload of 443 open cases as of March 31, 1990. Some of our investigative activities are highlighted below.

- We issued 117 investigative reports to TVA management.
- We recommended management consider taking administrative or disciplinary action in 71 of the 285 cases we closed. Based on these and prior recommendations, management terminated 7 employees, demoted 12 employees, suspended 9 others, and issued written warnings to 11 employees.
- We referred 116 matters to federal prosecutors and other government officials, including 44 cases (involving 73 subjects) to United States Attorneys. These and prior referrals resulted in six convictions and three indictments during this reporting period.
- Our Hotline received 175 calls--107 from TVA employees, 21 from former employees, and 47 from the general public.
- We issued 17 subpoenas for documents--all in connection with OIG investigations.

-
- We are cooperating with TVA's Nuclear Power organization by investigating alleged intimidation and harassment, including alleged violations of Section 210 of the Energy Reorganization Act. We are investigating the circumstances surrounding Section 210 complaints and other intimidation and harassment issues to determine whether any current or former TVA employees engaged in misconduct.

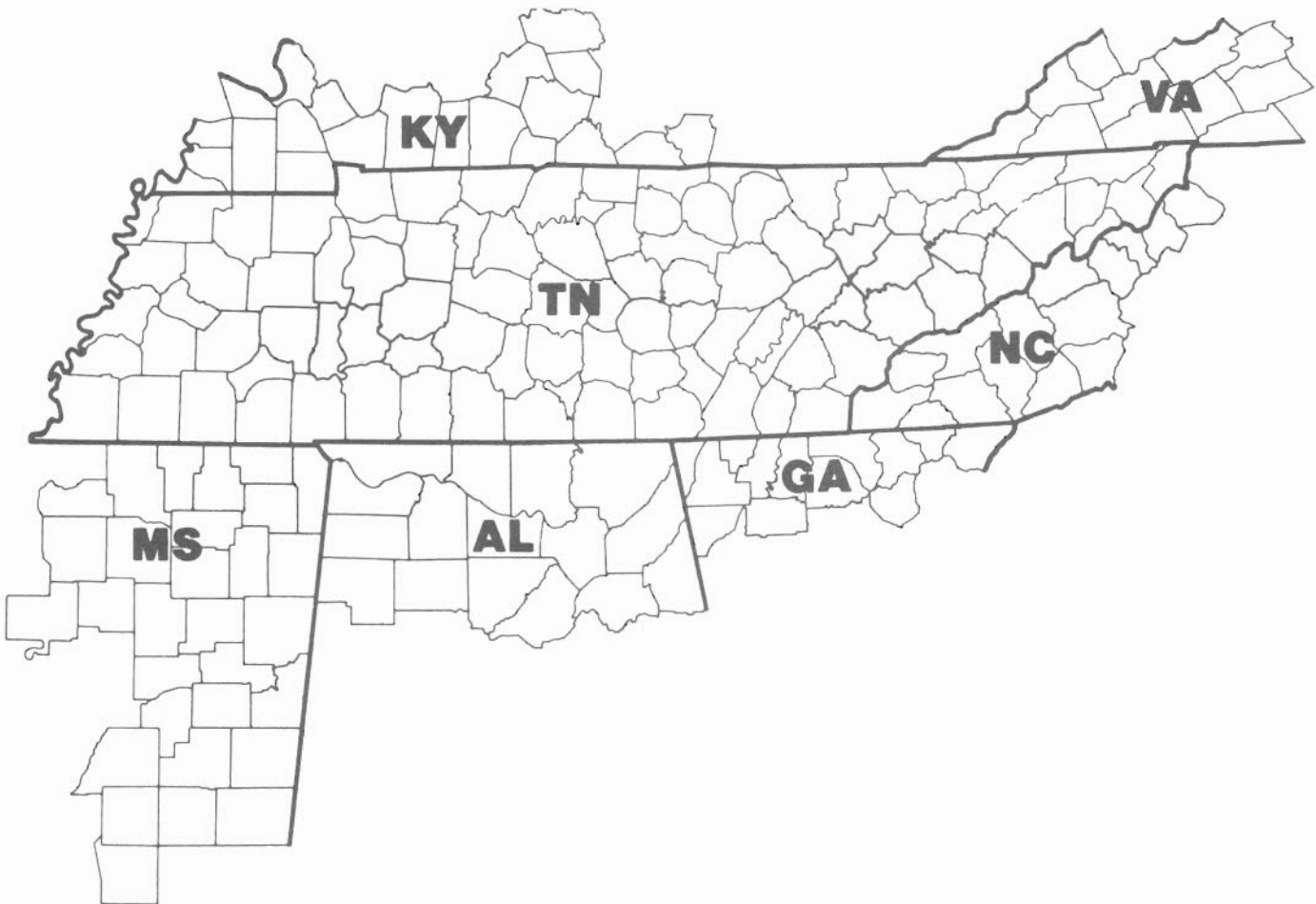
TVA PROFILE

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 accomplish its mission, TVA is involved in economic, natural resource, and agricultural development and in the production of low-cost electric power. The power system is funded exclusively by power sales and borrowings, and TVA's remaining programs are funded by congressional appropriations and other revenues. During October and November of this reporting period, TVA undertook the largest underwritten negotiated security issue in the history of American finance--selling \$8 billion of 5- to 40-year bonds.

TVA has approximately 27,860 employees and is headed by a 3-member Board of Directors who are appointed by the President and confirmed by the Senate. Directors are appointed for staggered, nine-year terms, and the President designates one director as Chairman. TVA's three directors are Charles H. Dean, Jr.; John B. Waters; and Chairman, Marvin T. Runyon.

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 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.

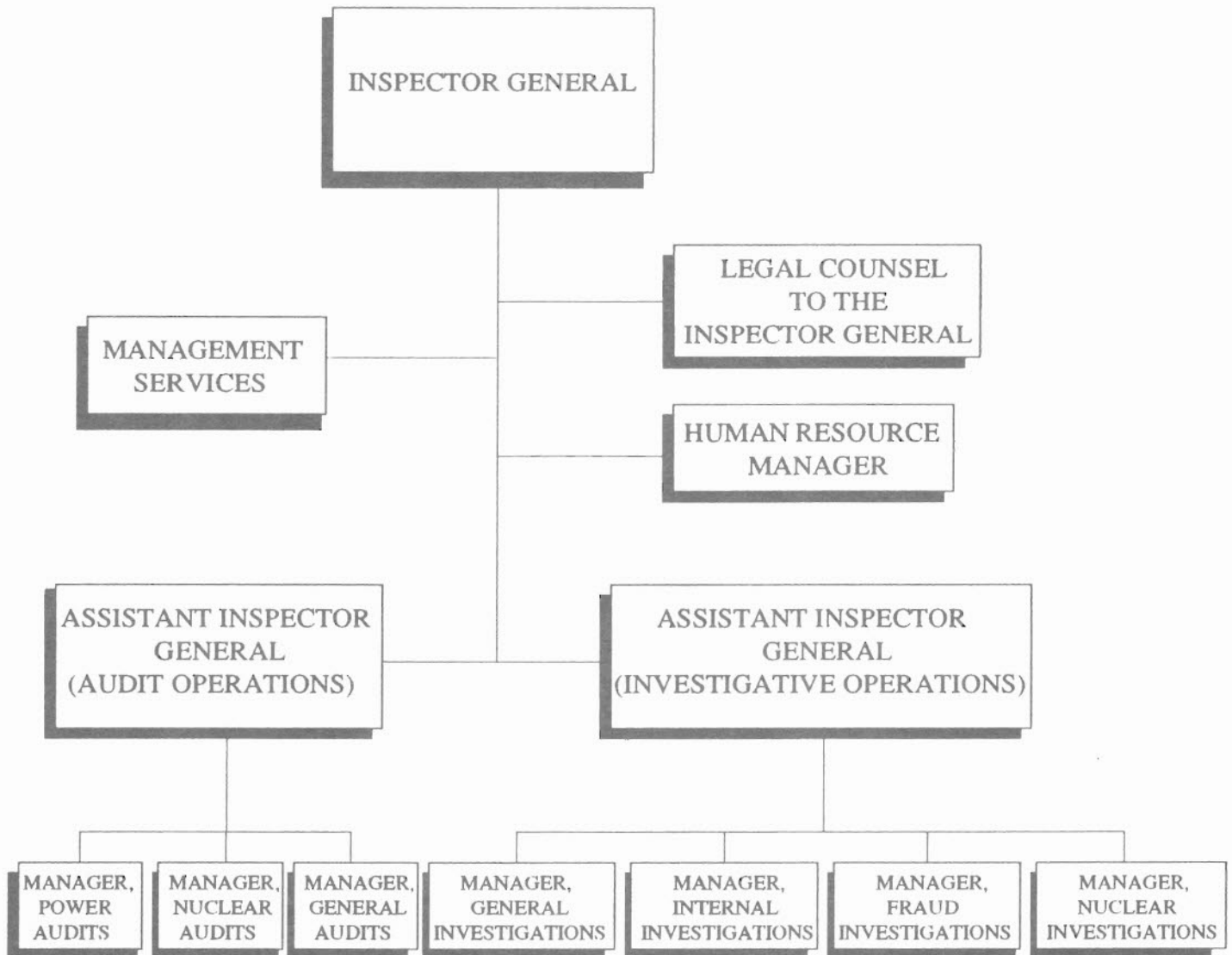
TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors. The Inspector General reports matters to Congress through semiannual reports and interim reports.

STAFFING AND BUDGET

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee. The OIG functions through two operational units--Audit 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 1990 budget is approximately \$8.9 million and includes 155 budgeted positions.

OFFICE OF THE INSPECTOR GENERAL



AUDITS



*Norm B. Sandlin, Nuclear Power's Contract Administration Manager, Confers With
H. Ernest Woodby, Assistant Inspector General (Audit Operations)*

This reporting period, we issued 36 audit reports which collectively identified over \$120 million in questioned costs, of which \$6 million is potentially recoverable, and \$25 million in funds that could be put to better use (see *Appendix I* for listings). We also emphasized the prompt completion of audits of contract proposals in order to provide a useful service to TVA management. Of the \$25 million in funds that could be put to better use, \$16 million resulted from 21 preaward audits. A more detailed description of our audit activities follows.

AUDIT STATISTICS

Status of Audit Projects

Audit Projects Carried Forward 10/1/89	55	
Audit Projects Started	52	
Less: Postponed or Cancelled	<u>(6)</u>	
Total Active Audit Projects		101
Less: Audit Projects Completed		<u>(36)</u>
Total Audit Projects in Progress 3/31/90		<u><u>65</u></u>

Audit Results

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

Audit Reports Issued: 36

Questioned Costs:

Unsupported Costs	\$ 2,236,318	
Other Questioned Costs	<u>117,789,633*</u>	
Total Questioned Costs		\$120,025,951
Funds to Be Put to Better Use		<u>25,078,747</u>
TOTAL		<u><u>\$145,104,698</u></u>

* Of this figure, \$114,000,000 is not recoverable.

AUDIT RESOLUTION AND FOLLOW-UP

Since the OIG's inception, our audits have resulted in over 600 recommendations to TVA management. The status of management decisions for final audit reports issued with recommendations for dollar savings or benefits is shown in the charts in this section. TVA management has made decisions on all audit reports, except one, which were issued over six months ago. This audit report--No. 88-188N-10--is described below.

UNRESOLVED AUDIT REPORTS WHICH WERE ISSUED PRIOR TO OCTOBER 1, 1989

In accordance with Section 5(a)(10) of the Inspector General Act, following is a listing of audit reports which were issued before this reporting period began for which no management decision was made by the end of the reporting period.

DATE ISSUED	REPORT TITLE	WHY MANAGEMENT DECISION HAS NOT BEEN MADE
06/27/89	BCP Technical Services, Inc. - Contract TV-67403A Claim for Interest on Late Payments	Management intends to combine its decision on this audit of the contractor's claim for interest on late payments by TVA with an audit of the contract expected to be completed in the next period.

Management's decision will be included in our next semiannual report.

We are pleased to report that we have not disagreed with any significant final management decision which was made during this period. *Appendix 3* contains TVA management's report on the status of final actions for audit reports with management decisions.

**INSPECTOR GENERAL ISSUED REPORTS WITH
QUESTIONED COSTS FOR THE SIX-MONTH
PERIOD ENDING MARCH 31, 1990**

	Number of Reports	Dollar Value	
		Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the period	3	132,122	126,658
B. Which were issued during the reporting period	6	120,025,951	2,236,318
Subtotals (A+B)	9	120,158,073	2,362,976
C. For which a management decision was made during the reporting period	4	114,128,359	120,045
(i) Dollar value of disallowed costs	3	128,359	120,045
(ii) Dollar value of costs not disallowed	1	114,000,000	0
D. For which no management decision has been made by the end of the reporting period	5	6,029,714	2,242,931
Reports for which no management decision was made within six months of issuance	1	6,613	6,613

**INSPECTOR GENERAL ISSUED REPORTS WITH
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 1990**

	<u>Number of Reports</u>	<u>Dollar Value</u>
A. For which no management decision has been made by the commencement of the period	8	44,829,402
B. Which were issued during the reporting period	18	25,078,747
Subtotals (A+B)	26	69,908,149
C. For which a management decision was made during the reporting period	11*	53,532,383
(i) Dollar value of recommendations that were agreed to by management	11	42,517,920
(ii) Dollar value of recommendations that were not agreed to by management	4	11,014,463
D. For which no management decision has been made by the end of the reporting period	15	16,375,766
Reports 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.(i) and C.(ii) when the same reports contain both recommendations agreed to and not agreed to by management.

SPECIAL FEATURE

PREAWARD AUDITS PAY OFF FOR TVA

Our previous semiannual report noted that we assisted TVA contract administrators in evaluating five proposals for contractor services at TVA's nuclear power plants. During this reporting period, we conducted an additional 21 preaward audits for 3 TVA organizations: Nuclear Power, Power, and Services. As a result of these 26 preaward audits, we questioned over \$18 million of the \$204 million proposed costs. (Although negotiations for most of the contracts have been completed, the TVA organizations have notified us of costs avoided for only 6 of the 26 preaward audits. We will include additional costs avoided for the remaining 20 audits in subsequent reports.) The benefits reported to date are highlighted below.

TVA Organization	Contract Proposal Amounts	Recommendations for Funds to Be Put to Better Use	Reported Cost Avoidance to Date
Nuclear Power	\$182,521,776	\$18,230,014	\$3,362,716
Power	17,700,000	288,290	
Services	3,800,000	29,415	
TOTALS	<u>\$204,021,776</u>	<u>\$18,547,719</u>	<u>\$3,362,716</u>

In addition, for some of the proposed contracts, TVA management also adopted, among other things, OIG-suggested modifications to contract language on allowable costs, contract payments, and employee qualifications criteria. Such modifications may also be used as standard language for other contracts.

Highlights of some of these audits follow.

Nuclear Power

We conducted 16 preaward audits in connection with contract extension proposals totalling over \$182 million. We questioned about \$18 million of these proposed costs and recommended contract amendments to help assure successful work performance. Highlights of some of these audits follow.

- A contractor proposed a \$77.8 million contract extension. Our preaward audit identified, among other things, overstated payroll escalation rates and fringe benefit costs (\$5.1 million) and duplication of labor hours (\$4.1 million). In total, we initially questioned \$12.8 million of proposed costs, including the maximum fee. The contractor's revised proposal resolved most of our initial concerns, except for questioned costs of \$1.48 million including the maximum fee. TVA management was still negotiating with the contractor at the time of this report.



OIG Auditors Discuss Preaward Audit Findings With Nuclear Power Contract Administrators

-
- A contractor's proposal included labor costs that were based on employee salaries at the middle of the applicable pay range. However, our audit showed the employees were actually being paid less than the midpoint salaries and, accordingly, the contractor's proposed labor costs exceeded actual costs by over \$450,000. Based on our findings, TVA and the contractor negotiated an adjustment which saved TVA about \$350,000.
 - A contractor's proposal covering the remaining 82 percent of its \$3 million contract included adjusted labor rates which were fairly stated. However, the contractor's failure to update its labor grade assignments caused the proposed labor costs to be overstated by \$369,468. (There is no evidence the overstatement was intentional.) On notification of the overstatement, the contractor adjusted the proposal accordingly.
 - Our audit of an initial proposal for a contract extension totalling about \$11.3 million resulted in \$1.2 million in preliminary questioned costs. During the audit, the contractor revised its proposal downward twice, reducing it to about \$10.5 million. The reductions resulted from concerns we raised during our audit as well as our preliminary questioned costs. As a result of the contractor's revisions, our questioned costs have been resolved except for about \$400,000.
 - Last period we reported a preaward audit which questioned \$2 million of a \$20 million contract proposal for engineering services in connection with TVA's nuclear power plants. Nuclear Power used the information we provided to negotiate reduced labor rates which will save TVA \$1.5 million over the term of the contract extension.

Power



Deloria T. Carter, Power's Administrative Officer (seated second from left), Reviews Proposed Contract Language Changes With OIG Audit Teams

We assisted TVA management in preparing for negotiations with prospective contractors by performing six preaward audits of contractor proposals. The proposals involved contracts which included engineering and related design, construction, and operations support services. We questioned \$288,290 in connection with contract proposals totalling \$17.7 million. Highlights of three of these audits are presented below.

- Our audit of a \$6 million proposal for architect-engineering work revealed it was overstated by \$155,000. As a result of our recommendations, the contractor agreed to contract changes which will save TVA \$155,000 over the term of the contract.
- Our audit of a \$4 million proposal for engineering and related design, construction, and operations support services revealed a \$99,290 overstatement. Based on our findings, TVA's contract

administrator negotiated a reduction in the contractor's fee, thereby enabling TVA to avoid \$67,340 over the life of the contract. Our audit also identified an inconsistency between this proposed contract and other TVA contracts regarding the treatment of travel costs--a finding that enabled TVA to avoid an estimated \$31,950.

- Our audit of a \$1 million proposal for engineering and related design, construction, and operations support services for TVA's navigation locks and other facilities revealed a \$34,000 overstatement. TVA's contract administrator subsequently negotiated a reduction in the proposed fee, thereby enabling TVA to avoid \$24,000. Also, a reduction in the contractor's proposed overhead markup rate will enable TVA to avoid over \$10,000 over the contract term.

Services

We assisted TVA management in preparing for negotiations with prospective contractors by performing four preaward audits of contractor proposals. The proposals involved contracts which included architectural, engineering, and related design support services. We questioned \$29,415 of contract proposals totalling \$3.8 million.

One of the four proposals was for \$950,000 to provide architect-engineering services. We found the proposed labor rates were overstated by \$24,190. We also suggested revisions to contract terms, such as the proper referencing of cost principles for determining allowable costs--a revision we believe could result in future cost savings.

SUMMARY OF SIGNIFICANT AUDITS

TVA manages its coal inventories to ensure the continuous and economical operation of its fossil plants. Each plant's inventory level must be adequate for normal operation while also providing sufficient protection against supply interruptions and uncertainties in generation requirements. TVA has taken an aggressive approach to coal inventory management by reducing its inventory from about 18 million tons during the early 1980s to its current inventory target level of about 6 million tons.

MANAGEMENT OF TVA'S COAL INVENTORY

Our review revealed coal inventory management could be improved by, among other things, determining the fair market value of unusable coal (which could be as much as \$32 million) and adjusting the book values accordingly; annually assessing the amount of difficult-to-recover coal; and annually determining coal stockpile densities. We also suggested TVA study the effects of stating inventories on a dry ton rather than wet ton basis.

We recommended these actions to assure that TVA's financial records are properly stated and provide more reliable estimates of recoverable coal for planning fuel consumption and procurement. In addition, our recommendations were designed to provide a more reliable estimate of coal inventory and assure consistent interpretations of fuel emergency situations. TVA management has agreed with our recommendations and is in the process of implementing them.

We audited a contractor's request for equitable adjustment which arose in connection with the services the contractor provided for a TVA fossil plant. The claim totalled \$1.7 million. We questioned the entire \$1.7 million because the contractor's records were not

CONTRACTOR'S \$1.7 MILLION CLAIM QUES- TIONED

sufficient to support it. Following our audit, a contracting officer's decision denied the claim in its entirety. This matter is currently pending final resolution.

***TVA'S POWER
SERVICE SHOPS***

TVA's Power Service Shops (PSS) provide routine and emergency repair and refurbishment services to steam and hydro turbines, boilers, and other generating facility components. Under certain circumstances, PSS provides similar services to non-TVA customers. PSS recovers most of its costs by charging TVA and non-TVA customers for its services.

Our review concluded that PSS appears to be competitive with major vendors that perform similar work. However, we identified \$432,000 which could be put to better use if TVA implemented recommended improvements, including:

- Adopting a cost accounting and distribution procedure to ensure all PSS costs are properly classified.
- Reviewing its policy on equipment-use charges to non-TVA customers and revising this policy, if necessary.
- Improving its billing and accounting controls.
- Ensuring PSS is given an opportunity to provide job estimates before orders are placed with outside vendors.

TVA management has agreed with these recommendations and is in the process of implementing them.

We reviewed three contracts with a company which provided personnel to perform services for Nuclear Power. This audit followed an OIG preaward audit of this company's proposal to extend one of these three contracts. TVA management subsequently terminated the contract without accepting the proposed extension. (The other two contracts had already expired.)

**CONTRACTOR'S
\$2 MILLION
CHARGE IS
QUESTIONED**

Our audit questioned costs totalling approximately \$2 million. More specifically, we questioned subcontractor labor costs, subcontractor and employee per diem, and employee labor misclassifications.

TVA management has agreed with our recommendations. The contractor has disagreed with the majority of our findings. Resolution is currently pending.

We reviewed TVA's arrangement with the U.S. Treasury Department (USTD) for short-term borrowing and checking account services for power program funds. Based on TVA and USTD's annual agreements since 1962, TVA's interest payments to USTD are based on dates checks are issued rather than dates checks are cashed. Therefore, TVA incurs interest costs even if the check is never cashed by the payee. However, the USTD does not charge TVA for checking account services.

**IMPROVED
CHECKING
ACCOUNT
ARRANGEMENTS
WILL SAVE
MILLIONS**

During the 12-month period ending on August 31, 1988, TVA disbursed about \$3.9 billion through the USTD checking account. The average float period for checks issued during this period was at least 6.42 days, and the average short-term interest rate charged TVA was about 6.5 percent. Based on TVA disbursements in 1988, we estimated TVA paid USTD about \$4.4 million in interest costs related to periods before checks are cashed. The annual value of USTD's checking account service was about \$200,000. The resulting estimated net cost to TVA during 1988 was \$4.2 million, and for the first 26 years of the agreements totalled about \$114 million.

This checking account arrangement also has internal control weaknesses. For example, USTD does not identify which checks have been cashed. This prevents TVA from performing an adequate reconciliation of its books to the USTD checking account. In addition, USTD takes about four weeks to respond to a request for copies of specific checks. This delay inhibits TVA's prompt detection and investigation of suspected errors and fraud.

Shortly after TVA's newly appointed Chief Financial Officer joined TVA, we briefed him on our findings. TVA subsequently obtained USTD approval to use commercial bank checking account services.

During March 1990, TVA began using a commercial bank account for all power program disbursements, except payrolls. This arrangement will result in (1) the capability to perform bank reconciliations, (2) quicker access to cancelled checks, and (3) reduced costs exceeding \$4 million annually (based on expected disbursement amounts, float periods, and interest rates).

***TVA VEHICLE
FLEET
REDUCTION
COULD SAVE
\$6.3 MILLION***

We reviewed the use and disposal of TVA vehicles. We found that:

- Almost half of TVA's 3,188 pool and assigned vehicles were underutilized.
- Because of the availability of underutilized pool and assigned vehicles, some of the reimbursement TVA paid employees for the use of privately owned vehicles may have been unnecessary.
- Vehicles obtained for use by TVA's senior managers cost more under lease-purchase agreements than vehicles purchased under normal procurement procedures and most were underutilized.

We recommended TVA (1) consider reducing its fleet by selling and not replacing at least 100 pool vehicles and 300 assigned vehicles, (2) adopt a reduced rate of reimbursement of 9.5 cents per mile when a TVA vehicle is available and an employee's use of a privately owned vehicle is not advantageous to TVA, and (3) recall any underutilized assigned vehicles and place them in the pool or sell them.

During fiscal year 1989, TVA sold about 940 vehicles in its fleet, with about half of those sold after we completed our audit fieldwork. The fiscal year 1989 vehicle sales could result in savings of as much as \$6.3 million if as many as two-thirds of the vehicles sold are not replaced. TVA adopted a single rate of reimbursement of 18 cents per mile for use of a privately owned vehicle except in extremely unusual circumstances.

Our audit also disclosed that TVA vehicle disposal policies and procedures are generally sound and are protecting TVA's interests. Used vehicle sales returned over \$1.4 million to TVA during fiscal year 1989.

INVESTIGATIONS



*James H. Yelvington, Assistant Inspector General (Investigative Operations), Discusses
the OIG's Role In Investigation of Alleged Intimidation and Harassment
With Investigative Department Managers*

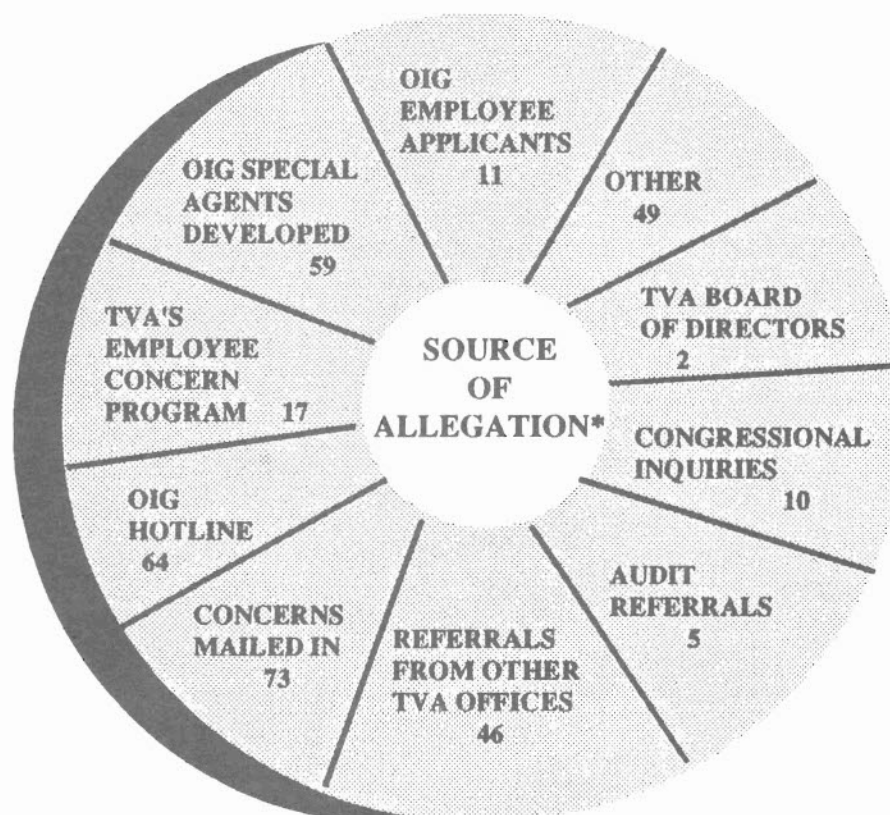
During this reporting period, our special agents completed 285 investigations, referred 44 cases involving 73 subjects to United States Attorneys for prosecution, and obtained 3 indictments and 6 convictions. We issued 117 formal investigative reports to TVA management.

A description of our overall investigative activities follows.

INVESTIGATIVE CASELOAD

Investigations Carried Forward as of September 30, 1989	400*
Investigations Opened this Reporting Period	328
Investigations Closed this Reporting Period	285
Total Investigations in Progress as of March 31, 1990	443
*Adjustment made to number in progress as of 9/30/89.	

SOURCES OF ALLEGATIONS



*Some allegations were from more than one source.

CLASSIFICATION OF INVESTIGATIONS

Classification of Cases	Number of Investigations			
	Carried Forward	Opened	Closed	In Progress
	9/30/89			3/31/90
1 Employee Misconduct	15	17	18	14
2 Employee Concern Program Matters	49	37	37	49
3 Misuse or Abuse of Government Property	7	7	11	3
4 Vehicle Operations	5	6	6	5
5 Substance Abuse	3	4	4	3
6 Personnel Matters	15	31	24	22
7 Terrorism and Sabotage	1	1	2	0
8 Discrimination and Harassment	2	4	5	1
9 Safety	0	0	0	0
10 Trades and Labor	2	0	2	0
11 Theft	19	15	20	14
12 Falsification of Records	41	110	39	112
13 Contract-Related Misconduct	42	16	18	40
14 Fraud and Waste	178	45	74	149
15 General Criminal Activities	2	4	3	3
16 Employment Suitability	2	11	11	2
17 Public Concerns	1	5	4	2
18 Board Concerns	0	0	0	0
19 Archaeological Resources Protection	0	0	0	0
20 Special Projects	15	7	5	17
21 OIG Personnel Matters	1	3	2	2
22 Other	0	0	0	0
23 Environmental Matters	0	5	0	5
TOTAL	<u>400*</u>	<u>328</u>	<u>285</u>	<u>443</u>

*Adjustment made to number in progress as of 9/30/89.

ALLEGATIONS IN OIG CASES

Many of the 285 cases we completed this reporting period contained multiple allegations. More specifically, these 285 cases contained 450 separate allegations. Of these allegations, 296 (about two-thirds) were not substantiated, 129 were substantiated, and 25 were not resolved or were not reportable. The following chart describes these allegations.

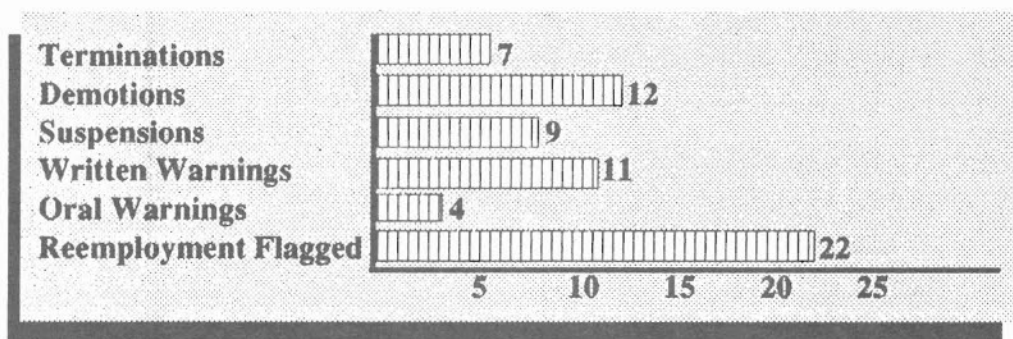
	Classification of Allegations	Total Number	Number Substantiated	Number Not Substantiated
1	Employee Misconduct	71	24	47
2	Employee Concern			
	Program Matters	48	12	32
3	Misuse or Abuse of Government Property	20	16	4
4	Vehicle Operations	6	3	1
5	Substance Abuse	13	0	13
6	Personnel Matters	33	7	26
7	Terrorism and Sabotage	3	2	1
8	Discrimination and Harassment	5	0	5
9	Safety	1	0	1
10	Trades and Labor	2	0	2
11	Theft	54	14	40
12	Falsification of Records	49	26	23
13	Contract-Related Misconduct	34	9	24
14	Fraud and Waste	77	14	60
15	General Criminal Activities	3	0	2
16	Employment Suitability	11	N/A	N/A
17	Public Concerns	5	1	3
18	Board Concerns	0	0	0
19	Archaeological Resources Protection	0	0	0
20	Special Projects	13	0	11
21	OIG Personnel Matters	2	1	1
22	Other	0	0	0
23	Environmental Matters	0	0	0
	TOTAL	<u>450</u>	<u>129*</u>	<u>296*</u>

*Twenty-five allegations were not resolved or were not reportable as substantiated or unsubstantiated.

ADMINISTRATIVE AND DISCIPLINARY ACTIONS

We recommended TVA management consider taking administrative or disciplinary action in 71 of the 285 cases we closed during this 6-month reporting period.

Administrative and Disciplinary Actions Management Took. During this reporting period, TVA managers took the following administrative and disciplinary actions.



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 Public Safety Service (PSS) Officer was terminated after our investigation revealed he used an unmarked PSS car for unofficial purposes when he wrecked it 14 miles away from the TVA reservation where he was assigned to work. Further, the officer submitted false reports and made false statements concerning the accident and another accident he had in another TVA patrol car.

TERMINATIONS

-
- A TVA safety technician was terminated for stealing TVA property. More specifically, our investigation revealed that on two occasions a TVA contractor, at the technician's request, removed TVA property from a fossil plant.
 - A TVA electrician was terminated for stealing 1,500 pounds of scrap copper electrical wire from TVA. Our investigation revealed the electrician stole the scrap wire and then sold it to a scrap metal company.

DEMOTIONS

- Eleven current Power assistant unit operators will be demoted and retested after an OIG investigation revealed they cheated on weekly quizzes given during the third training period of the Student Generating Plant Operator (SGPO) Program. Our investigation revealed that 13 of the 23 students cheated on the weekly quizzes. On Thursdays before the Friday quizzes, the students searched and found copies of the test questions in the instructors' office. Power management is taking the following actions.
 1. The 11 current assistant unit operators will be demoted for 160 work hours, during which time they will retake the third training period written and oral examinations.
 2. One current assistant unit operator will be terminated for cheating on weekly quizzes and falsifying his employment application.
 3. One SGPO student failed the SGPO program and was terminated.
 4. Two training instructors will be admonished for failing to protect the weekly quizzes.

5. One individual will be prohibited from being an SGPO instructor for three years because he failed to take action against a student he caught cheating.

6. Management plans to add a section to the training plan which specifies that cheating undermines the integrity of the program and will result in termination from the training program.

- A TVA nuclear plant project control technician received a 30-day suspension for submitting inaccurate travel claims in connection with her transfer to another TVA nuclear plant. *SUSPENSIONS*
- A Nuclear Power supervisor was suspended for three days after our investigation revealed he (1) submitted three false certification forms regarding on-the-job training, (2) falsified an Equal Opportunity affidavit involving the false certification forms, and (3) made false statements to the OIG.
- A Power Service Shops employee was suspended for 10 days for (1) engaging in outside employment while on TVA-approved family leave and (2) failing to obtain approval for his outside employment.
- A Nuclear Power travel clerk was suspended for three days for using her public office for private gain and using government property for unofficial purposes. More specifically, our investigation revealed she told a rental car agency she “worked for the federal government as a travel clerk” and threatened not to recommend the company to “business associates” if a personal billing dispute with the company was not resolved to her satisfaction.

**WRITTEN
WARNINGS**

- A Power Engineering and Construction (PE&C) foreman received a written warning after our investigation revealed he removed TVA equipment from a TVA jobsite for personal use and did not return the items. Further, a PE&C general foreman was orally warned because he was aware of the misuse of TVA equipment and failed to take prompt corrective action.
- A Land Between The Lakes (LBL) environmental technician received a written warning after our investigation revealed he falsely reported drinking water, wastewater, and sewage treatment test results. In addition, another LBL technician admitted falsifying drinking water, wastewater, and sewage treatment results. The technician resigned.

INVESTIGATIVE REFERRALS

We referred 116 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	73	3 Indictments 3 Convictions
Subjects referred to State prosecutors	3*	3 Convictions
Cases referred to other agencies for administrative action (e.g., questionable workers' compensation benefits)		OWCP declared \$642,254 in overpayments and saved TVA more than \$2.3 million in long-term workers' compensation costs.
TOTAL	<u>40</u> <u>116</u>	

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

PROSECUTIVE ACTIVITIES

During this reporting period, we referred 44 cases involving 73 subjects to U.S. Attorneys for possible prosecution. The results of those referrals are described below.*

Total Number of Subjects in Cases We Referred	73
Subjects Accepted	12
Subjects Declined	77
Indictments	3
Convictions	3
Referrals Pending	2

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

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

- **Two Men Convicted of Theft.** Two non-TVA employees pled guilty in federal court to stealing government property. Our investigation revealed the two men stole two boat motors and a gas tank from a TVA storage facility. The men were each sentenced to five months in prison and three years' probation.
- **Three Men Convicted of Criminal Trespassing.** Two non-TVA employees pled guilty and one non-TVA employee was convicted in state court of criminal trespassing. The men were caught trying to steal copper wire and tubing from a TVA fossil plant. Two of the men were fined, and all three men were required to pay court costs.

-
- **A Former TVA Electrician Agrees to Plead Guilty to Making False Statements.** A former TVA electrician has signed an agreement to plead guilty in federal court to two felony counts of making a false statement in connection with his receipt of federal disability benefits. More specifically, our investigation revealed the former electrician reported to the Office of Workers' Compensation Programs (OWCP) that he was not employed when, in fact, he was self-employed as a refrigeration and heating and air conditioning contractor. The former employee also agreed to reimburse OWCP more than \$77,000 which he was overpaid because of his false statements.
 - **A Former Nuclear Engineer Indicted for Falsifying Employment Records.** A federal grand jury indicted a former TVA nuclear engineer after our investigation revealed he falsified his TVA employment application and a TVA Personnel Security Questionnaire. More specifically, the employee claimed he had two bachelor of science degrees and a master's degree from three universities when, in fact, he never attended these schools.
 - **A Former TVA Electrician Indicted for Making False Statements and Using False Social Security Numbers.** A federal grand jury indicted a former TVA electrician for, among other things, making false statements in connection with his receipt of federal disability benefits. More specifically, our investigation revealed the former electrician (1) reported to OWCP that he was not employed, when in fact, he worked for at least five different companies; (2) used an alias and a false social security number while working at these companies; and (3) used an alias and a false social security number to obtain unemployment benefits from the state of Tennessee.

-
- **A Former TVA Ironworker Indicted for Making False Statements to OWCP.** A federal grand jury indicted a former TVA ironworker for making false statements in connection with his receipt of federal disability benefits. More specifically, our investigation revealed the former ironworker made false statements to OWCP when he reported he was not employed, when in fact, he was working. (Also, during this reporting period, OWCP determined the former ironworker was overpaid more than \$75,000.)

SPECIAL FEATURE

OIG INVESTIGATIONS OF ALLEGED INTIMIDATION AND HARASSMENT IN NUCLEAR POWER

We are cooperating with TVA's Nuclear Power organization by investigating alleged intimidation and harassment (I&H) violations, including alleged violations of Section 210 of the Energy Reorganization Act. Our role in this new process is outlined below.

- Nuclear Power promptly refers all I&H allegations to the OIG for investigation. Nuclear Power will also request that the OIG investigate the circumstances surrounding each Section 210 complaint that the Department of Labor (DOL) accepts.
- Nuclear Power reviews and resolves concerns that involve management and personnel issues only. The OIG will not investigate such issues unless (1) Nuclear Power refers them to the OIG for investigation or (2) such issues are an integral part of I&H allegations or other allegations of employee misconduct.
- If, in the course of any review, Nuclear Power obtains information which suggests that I&H may have occurred, Nuclear Power refers that information to the OIG. Nuclear Power will not investigate any I&H allegations and stops any management and personnel-related review once it appears there may have been I&H.
- The OIG completes its investigation of the circumstances surrounding Section 210 complaints and provides a written report to Nuclear Power within ten working days of the date the OIG received the written referral from Nuclear Power. (If, due to unusual circumstances--e.g, a substantial number of interviews or unavailability of evidence--the OIG is unable to complete its investigation and provide a written report to Nuclear Power within the ten-day period, the OIG will provide an interim report describing the status of the investigation to date.)

-
- The OIG completes its investigation of other I&H issues (i.e., those not involving Section 210 complaints) and provides a written report to Nuclear Power within 25 calendar days of the date the OIG received the referral or complaint.
 - Since DOL has the statutory responsibility for resolving Section 210 complaints, our report will not make a determination of whether a Section 210 violation has occurred; instead, our report will assess the evidence relating to whatever conduct issues are examined during the course of the investigation.
 - The OIG's investigative reports and investigative files are, upon request, available to DOL investigators (in connection with their investigation of Section 210 complaints) and Nuclear Regulatory Commission personnel in accordance with the OIG's customary procedures.



OIG Special Agents Discuss Ways to Expedite Investigations of Alleged Intimidation and Harassment Violations

Two cases we recently completed under this new arrangement are described below.

- Our investigation revealed a former Nuclear Power electrician was not, as alleged, inappropriately reduced in force, excluded from a TVA rehire list, or barred from reemployment because he expressed safety concerns. In fact, the TVA managers who determined the electrician should be barred from further employment were unaware that he had allegedly voiced safety concerns. (The electrician alleged that TVA violated Section 210 by denying him reemployment because he reported safety violations at a TVA nuclear plant. We investigated the former employee's complaint to determine whether any current or former TVA employees engaged in misconduct.)
- A Nuclear Power principal civil engineer alleged that a project engineer intimidated him during a meeting by requesting a change to a report which the principal engineer had prepared. Although our investigation revealed the project engineer requested a change to the report--a change which did not affect the report's findings and conclusions--he did not intimidate the engineer during the meeting.

"We support Nuclear Power's commitment to eliminate harassment and intimidation and believe this new arrangement will help meet this goal."

G. Donald Hickman
Nuclear Investigations
Manager



OTHER REPRESENTATIVE INVESTIGATIONS

Some of the other investigations we completed this reporting period are described below.

- **A Nuclear Power Engineering Associate Falsifies Employment Records.** A Nuclear Power engineering associate falsified his TVA employment records by overstating his educational qualifications and periods of employment. The engineering associate claimed he had a grade point average (GPA) of 3.56 and had earned 184 college credits. However, our investigation revealed that, at best, his GPA was 2.05 and he only earned 68 hours of college credits. Further, the associate claimed he worked for one company three and a half years and six months for another company. However, our investigation revealed he worked at one company one year (not three and a half) and one month (not six months) at the other company.

FALSIFICATION OF RECORDS

- **Former TVA Contractor Misuses TVA Telephones.** A former Nuclear Power personal services contractor admitted using a TVA telephone to make 162 personal long-distance telephone calls lasting a total of more than 17 hours. The former contractor was required to reimburse TVA more than \$1,000 for his unauthorized long-distance telephone calls.

MISUSE OF TVA TELEPHONES

- **Several Individuals Misuse TVA WATS Line.** Our investigation revealed that between May 7 and May 19, 1989, numerous individuals made about 2,500 unauthorized calls costing more than \$45,000 on a WATS line which was installed at TVA's Knoxville, Tennessee, corporate headquarters. (The system was installed for TVA to test and was disconnected May 19, 1989.) Our investigation revealed that one of the individuals who made the calls was convicted in New York of similar activities. We found no evidence that any TVA employee was involved in making these unauthorized calls.

**INTIMIDATION
AND
HARASSMENT**

- **Investigation Reveals No Harassment.** A Nuclear Power dual-rate foreman did not relieve a laborer of fire watch duties because the laborer had complained to TVA's Employee Concern Program. However, our investigation revealed that the circumstances surrounding the laborer's removal created an appearance of reprisal to the laborer and others.

**CONTRACTOR
PER DIEM
CLAIMS**

- **Contractors Owe TVA More Money.** In our last semiannual report, we reported that we questioned 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. During this reporting period, we issued two follow-up reports of our review of additional documentation the contractors submitted to support their claims for entitlement. As a result of our review, we questioned over \$113,000 more in payments to these two contractors.

**CONFLICT OF
INTEREST**

- **Employee Violates Conflict of Interest.** A Workers' Compensation and Rehabilitation Department counselor violated conflict of interest regulations when she took action (1) to secure a job with her husband's company for one of her rehabilitation clients and (2) to obtain OWCP's reimbursement for the salary her husband paid the client.

**OTHER
MISCONDUCT**

- **A Power Manager Improperly Used Subordinates.** A Power manager resigned after our investigation revealed he repeatedly had a TVA machinist make boat anchors for him using TVA scrap materials, time, and equipment. In addition, the manager (1) repeatedly interfered with the OIG's investigation of his alleged misconduct and (2) made false statements to the OIG.
- **Former Machinist Fails To Report Employment Activities.** A former TVA machinist failed to report his self-employment activities to OWCP while he was receiving federal disability benefits. Our investigation revealed the machinist owned and operated three businesses. OWCP subsequently determined the machinist was overpaid more than \$18,000.

OIG PROJECTS



Legal Services Staff Discusses the FOIA Collaborative Project

During this reporting period, we completed three projects involving independent reviews and assessments of the effectiveness of various TVA programs and processes. These projects are described below.

The second greatest category of TVA records requested under the Freedom of Information Act (FOIA) are records maintained by the OIG. As a result of processing FOIA requests, the OIG's Legal Services staff undertook a collaborative project with other TVA organizations with major FOIA responsibilities. The purpose of this collaborative effort was to review TVA's FOIA policies, procedures, and practices and to recommend improvements.

FOIA COLLABORATION

The TVA organizations which worked with us were (1) Communications, which has primary responsibility for developing FOIA policies, receiving and processing requests, and making decisions

about the release of information; (2) TVA's General Counsel's office (OGC), which provides legal interpretations of the FOIA and legal reviews of certain types of FOIA requests and all appeals and which handles FOIA litigation; and (3) Purchasing which receives the greatest number of FOIA requests.

OIG Legal Services staff interviewed all of the key FOIA players in each of these organizations. In addition, the staff reviewed FOIA files and written policies and procedures. The final information-gathering step was to discuss FOIA processing with FOIA professionals in other federal agencies--the Department of Justice (Office of Information and Privacy), the Department of Energy, Department of the Navy (Naval Sea Systems Command), and the General Services Administration. After analyzing all of the data, the Legal Services staff developed draft recommendations. These recommendations included the following general categories of action:

- Changing policy statements
- Adopting processing goals
- Reviewing charge policies and adopting a more business-like approach toward assessing charges
- Changing basic processing by (1) decentralizing more responsibility, (2) streamlining coordination efforts, and (3) developing uniform processing standards and internal and external correspondence
- Developing basic FOIA training and user information systems

The Legal Services staff, Communications, and OGC then reviewed and discussed each individual recommendation, reached consensus on a plan of action, and committed to work together to implement changes.

We reviewed the extent to which TVA rehired employees who were terminated for cause, including employees who were terminated because of misconduct or poor performance. Our review revealed the following findings, among others.

***TVA REHIRS OF
EMPLOYEES
TERMINATED
FOR CAUSE***

- TVA employees who are terminated for cause are generally restricted from TVA employment for some set time period. For some violations (e.g., theft and fraud) the bar on reemployment is permanent. TVA has a computerized system which can readily identify individuals with employment restrictions should they apply for reemployment.
- Our review indicated this system normally prevents restricted employees from being rehired. However, our review did identify a few instances where TVA rehired individuals whose restrictive codes had not expired. More specifically, TVA terminated 1,193 employees for cause from June 1983 through July 25, 1989, and subsequently rehired 212 (17.8 percent) of these employees. Of these 212 rehires, we found 51 instances where TVA rehired a former employee despite the fact that the employee's employment restrictions had not expired.
- Factors contributing to TVA rehiring such individuals with employment restrictions included labor shortages, manual processing of applications when the automated system was unavailable, and administrative decisions requiring TVA to rehire the individual. Of the 212 individuals rehired by TVA after being terminated for cause, 207 were trades and labor employees. Of those 212 individuals, 59 were still working for TVA as of July 25, 1989.

However, placed in perspective, the 212 employees TVA terminated for cause and subsequently rehired constitute only .4 percent of TVA rehires since June 1983. (TVA processed more than 53,800 rehires since 1983, and only 212 of those rehires were former employees who previously had been terminated for cause.)

Based on our review, we concluded that overall, TVA's system to restrict the reemployment of individuals who are terminated for cause is working.

**TVARS AND THE
OIG WORK TO-
GETHER**

When we proposed a computer matching program early last summer with the states of Tennessee and Alabama to match TVA's federal workers' compensation recipients with the wage records maintained by the state employment commissions, we approached the TVA Retirement System (TVARS) about a concurrent project. The OIG proposed to also match the disability retirees in TVARS against the same state wage records. The purpose of this match would be to determine whether the retirees were accurately reporting earned income to TVARS--income which could affect the amount of their disability retirement benefits. We discussed this collaborative project with the TVARS Board of Directors and the project went forward.

The results of the match were overwhelmingly positive. Of the 274 disability retirees in the system, there were only 11 "raw hits"--individuals who had earnings reported to the States. Upon review of these 11 retirees' files, TVARS found only 1 individual who had inaccurately reported the amount of his earnings, and that discrepancy was minor and did not affect the amount of his benefits.

The OIG and TVARS were pleased with the outcome. Larry Edwards, TVARS Board Chairman, stated, "This completely confirms our belief in the honesty of TVA retirees. We couldn't be happier."

As a result of this project, TVARS made minor improvements to the income statement which disability retirees file with TVARS.

OTHER OIG ACTIVITIES



OIG Hotline Staff

THE OIG HOTLINE CALLS BRING RESULTS

Since the OIG Hotline was established during February 1986 it has been a primary source to which individuals have reported allegations of fraud, waste, and abuse. During this reporting period, the Hotline received 175 calls. The four largest categories of calls to the Hotline involved personnel matters, employee misconduct, Employee Concern Program matters, and waste and fraud. We are currently conducting 65 investigations that began with a Hotline call and have completed investigations in another 50 such cases. Examples of some of the cases we completed this reporting period which began as a Hotline complaint follow.

-
- **A Services Manager Secretly Records Employees' Conversations.** A Services manager received a written warning after our investigation revealed he secretly recorded his subordinates' conversations during meetings he did not attend. The manager concealed two voice-activated tape recorders--one in his office and one in a nearby work area--in order to surreptitiously record employees' conversations.
 - **A Nuclear Plant Electrician Submits Unreasonable Per Diem Claims.** A TVA electrician submitted unreasonable travel claims while he was temporarily assigned to a TVA nuclear plant. The electrician received \$40 a day for lodging and \$25 a day for meals. The electrician rented a room for \$40 a day (\$280 a week) from a friend (later his wife). Our investigation revealed the friend paid \$275 a month (plus utilities) for the house for which the electrician paid her \$1,120 a month to rent a room.
 - **A Foreman Improperly Accepts a Favor From a TVA Contractor.** A Transmission and Customer Service foreman (1) improperly accepted a favor from a TVA contractor, (2) provided false information during an OIG investigation, and (3) improperly disposed of TVA property.
 - **Foreman Admits He Is Gambling at Work.** A TVA Fossil Plant Machinist Foreman acknowledged he participated in two college football betting pools at the plant. He stated the losing bettors paid the winner on the Monday following the weekend football game.

THE OIG HOTLINE

October 1, 1989 - March 31, 1990		
Classifications	Number of Calls	Percentage of Calls
1 Employee Misconduct	25	14.3
2 Employee Concern		
Program Matters	20	11.4
3 Misuse or Abuse of		
Government Property	5	2.9
4 Vehicle Operations	9	5.1
5 Substance Abuse	3	1.7
6 Personnel Matters	41	23.4
7 Terrorism and Sabotage	1	0.6
8 Discrimination and		
Harassment	13	7.4
9 Safety	1	0.6
10 Trades and Labor	0	0
11 Theft	5	2.9
12 Falsification of Records	6	3.4
13 Contract-Related		
Misconduct	8	4.6
14 Fraud and Waste	20	11.4
15 General Criminal Activities		
16 Employment Suitability		
17 Public Concerns	17	9.7
20Z Special Projects	1	0.6
TOTAL	<u>175</u>	<u>100.0</u>

WHO CALLED

Employees	107	61.1
Former Employees	21	12.0
Public	<u>47</u>	<u>26.9</u>
TOTAL	<u>175</u>	<u>100.0</u>

THE OIG'S USE OF SUBPOENAS

During this reporting period, we issued 17 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	9
Conflict of Interest	4
Contract-Related Fraud	2
Abuse of Sick Leave	1
Falsification of Educational and Occupational Records	1

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

- Three subpoenas produced financial records which revealed the identities of a TVA employee's private business clients. Our investigation of allegations that the employee's private business benefitted financially as the result of his TVA position is ongoing.
- We issued one subpoena to obtain a TVA employee's medical records during our investigation of allegations the employee used sick leave for four weeks while he worked for a construction company he owns.
- Three subpoenas produced documents which indicate a federal workers' compensation recipient operated a janitorial service and earned unreported income.
- Through the use of two subpoenas, we obtained documents which indicate a contractor's employee redeemed airline tickets for their cash value, although the contractor, and ultimately TVA, reimbursed him after he submitted the tickets' receipts as part of his TVA-related travel claims.

APPENDICES

**INSPECTOR GENERAL AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING MARCH 31, 1990**

<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>
10/17/89	89-002N	Cost of Nuclear Advisors			
10/17/89	89-035G	Vehicle Utilization			\$ 4,340,000
10/18/89	89-039G	Vehicle Disposals - August 1988 through April 1989			
10/31/89	89-026N	Management of Cash - TVA's Checking Account Arrangements with the U.S. Treasury Department	\$114,000,000*		4,300,000
11/30/89	89-063G	City of Norris, Tennessee			
12/12/89	89-054P	Coal Inventory Management - October 1980 through August 1989			
12/19/89	90-008G	Gilbert/Commonwealth, Inc. - Proposal for RFP QF-76766T			
01/09/90	90-020P	Associated Project Analysts - Contract TV-73042A Extension			62,981
01/11/90	89-044P	Peabody Coal Company Vendor Records - 1981 through 1984	2,275,661		
01/17/90	89--064P	Young Sales Corporation - Contract 88PAB-31100B - Equitable Adjustment	1,718,623	\$1,718,623	

50

<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>
01/24/90	90-021P	EQE Engineering, Inc. - Contract TV-73039A Extension			\$ 111,706
01/30/90	90-015N	Advanced Technology Engineering Systems, Inc. - Contract TV-73026A Extension			457,569
01/30/90	89-061G	Tennessee State University - Contract TV-61962A			
51 01/31/90	89-059N-10	United Engineers & Constructors, Inc. - Terms of Contract TV-72992A			
02/05/90	90-007G	Heery International, Inc. - Proposal for RFP QF-76766T			
02/08/90	90-018N	Ebasco Services, Inc. - Contract - TV-72101A Extension			234,426
02/15/90	90-014N	Impell Corporation - Contract TV-73037A Extension			123,491
02/16/90	89-052P	Nuclear Energy Consultants, Inc. - Contracts TV-67405A, TV-73029A, and TV-73397A	\$ 2,025,495**	\$ 517,695	

<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>
02/16/90	90-006G	Gresham, Smith, and Partners - Proposal for RFP QF-76766T			\$ 5,225
02/28/90	90-009G	Stone and Webster Engineering Corporation - Proposal for RFP QF-76766T			24,190
03/06/90	89-019P	Power Service Shops - October 1987 through December 1988			432,000
03/13/90	90-026P	Stone and Webster Engineering Corporation - Contract TV-73035A Extension			76,321
03/16/90	90-034P	Stone and Webster Engineering Corporation - Proposal for RFP PE&C-03-89			99,290
03/19/90	90-032P	Harza Engineering Company Proposal for RFP PE&C-03-89			34,000
03/19/90	90-040P	Chas. T. Main, Inc. - Proposal for RFP PE&C-03-89			
03/20/90	90-043G	Mesa Associates - Proposal for RFP PE&C-03-89			

<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>
03/21/90	90-017N	Bechtel North American Power Corporation - Contract TV-72163A Extension			\$12,833,818
03/21/90	90-028P	Southeastern Electric Reliability Council - Statement of Cash Receipts and Disbursements			
03/23/90	90-033G	Gilbert/Commonwealth, Inc. - Proposal for RFP PE&C-03-89			155,000
03/26/90	89-051P-02	Stone and Webster Engineering Corporation - Contract TV-68879A	\$ 3,322		
03/30/90	89-048G	Walker College - Contract TV-69484A	2,850		
03/30/90	90-012G	Wyle Laboratories - Contract TV-73743A Extension			138,856
03/30/90	90-022P	Sargent & Lundy Engineers - Contract TV-72103A Extension			1,280,406
03/30/90	90-037N	Digital Engineering, Inc. - Contract TV-75528A Extension			369,468
03/30/90	90-044P	EGS Corporation - Proposal for PE&C-03-89			

<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>
03/31/90	90-017N-01	Bechtel North American Power Corporation - Revised Proposal for Contract TV-72163A Extension			
TOTAL	36		<u>\$120,025,951</u>	<u>\$2,236,318</u>	<u>\$25,078,747</u>

*Questioned costs are for unreasonable or unnecessary expenditures and are not recoverable.

**Questioned costs do not include \$28,082 due the contractor as a result of understatement of costs.

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.

Disallowed Cost. A questioned cost that management, in a management decision, has sustained or agreed should not be charged to TVA.

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.

TENNESSEE VALLEY AUTHORITY
KNOXVILLE, TENNESSEE 37902-1499

OFFICE OF THE BOARD OF DIRECTORS

May 9, 1990

TO THE UNITED STATES CONGRESS:

Enclosed is TVA's 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.

The members of the TVA Board appreciate the work of the Inspector General's Office in helping TVA improve its efficiency, productivity, and competitiveness. While differences will sometimes occur, the Board is confident that TVA management and the Inspector General's Office share a commitment to TVA's mission of service to the region and the Nation.

Best regards,



Marvin Runyon
Chairman

Enclosure

An Equal Opportunity Employer

DEFINITION OF TERMS

Amounts Questioned By OIG. A cost that is questioned by the OIG because of:

1. An alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds.
2. A finding that, at the time of the audit, such cost is not supported by adequate documentation.
3. A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Amounts Recommended By OIG. A recommendation by the OIG that funds could be put to better use if management took actions to implement and complete the recommendation, including:

1. Reductions in outlays.
2. Deobligation of funds from programs or operations.
3. Withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds.
4. Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee.
5. Avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements.
6. Any other savings which are specifically identified.

Disallowed Cost. A cost questioned by the OIG that management agreed should not be charged to TVA.

Amounts Agreed By Management. The evaluation and concurrence by management, in a management decision, of an OIG audit finding, including actions concluded to be necessary.

Final Action. The completion of all actions that management has concluded, in its management decision, are necessary with respect to the OIG audit findings.

DISALLOWED COSTS*
(In Thousands)

		Number of Reports	Amounts Questioned By OIG	Amounts Agreed By Management (Disallowed)
OIG audit reports for which final action by management had not been taken by 10/1/89:				
87-077P	M H Sturdivant		\$ 61	\$ 8
87-118P	General Electric (Note 1)		4,430	4,430
87-119P	Enercon		114	114
88-009P 03	Sargent & Lundy		76	29
88-166P	General Physics		70	70
88-189P	Fluor		<u>122</u>	<u>43</u>
		6	4,873	4,694
OIG audit reports on which management decisions were made during the reporting period:				
89-016P	Enercon		106	106
89-048G	Walker College		3	3
88-183N	Tn. Emergency Management		20	20
89-026N	Man. of Cash - Checking (Note 2)		<u>114,000</u>	<u>0</u>
		4	114,129	129
	Subtotal	10	\$119,002	\$4,823
Less:				
OIG audit reports for which final action was taken by management from 10/1/89 through 3/31/90:				
1. Amounts that were recovered by management (through collection, offset, property in lieu of cash, or by other means):				
87-118P	General Electric (Note 1)		2,575	2,575
88-166P	General Physics		54	54
88-189P	Fluor		<u>116</u>	<u>37</u>
		3**	2,745	2,666

DISALLOWED COSTS*
(In Thousands)

		Number of Reports	Amounts Questioned By OIG	Amounts Agreed By Management (Disallowed)
2.	Amounts unable to be recovered by management:			
	87-118P General Electric (Note 1)		\$ 1,855	\$1,855
	88-166P General Physics		16	16
	88-189P Fluor		6	6
	89-048G Walker College		<u>3</u>	<u>3</u>
		4**	1,880	1,880
3.	Amounts classified by the OIG as unrecoverable (Note 3):			
	89-026N Man. of Cash - Checking (Note 2)	1**	114,000	0
OIG audit reports for which management has taken no final action by 3/31/90:				
	87-077P M H Sturdivant		61	8
	87-119P Enercon		114	114
	88-183N Tn. Emergency Management		20	20
	88-009P 03 Sargent & Lundy		76	29
	89-016P Enercon		<u>106</u>	<u>106</u>
		5**	\$ 377	\$ 277

* Differences between OIG Questioned Amounts and Amounts Agreed By Management which exceed \$100,000 are explained in Notes to Statistical Tables (see page 8 of this appendix).

** The number of reports shown will differ from the arithmetic total when for a particular report the action taken satisfies more than one situation.

**RECOMMENDATIONS THAT FUNDS
BE PUT TO BETTER USE***
(In Thousands)

		Number of Reports	Amounts Recommended By OIG	Amounts Agreed By Management
OIG audit reports for which final action by management had not been taken by 10/1/89:				
87-030N 10	Revenue from Energy Sales		\$ 6,700	\$ 6,700
88-149P	Appalachian Regional Comm.		<u>2</u>	<u>2</u>
		2	6,702	6,702
OIG audit reports on which management decisions were made during the reporting period:				
88-182N 30	Accident Investigations		576	576
89-026N	Man. of Cash - Checking (Note 2)		4,300	4,300
89-028N	Man. of Cash - Payroll (Note 4)		13,900	3,427
89-033G	Leases & Charges for Offices		7,900	7,900
87-117N	Employee Qualifications		20,000	20,000
89-035G	Vehicle Utilization		4,340	4,340
89-041P	SWEC Preaward		125	125
89-042P	NEC Preaward		184	184
90-020P	APA Preaward		63	43
89-057G	Gilbert Preaward (Note 5)		1,992	1,509
89-059N	UEC Preaward		<u>153</u>	<u>113</u>
		11	53,533	42,517
Subtotal		13	\$60,235	\$49,219

Less:

OIG audit reports for which final action was
taken by management from 10/1/89 through 3/31/90:

1. Dollar value of recommendations completed
by management:

89-026N	Man. of Cash - Checking (Note 2)		2,000	2,000
89-028N	Man. of Cash - Payroll (Note 4)		13,900	3,427
89-057G	Gilbert Preaward (Note 5)		1,992	1,509
89-042P	NEC Preaward		184	184
90-020P	APA Preaward		63	43
89-059N	UEC Preaward		<u>153</u>	<u>113</u>
		6**	18,292	7,276

**RECOMMENDATIONS THAT FUNDS
BE PUT TO BETTER USE***
(In Thousands)

		Number of Reports	Amounts Recommended By OIG	Amounts Agreed By Management
<hr/>				
2.	Dollar value of recommendations that management subsequently concluded should not or could not be implemented or completed:			
89-026N	Man. of Cash - Checking (Note 2)		\$ 2,300	\$ 2,300
89-041P	SWEC Preaward		<u>125</u>	<u>125</u>
		2**	2,425	2,425
OIG audit reports for which management has taken no final action by 3/31/90:				
87-030N 10	Revenue from Energy Sales		6,700	6,700
87-117N	Employee Qualifications		20,000	20,000
88-149P	Appalachian Regional Comm.		2	2
88-182N 30	Accident Investigations		576	576
89-033G	Leases and Charges for Offices		7,900	7,900
89-035G	Vehicle Utilization		<u>4,340</u>	<u>4,340</u>
		6**	\$39,518	\$39,518

* Differences between OIG Recommended Amounts and Amounts Agreed By Management which exceed \$100,000 are explained in Notes to Statistical Tables (see page 8 of this appendix).

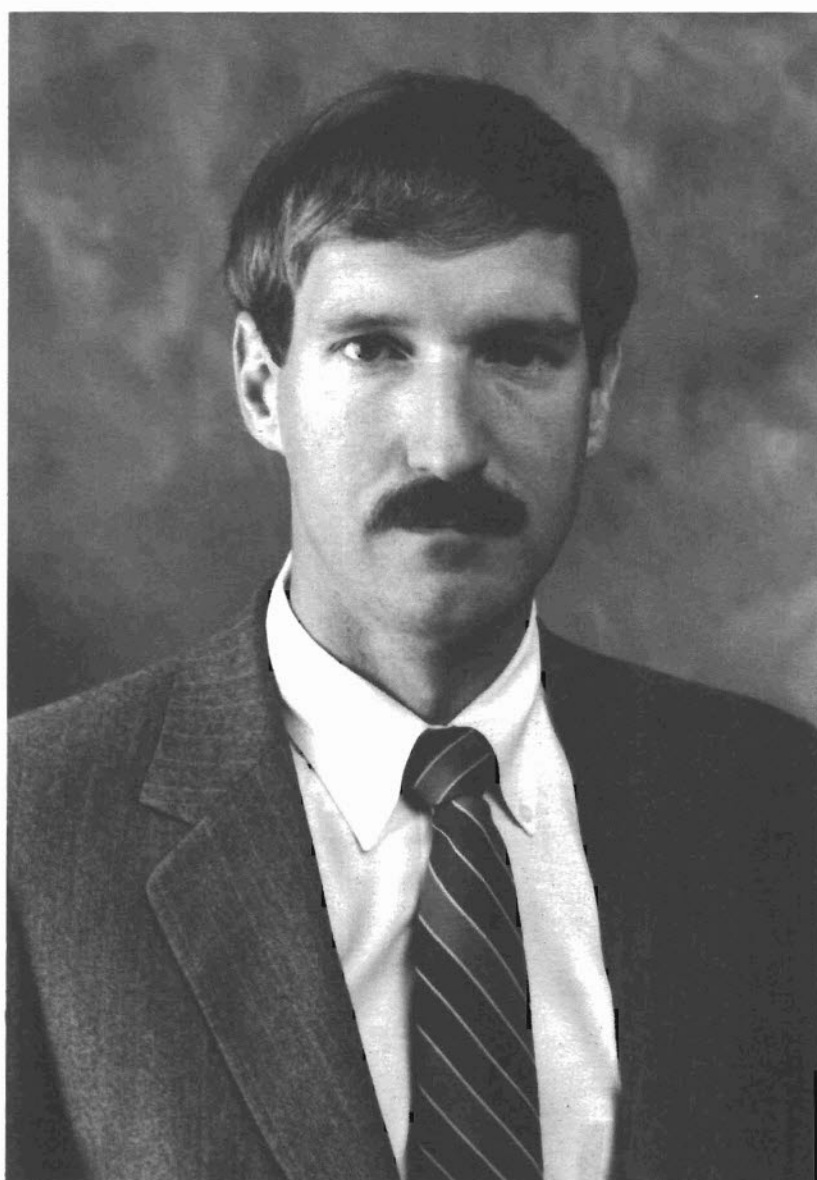
** The number of reports shown will differ from the arithmetic total when for a particular report the action taken satisfies more than one situation.

The following lists information on audit reports which final action by management has not been taken within one year from the date a management decision was made.

Audit Report Number	Date Issued	Dollar Value (In Thousands)		Explanation Final Action Not Taken
		Disallowed Costs	Funds Put to Better Use	
M H Sturdivant 87-077P	10/27/87	\$ 8	N/A	TVA is withholding further action until completion of a current related audit.
Enercon 87-119P	6/7/88	114	N/A	Disagreements with the contractor regarding audit issues have not yet been resolved. Audit resolution expected by June 1, 1990.
Revenue from Energy Sales 87-030N 10	9/23/88	N/A	6,700	TVA has committed to take necessary action when negotiating power contract amendments with all distributors in 1991.
Appalachian Regional Comm. 88-149P	10/24/88	N/A	2	Final action not taken due to an oversight. Completion expected by June 1, 1990.
Cooperative Agreements-ONRED 87-009P 01 703	6/24/88	N/A	N/A	The TVA Board of Directors has approved changes to the TVA Code which will satisfy the audit recommendations. The changes are currently being incorporated in TVA Instructions.
Cooperative Agreements-OACD 87-009P 01 704	6/24/88	N/A	N/A	
Cooperative Agreements-NP & Power 87-009P 01 705	9/28/88	N/A	N/A	
TOTALS		\$122	\$6,702	

NOTES TO STATISTICAL TABLES

1. OIG audit report No. 87-118P, Reviews of Contracts with General Electric Company, questioned costs of \$4,430,000. Management generally agreed with the findings. A negotiated settlement with General Electric was reached with a total recovery package to TVA of \$2,575,000. In consideration of the issues and circumstances involved, management considers the settlement fair and reasonable.
2. OIG audit report No. 89-026N, Management of Cash - TVA's Checking Account Arrangements, recommended that funds be put to better use by utilizing a commercial bank checking account and thus taking advantage of check float periods. TVA's past checking arrangement with the U.S. Treasury Department precluded check float periods. In October 1989, management requested from Treasury permission to obtain commercial bank accounts. Permission was granted in December 1989 and TVA is currently making certain disbursements from commercial bank accounts. Management estimates the annual savings to TVA at \$2,000,000 as compared to \$4,300,000 estimated by the audit report. The difference between the two estimates is attributable to different assumptions used to calculate float periods. A related item in the report questioned costs of \$114,000,000. These costs were classified by the OIG as unrecoverable and represent an OIG estimate of the cumulative effect of interest costs related to check float periods from 1963 through 1988. Since these costs are unrecoverable and management has obtained the ability to take advantage of check float periods, no further action is deemed necessary.
3. Questioned costs for OIG audit report No. 89-026N were classified by the OIG as unrecoverable. No final action is necessary.
4. OIG audit report No. 89-028N, Management of Cash - Payrolls, had recommendations that funds be put to better use of \$13,900,000. The recommendations included that TVA pay certain benefits which are currently paid by employees and reduce employees' salaries by a like amount, delay the processing of payrolls, and change the base used to calculate hourly pay rates. Management concluded that implementation of these recommendations at this time could have a serious negative impact on employee morale. However, these may be considered in the future. Action was taken to implement certain pretax employee contribution programs which should save TVA and its employees in excess of \$3,400,000 per year. Even though this action is somewhat different than the audit recommendation, the results are similar.
5. OIG audit report No. 89-057G, Gilbert Commonwealth - Preaward, had recommendations that funds be put to better use of \$1,992,000. Management utilized the information in the audit report to negotiate a supplement to an existing contract with Gilbert Commonwealth. Savings to TVA are an estimated \$1,509,000. The difference between what was recommended and what was achieved in negotiations includes amounts for indirect costs, out-of-pocket expenses, and program management costs.



IN MEMORIAM
RANDALL B. MORRIS
1955-1990

We are all saddened by the tragic death of Randy Morris, an OIG special agent who died in Knoxville on May 13, 1990.

Randy loyally served the OIG from its inception and, in a few short years, rose from an entry-level investigator to a key special agent in Nuclear Investigations.

He served as the lead investigator on many sensitive OIG investigations, including whistleblower complaints in TVA's nuclear program and a complicated review of Nuclear Power's Physics Degree Program. His accomplishments as project manager for the Quality Technology Company investigations were featured in a previous semiannual report--the first investigator to have his accomplishments highlighted in this office's report to Congress.

Before working for the OIG, Randy was a special agent with the Federal Bureau of Investigation and worked in Kansas City, San Diego, and New York City. His assignments included foreign counterintelligence, organized crime, and narcotics.

His educational background included a law degree from the University of Kansas and a business degree from Pittsburg State University. During 1987, he was selected as the outstanding young business alumnus by Pittsburg State University, a university which had previously accorded him other honors.

Among his coworkers, he was known as a quietly confident and unusually capable individual who worked hard, had a sense of humor, and cared about his job and the agency and people he served. He was recognized as one of the office's most talented and diligent investigators, and his untimely death only heightens our sense of loss.

Randy was our friend and colleague, and we will miss him.