

TENNESSEE VALLEY AUTHORITY



OFFICE OF THE INSPECTOR GENERAL

Semiannual Report

October 1, 1990 – March 31, 1991

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INSPECTOR



GENERAL

TENNESSEE VALLEY AUTHORITY

400 West Summit Hill Drive, E4 A14
Knoxville, Tennessee 37902

April 30, 1991

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

This is our tenth semiannual report to Congress. It summarizes our significant activities from October 1, 1990 to March 31, 1991.

TVA is continuing to take aggressive steps to improve the way it does business and, since our last report, has reorganized to accomplish its goal of being the very best electric utility in North America and the most productive and effective agency in the federal government. We are supporting this process by working on issues that are important to TVA management and employees and assuring all of our activities support TVA's goals.

During this reporting period, we issued 40 audit reports which identified questioned costs of over \$6.2 million and \$53.5 million in funds that could be put to better use. We are encouraged by TVA management's response to our audit recommendations. Since the office's inception, we have made over 875 audit recommendations and management has made decisions on virtually all of our audit reports.

Allegations of fraud continue to constitute a significant percentage of the allegations we investigate. During this six-month period, we completed investigations of workers' compensation fraud that may save TVA more than \$6.5 million in avoided long-term disability benefits. We are also assisting TVA's nuclear program by investigating allegations of intimidation and harassment. During this reporting period, we completed 18 investigations of alleged violations of the Energy Reorganization Act and concluded that TVA management did not engage in any misconduct.

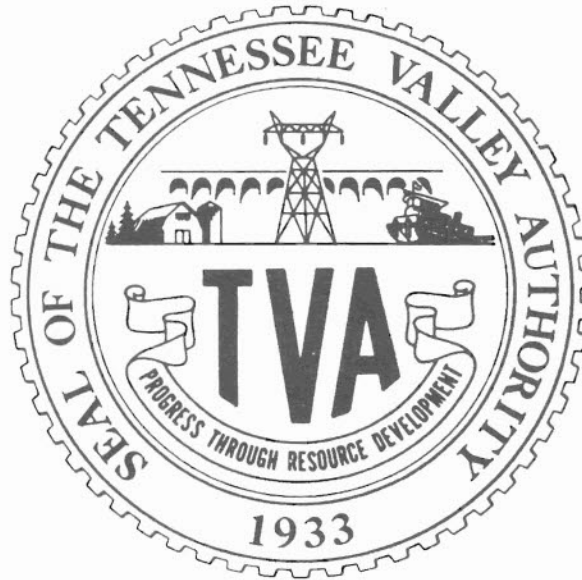
The cooperation and support of TVA managers and employees make possible many of the results documented in this report. This cooperation and support, coupled with the support of Members of Congress and the public, increase our effectiveness and ability to be a catalyst for positive change at TVA. We continue to draw strength and encouragement from this support and will continue to work to justify this trust.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Norman A. Zigrossi', is written over a horizontal line.

Norman A. Zigrossi
Inspector General

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EXECUTIVE SUMMARY

This semiannual report summarizes our activities and accomplishments during the six-month period which ended March 31, 1991. These activities and accomplishments are outlined below.

AUDITS

During this reporting period, we issued 40 audit reports which identified over \$6.2 million in questioned costs and \$53.5 million in funds that could be put to better use. Since our inception, we have made over 875 recommendations in 256 final audit reports to TVA management, and TVA management has made decisions on all reports, except 1, which are over 6 months old. A description of some of our audit activities follows.

- During this reporting period, we issued 18 preaward audit reports, including one preaward audit for Nuclear Power that identified \$42.5 million that could be used more efficiently. The other 17 preaward audits collectively identified \$8.2 million in funds that could be used more efficiently. About \$7.1 million of the \$8.2 million was attributed to unsupported overhead and overstated indirect costs. We issued 11 reports on proposals for support services in environmental activities (\$.15 million), 4 reports on proposals for support services in Nuclear Power activities (\$8.05 million), and 2 reports on general contract terms.
- We completed three audits of contracts TVA has with private insurance companies to administer its self-insured health benefits program for almost 22,000 current employees, in addition to retirees and eligible dependents. Final reports on (1) subrogation, coordination of benefits, and work-related claims; (2) health insurance eligibility; and (3) health insurance claims processing included findings on duplicate payments, unauthorized service fees, and ineligible individuals receiving medical benefits.
- We reviewed the adequacy of nine TVA power distributors' collection processes for energy conservation loans granted under TVA's Residential Energy Service Programs. Among other things, our review revealed TVA has incurred over \$1.1 million in collection fees, some of which could have been collected from participants.

INVESTIGATIONS

We completed 332 investigations and issued 130 formal investigative reports to TVA management. These 332 cases contained 461 separate allegations of which 253 (about 55 percent) were not substantiated, while 174 (about 38 percent) were substantiated. (The remaining 34 allegations were not resolved or were not reportable.) Investigations of fraud, including theft, falsification of records, and workers' compensation fraud, continue to make up more than half of our investigative caseload. Some of our investigative activities are highlighted below.

- We recommended TVA management consider taking administrative or disciplinary action in 81 of the 332 cases we closed this 6-month reporting period. Disciplinary actions management took during this reporting period (based on our investigative reports) include 12 terminations, 2 suspensions, and 20 written warnings.
- We referred 138 matters to federal prosecutors and other government officials, including 58 cases involving 62 subjects to United States Attorneys. These and prior referrals resulted in one indictment and five convictions during this reporting period.
- Our OIG Hotline received 228 calls—135 from TVA employees, 39 from former employees, and 54 from the general public.
- Our investigations substantiated 61 percent of the allegations we received involving falsification of records. These allegations included several alleged instances of travel voucher fraud. We identified several different types of travel voucher fraud, including a scheme where employees received free nights of lodging in connection with a motel's promotional program and then claimed the nights on their TVA travel vouchers.
- Our commitment to reduce fraud in connection with Federal Employees' Compensation Act benefits continues to benefit TVA. Because of our efforts, the Office of Workers' Compensation Programs (OWCP) declared overpayments of more than \$500,000 in 11 cases we referred to them for action. During this six months, our investigations have saved TVA more than \$6.5 million over the long term in avoided disability benefits.
- For more than a year, we have assisted Nuclear Power management by investigating allegations of intimidation and harassment, including allegations filed under Section 210 of the Energy Reorganization Act. During the last 6 months,

we completed 18 cases involving Section 210 complaints and determined there was no misconduct on the part of TVA management. The Department of Labor, which determines whether a Section 210 violation occurred, has ruled in favor of TVA in eight of these cases, initially concluded Section 210 violations did occur in two cases, and has not made a decision in the remaining eight cases we completed this reporting period.

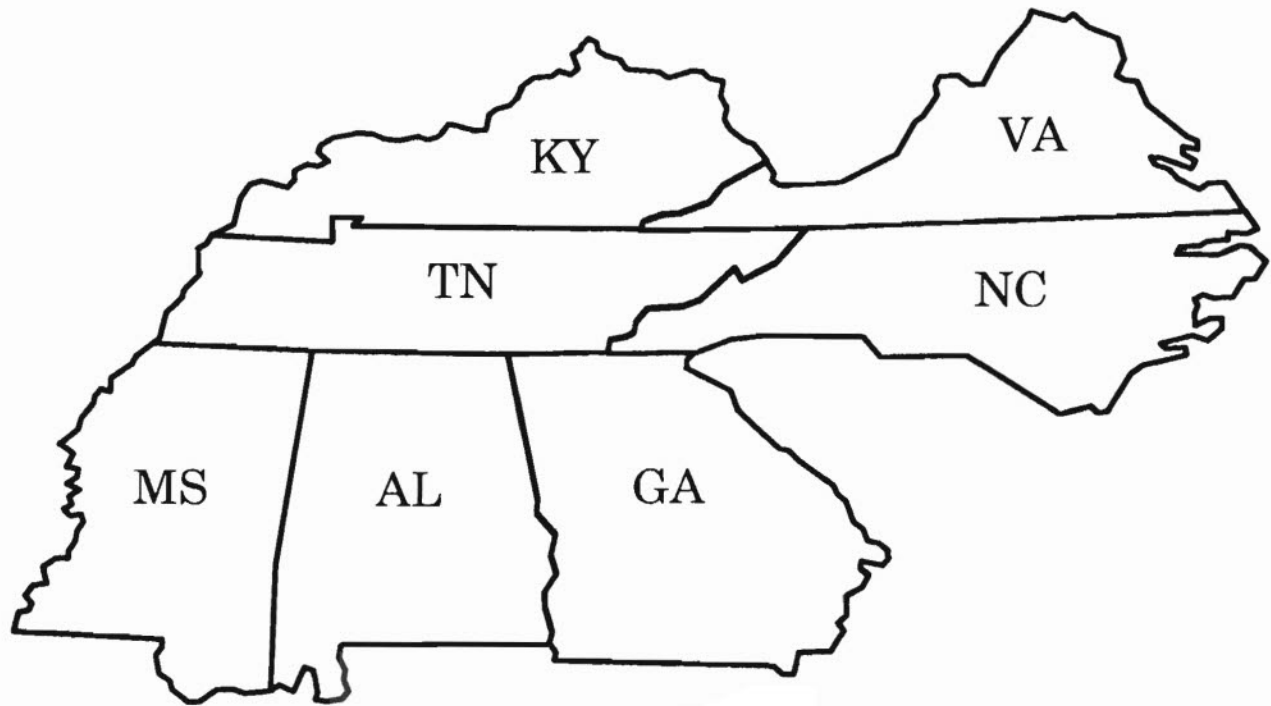
TVA PROFILE

TVA is an independent corporate agency of the federal government which was established by Congress in 1933. TVA is responsible for developing and conserving the natural resources of the Tennessee River Valley, an 80,000 square-mile area spanning seven states—Alabama, Georgia, Kentucky, Mississippi, North Carolina, Tennessee, and Virginia.

TVA's approximately 28,000 employees are involved in economic, natural resource, and agricultural development and in the production of low-cost electricity. The power system is funded exclusively by power sales and borrowings, and TVA's remaining programs are funded by congressional appropriations and other revenues.

TVA is directed by a three-member Board who are appointed by the President and confirmed by the Senate. TVA's directors are Marvin T. Runyon, Chairman; John B. Waters; and William H. Kennoy. Mr. Kennoy, TVA's newest director, was confirmed by the Senate on April 16, 1991.

TENNESSEE VALLEY REGION



OFFICE OF THE INSPECTOR GENERAL

OFFICE AUTHORITY

The TVA Board of Directors administratively established the OIG during October 1985 to address employee concerns, increase public trust, and promote TVA's cost-effective operation. As provided in the Board resolution that created the OIG, the OIG's duties and authority were virtually the same as those of Inspectors General established under the Inspector General Act of 1978. During our initial years of operation, the OIG operated much like its statutory counterparts and exercised subpoena powers that were granted by a provision in TVA's annual appropriations bill. When Congress enacted the Inspector General Act Amendments of 1988, TVA's OIG became 1 of 33 new statutory offices whose Inspector General was appointed by the agency head. Under these amendments, the OIG's duties and authorities were, by force of law, virtually the same as offices with a presidentially appointed Inspector General.

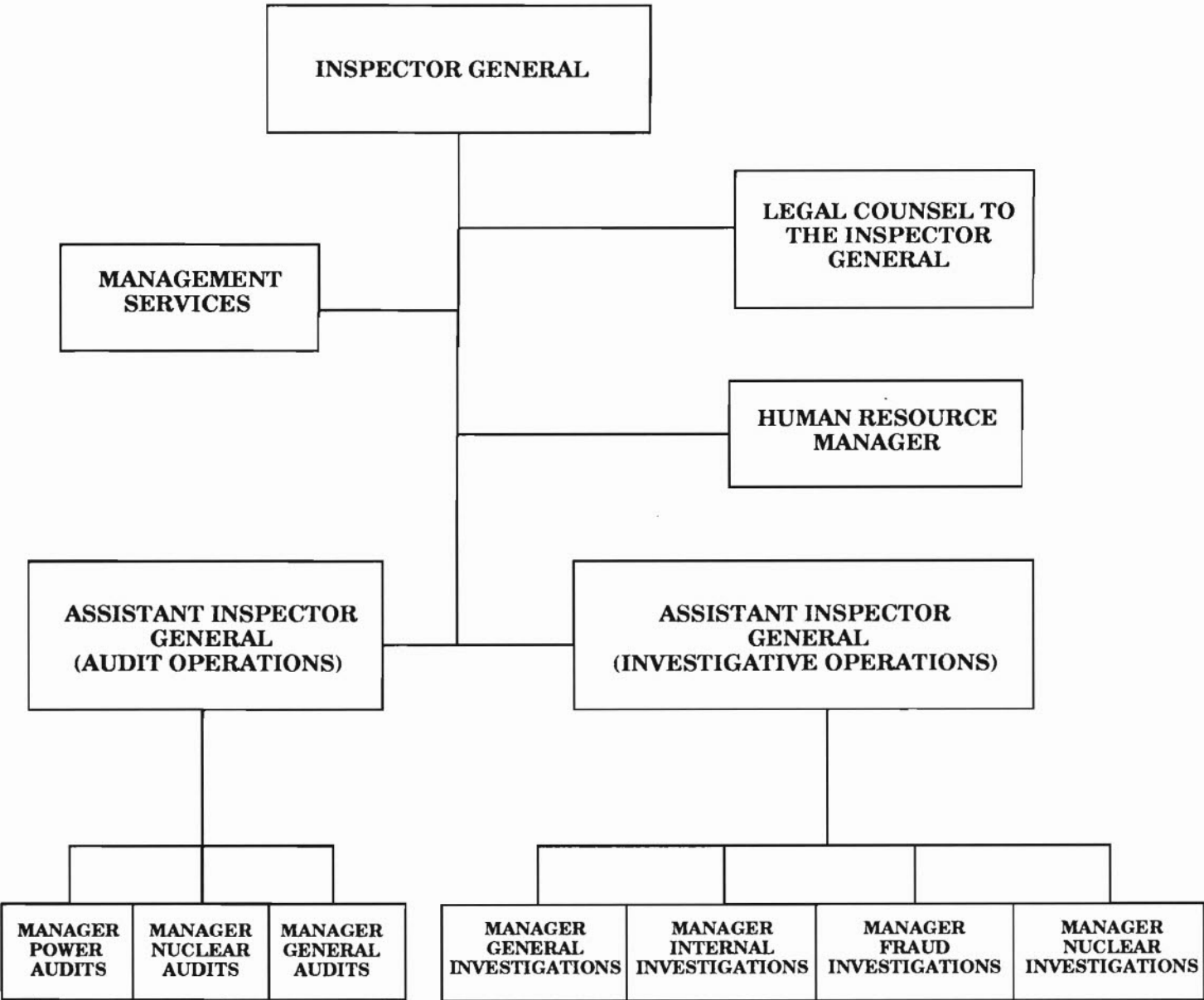
TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors. The Inspector General reports matters to Congress through semiannual reports and interim reports.

STAFFING AND BUDGET

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

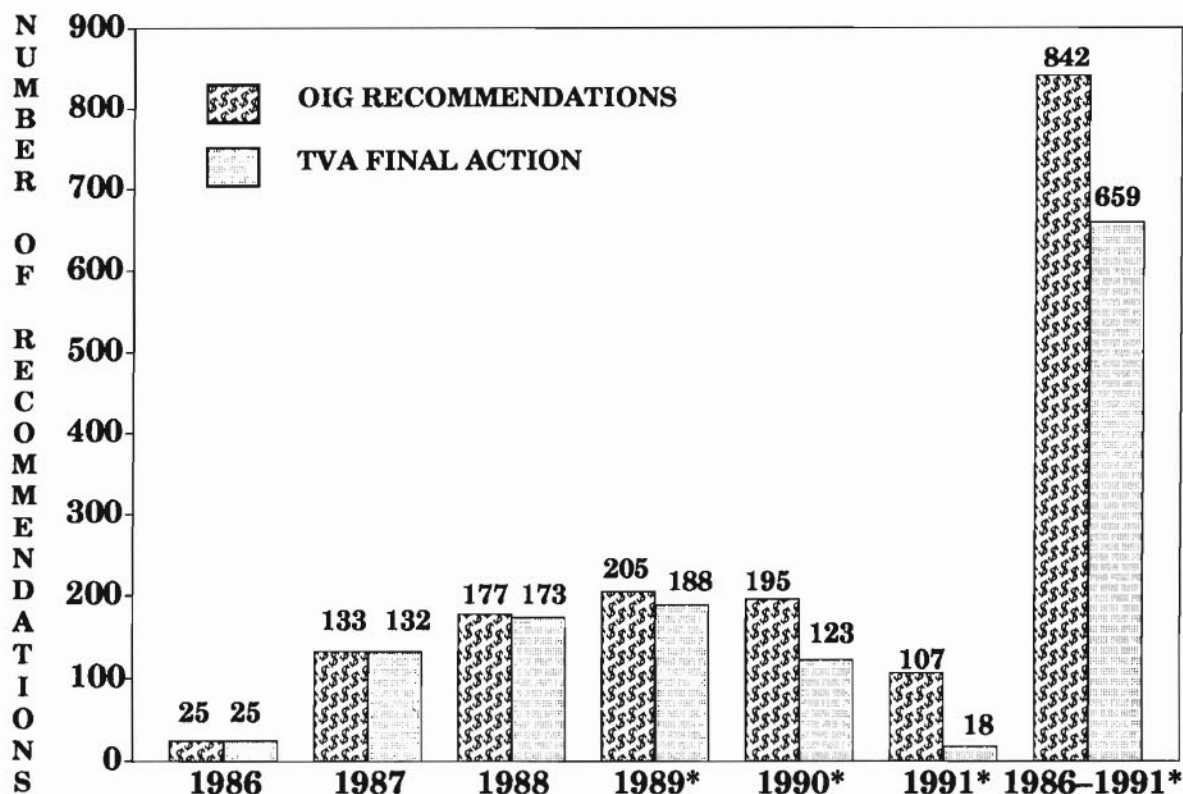
The OIG's approved fiscal year 1991 budget is approximately \$8.7 million and includes 147 budgeted positions.

OFFICE OF THE INSPECTOR GENERAL



AUDITS

TVA FINAL ACTION ON OIG RECOMMENDATIONS



* Numbers of recommendations and amounts do not include those for unrecoverable questioned costs identified in preaward audits if a contract was not subsequently awarded to the respondent to the request for proposal.

This reporting period, we issued 40 audit reports which collectively identified over \$6.2 million in questioned costs and \$53.5 million in funds that could be put to better use (see Appendix 1 for listings). During our five-year existence, we have contributed to TVA's ability to hold its rates constant by, among other things, identifying opportunities for TVA to reduce the cost of producing power. During this reporting period, we continued to perform a variety of audits, including contract-related audits, which identified ways for TVA to avoid unnecessary costs. A more detailed description of our audit activities follows.

AUDIT STATISTICS

Status of Audit Projects

Audit Projects Carried Forward 10/1/90	68	
Audit Projects Started	29	
Less: Audits Postponed or Cancelled	<u>(15)</u>	
Total Active Audit Projects		82
Less: Audit Projects Completed		<u>(40)</u>
Audit Projects in Progress 3/31/91		42

Audit Results

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

Audit Reports Issued: 40

Questioned Costs:

Unsupported Costs	\$2,112,674	
Other Questioned Costs	<u>4,112,566</u> *	
Total Questioned Costs		\$ 6,225,240
Funds to Be Put to Better Use		<u>53,586,092</u> **
TOTAL		\$59,811,332

* Of this figure, \$2,543,900 is not recoverable.

** Of this figure, \$233,379 is not avoidable because contracts were not awarded to respondents to requests for proposals.

SPECIAL FEATURE

OIG HELPS HOLD POWER RATES DOWN

Consistent with one of its original goals, the OIG performs audits to help reduce the cost of producing power. This helps TVA in avoiding increases in consumer power rates.

About two years after the OIG was created, the TVA Board of Directors adopted a three-year (since extended indefinitely) goal of no increases in power rates. Although the Consumer Price Index has risen significantly since the initial goal was set, TVA has been able to hold power rates constant for three years.

OIG'S HELP

OIG audits have contributed to TVA's ability to accomplish this goal. Based on audit recommendations, TVA managers have avoided or recovered almost \$189.8 million since the OIG's inception. This amount is even greater when viewed over the typical life of the identified costs. For example, a large portion of the costs would have been for long-term debt associated with capital projects such as nuclear plants. Consequently, TVA would have recovered these funds (plus related interest) from ratepayers over a period of up to 30 years or more. Thus capital-related audit findings help TVA recover or avoid both immediate and future project costs and the associated interest costs for many years in the future.

VARIETY OF AUDIT TYPES EFFECTIVE

In identifying opportunities for TVA to reduce its costs, the OIG performs a variety of audits such as contract-related (i.e., post contracts, claims, and litigation), preawards, and internal financial and performance audits. The relative effects of the different types of audits are shown in the figure below.



Contract-related audits served as the basis for TVA to recover or avoid \$57.4 million—over 30 percent of the \$189.8 million discussed above. In addition, contract audits completed this reporting period identified over \$1.8 million of questionable costs.

Other contract-related audits include preaward audits which identify ways for TVA to avoid unnecessary costs. Through contract negotiations based on the 61 completed preaward audits, TVA has avoided over \$19.9 million (i.e., 10.5 percent of the total amount recovered or avoided to date). Overall, the audits identified about \$116.8 million that could be put to better use and at least \$92.9 million potential interest costs if the capital-related portions of these costs were not avoided. (Further data on current preaward audits is discussed later in this report.)

Internal financial and performance audits have resulted in avoiding or recovering almost \$112.5 million—59 percent of the total to date. These audits have dealt with a variety of areas: checking account arrangements, cash management, employee benefit programs, and employee qualifications, to name a few. New audits focusing on third-party liability in workers' compensation claims and defaults on power conservation loans have identified another \$2.8 million of funds that could be put to better use.

**OTHER WAYS
TO HOLD COST
DOWN**

In addition to the \$189.8 million plus interest discussed above, the OIG identifies still another type of cost that can help TVA hold down its rates. These are labeled as unnecessary costs which are unrecoverable but, through management action, can be prevented from recurring. OIG audits have identified \$123.2 million of these costs. The \$2.5 million unrecoverable funds identified during this reporting period included travel costs for a contractor's clerical staff who were not recruited locally, claims that may have been covered under private automobile insurance, and cost for processing more than one check to a vendor on the same day.

Another way to hold costs down is to take preventive or corrective actions in a timely manner. Accordingly, when an audit reveals any issue (financial or otherwise) that needs immediate attention, the OIG promptly notifies TVA management and gives it an opportunity to respond to the situation. For example, shortly before the December holiday season, the OIG discovered a contractor's apparent double charge for previous holiday pay—a potential ultimate cost (including interest) of almost \$2.2 million. The OIG immediately notified appropriate TVA management, thereby giving management an opportunity to resolve the issue before it made additional overpayments for the subsequent holidays. TVA management promptly notified the contractor to discontinue billing for holidays.

***PLANNING FOR
CONTINUED AS-
SISTANCE***

In general, the OIG has greatly enhanced its results by using a variety of audit types and procedures. To capitalize on this approach, the OIG is updating its strategic audit plan and fine tuning its audit mix to accomplish its mission with a recognition of TVA's revised strategic focuses during the 1990s.

SUMMARY OF SIGNIFICANT AUDITS

***MULTIPLE CON-
TRACTS WITH
SAME PARTY
NEED INTEROF-
FICE REVIEW TO
PREVENT INAD-
VERTENT LOSSES
TO TVA***

In our audit of an issue related to TVA's sale of a laboratory facility to an engineering contractor, we concluded that TVA was not responsible for payment to the contractor for a third-party research institute's continued use of the laboratory. Also, Nuclear Power had not actively pursued collection of over \$114,000 from the institute before a different TVA organization entered into another contract with the institute. The second contract contained a provision that, in essence, released the institute from all amounts previously owed to TVA. Our recommended changes in contracting procedures are being implemented.

**COLLECTION OF
ENERGY CONSER-
VATION LOANS
COSTS TVA
\$1.1 MILLION**

We reviewed nine TVA power distributors' collection processes for energy conservation loans granted under TVA's Residential Energy Service Program. Our review revealed the following.

- TVA has incurred over \$1.1 million in collection fees, some of which should have been collected from participants.
- TVA does not periodically review the distributors' collection procedures and records.
- Communications between TVA and distributors regarding loan write-off requests should be improved.
- Credit review procedures for screening an individual's character and capacity to repay loan indebtedness should be improved to cover sources such as credit bureau reports.
- Appropriate controls regarding approval of negotiated settlements should be established.

TVA management is currently implementing final actions to resolve the findings.

**TVA EMPLOYEES
DEFAULT ON EN-
ERGY CONSERVA-
TION LOANS**

Our review of TVA's process for identifying and collecting from TVA employees who default on energy conservation loans indicated the following, among other things.

- At least 38 current TVA employees are in default on energy loans (totaling \$43,148). Although power distributors make the energy conservation loans to consumers, TVA assumes the financial responsibility for any loans that are not repaid.
- TVA identified 86 cases of possible TVA employee defaults through the normal TVA loan write-off review process. In 28 of these cases, TVA never investigated or resolved the problem.

-
- Of the 86 cases, 11 were TVA employees who agreed to pay after a TVA representative contacted them. However, only seven have actually repaid their loans.

TVA management is currently implementing final actions to resolve the findings.

**CONTRACTOR'S
TRAVEL AND LIV-
ING EXPENSES
QUESTIONED**

A contractor charged TVA nearly \$6 million for providing engineering services to Nuclear Power under two contracts. The invoiced costs were in accordance with contract terms, except for per diem payments for "call time." Our 100-percent review of per diem payments added \$56,700 to travel and living expenses questioned during an OIG investigation. Nuclear Power has taken action to improve internal controls related to per diem and labor charges.

**AUDITS OF TVA'S
HEALTH BENEFITS
PROGRAM**

Private insurance companies administer TVA's self-insured health benefits program for almost 22,000 current employees, in addition to retirees and eligible dependents. For fiscal years (FYs) 1988–1989, TVA reimbursed one administrator about \$95.2 million and another administrator about \$53.5 million for claims paid (including certain prior period adjustments) and administrative fees.

We plan to issue a series of reports on the health benefits program. During this reporting period, we issued final reports on (1) subrogation, coordination of benefits, and work-related claims, (2) health insurance eligibility, and (3) health insurance claims processing. These three reports included the following findings.

- TVA made duplicate payments of almost \$194,000 to insurance administrators and OWCP. (The administrators also paid about \$201,000 for other work-related claims that may be covered by OWCP.)
- During FYs 1988–1989, the administrators deducted \$65,000 in unauthorized service fees from subrogation recoveries.

-
- TVA paid about \$3–4 million during FYs 1988–1989 in medical benefits to 19– to 25–year–old student and non-student dependents of annual salary policy employees. (Student and nonstudent dependents are covered by the current plans for all annual employees.) However, a prior plan for annual trades and labor employees covered only student dependents 19–25 years old.
 - Ineligible individuals received medical benefits because TVA did not provide timely notification of employee terminations to the administrators.
 - Administrators’ performance was generally consistent with TVA’s requirements and industry standards for timeliness and accuracy.

Human Resources is implementing final action on our findings.

***AUDIT OF NUCLEAR
PLANT CONTRACTOR
REVEALS FEW
PROBLEMS***

We reviewed costs a contractor billed TVA between August 5, 1987 and November 30, 1989, for assistance with the restart of the Browns Ferry Nuclear Plant. During the period reviewed, TVA paid the contractor \$10,280,570, of which we questioned \$107,232 (about one percent of the total). The contractor agreed with \$69,720 of the costs questioned, and TVA is seeking recovery of all amounts not properly authorized under the contract.

***THREE VALLEY
WATERSHED
AGENCIES RATE
UNQUALIFIED
OPINIONS***

At the Resource Group’s request, we performed financial statement audits of three state watershed agencies with which TVA has contracts, two in Tennessee and one in Alabama. We issued opinions that these agencies’ financial statements fairly presented their financial positions at the end of the period(s) reviewed.

We recommended improvements in internal controls over cash management at all three agencies. The agencies took steps to improve these controls before we issued our final reports. For two of the agencies we also identified instances of noncompliance with certain provisions in their TVA contract. For one

agency, a financial statement adjustment was made based on an opinion by TVA's General Counsel. In the other case, TVA and the agency are resolving a disputed contract provision.

***CONTRACTORS
CERTIFY TO NO
LOBBYING***

Our audit of TVA compliance with the Byrd Amendment (31 U.S.C. 1352) concerning restrictions on lobbying revealed, among other things, that TVA officials (1) issued implementing guidance in a timely manner to management, (2) submitted the required semiannual reports to Congress, and (3) stated that no alleged violations of the law were reported by management during the year. As reported to Congress and TVA management, we concluded that TVA made a good faith effort to comply with the law in the first year of implementation.

TVA achieved about 60-percent compliance based on a random sample of 148 of 600 contracts, including cooperative agreements, entered into from December 23, 1989 through September 30, 1990. TVA's General Counsel agreed to provide additional guidance to TVA management on (1) the applicability of the law to amendments or supplements to contracts executed before the effective date of the law (December 23, 1989), (2) achieving compliance after inadvertent failure to do so at the time of contract award, (3) assuring compliance before evaluation of an offer or award of a contract, and (4) central reporting of alleged violations of the law.

***TVA AGREES
TO GREATER
EMPHASIS ON
CONTROLLING
PCBs***

TVA's processes for ensuring compliance with laws and regulations pertaining to polychlorinated biphenyls (PCBs) are working reasonably well. However, some processes do not appear to be cost effective. Among other things, we found that TVA needed to place greater emphasis on:

- Reducing PCBs at TVA facilities.
- Improving the restricted awards process for contracting PCB disposal by increasing the number of bidders.

Pursuing alternative disposal methods. We estimated \$358,000 in disposal, and fossil fuel costs could have been avoided in 1988 and 1989 through in-house incineration of PCBs.

In response to our findings, TVA management has taken action to develop strategies for PCB elimination and study the feasibility of burning PCB oils in TVA boilers.

***THIRD PARTIES
MAY BE LIABLE
FOR ASBESTOS-
RELATED CLAIMS
ESTIMATED AT
\$2.75 MILLION***

This audit addressed third-party liability in workers' compensation claims caused by exposure to asbestos. OWCP did not take appropriate action to initiate recovery from third parties in 50 asbestos-related claims. We estimated the potential value to TVA of recovery on these claims to be about \$2.75 million. TVA was not aware OWCP failed to take proper action on these claims because TVA did not have a third-party monitoring system in place. TVA management agreed with our audit finding and is developing a third-party monitoring system. In addition, TVA management has initiated action in pursuit of recovery from third parties on the 50 claims.

***COMBINING
CHECK PAYMENTS
WILL SAVE TVA
\$46,000 ANNUALLY***

TVA could save about \$46,000 annually in check processing costs by combining payments to vendors where appropriate. Presently, TVA writes more than one check to a vendor on the same day. The new Accounts Payable system, which was scheduled for installation in February 1991, will enable TVA to combine payments when appropriate.

***PREAWARD
AUDITS CONTINUE
TO PRODUCE
BENEFITS TO TVA***

During this reporting period, we issued 18 preaward audit reports, including one preaward audit for Nuclear Power that identified \$42.5 million in funds that could be used more effectively (discussed separately in this report). The other 17 preaward audits collectively identified an additional \$8.2 million. About \$7.1 million of the \$8.2 million was attributed to unsupported overhead and overstated indirect costs. We issued 11 reports on proposals for support services in environmental activities (\$.15 million), 4 reports on proposals for support services in Nuclear Power activities (\$8.05 million), and 2 reports on general contract terms.

**CONTRACT
PROPOSAL
INCLUDED
QUESTIONABLE
OVERHEAD
COSTS—
\$18.3 MILLION**

A firm submitted a proposal with an estimated three-year cost of \$116,106,578. We identified a net amount of \$4.8 million in funds that could be put to better use due to (1) an understatement of \$8 million because the firm did not properly provide for salary rate escalation and (2) an overstatement of \$12.9 million because the firm included costs which we believe were not related to the TVA contract.

At the time of our preaward audit, the firm did not provide us sufficient documentation to validate their indirect costs. Prior to the final contract negotiations, we provided Nuclear Power information on our audit findings. During the negotiations, the firm and Nuclear Power took the following actions on our findings.

- To cover salary escalations, the contract amount was increased. (Salaries were to be reimbursed to the contractor at actual costs.)
- To cover the questionable overhead costs, the firm certified that all unallowable costs (as defined by the Federal Acquisition Regulations) were excluded from the proposed cost rates for engineering services.

Nuclear Power accepted the certification and awarded the firm a contract for \$175 million (which included contingency funds of about \$51 million). Since the contract amount was increased, the questionable costs also increased. Therefore, the contract costs are potentially overstated by about \$18.3 million. In addition, considering the cost of money, the questionable costs will result in \$24.2 million in related interest costs to TVA over the life of the plant. The questionable costs plus related interest costs total \$42.5 million.

Nuclear Power stated that the firm's proposed costs were "at least 10 percent or an average of \$4 per hour lower than the next lowest offer." In a future audit of this contract, we will verify the firm's certification.

**UNNECESSARY
CONTRACT
COSTS INCURRED**

TVA entered into a \$20,810,000 agreement for a firm to perform a comprehensive evaluation of a welding program at a TVA nuclear plant. Our audit covered contractor performance as it related to sampling procedures and financial compliance with the terms of the agreement. In summary, the contractor adopted a sampling program that was adequate to meet the underlying requirements and generally complied with the program. However, our audit revealed the following.

- The method used to redefine the population for group of welds may have been inconsistent with sampling program methodology, and changes were not documented. In response to our concerns, Nuclear Power determined and documented that, despite possible changes in program methodology, the weld review was sufficient to support conclusions reached.
- While examining that group of welds, the contractor included 14 components having nonstructural “tack welds.” They were not safety significant and, consequently, beyond the scope of the sampling program. Sampling of these components cost more than \$100,000. Nuclear Power agreed with our finding, but they believed that TVA’s contribution to the loss might be too great to pursue a contractual claim on the matter against the contractor.
- In some cases, the firm’s requirements for accessibility to welds seemed too rigid, causing TVA to incur about \$947,000 in extra preparation costs. Nuclear Power agreed with our finding but does not recommend pursuing the financial aspects of the concern because the “criteria yielded technically defensible results” and because TVA previously agreed to the criteria to facilitate project completion and contractor independence.
- We also questioned \$3.1 million of the contractor’s costs—costs not in compliance with the financial terms of the agreement (\$487,893), unsupported costs (\$1,494,340), and unrecoverable costs (\$1,144,990).

***TVA RETIREE
VOLUNTEERS***

We reviewed three contracts with a nonprofit corporation which provides retiree volunteers to assist TVA in recreation, environmental education, and energy conservation activities.

TVA's administration of the contracts was effective in establishing good relations with the contractor and providing qualified retirees to TVA. However, TVA processes for ensuring compliance with the contracts can be improved in some areas, including the following.

- TVA program managers purchased \$184,852 in ADP equipment that was used for TVA program purposes which were unrelated to the project. Also, no equipment inventory system was in place.
- The contractor charged TVA about \$419,000 more than allowed by the contract for administrative expenses.
- Excessive TVA advances to the contractor led to a large unused contractor balance of \$393,551 at the end of the six-year audit period.

We recommended that TVA improve controls in these areas. TVA management is implementing final actions to resolve the findings.

AUDIT RESOLUTION AND FOLLOW-UP

Since the OIG's inception, we have made over 875 recommendations in 256 final audit reports to TVA management. The status of those reports for which management decisions were not made before this reporting period is shown in the charts in this section. TVA management has made decisions on all the recommendations in reports which were issued over six months ago, except for one described on the following page.

**UNRESOLVED AUDIT REPORTS WHICH WERE
ISSUED PRIOR TO OCTOBER 1, 1990**

Listed below is an audit report which we issued before this reporting period began and for which no management decision was made by March 31, 1991. However, we expect to report the management decision in our next semiannual report.

DATE ISSUED	REPORT TITLE	WHY MANAGEMENT DECISION HAS NOT BEEN MADE
09/28/90	90-072G – Woodard–Clyde Federal Services – Preaward – RFD RD-10-90	Contract has been negotiated; we are awaiting results.

During this reporting period, we received management decisions on 43 audit reports and notification of final actions on 39 audit reports. Some of the more significant actions are described below.

- In response to our audit of leases and charges for office space, TVA management reported (1) reduction since July 31, 1989, of vacant office space from 530,000 square feet to 200,000 square feet, thereby avoiding an annual expense of about \$5.3 million; (2) plans to incorporate early termination provisions in future leases; and (3) development and implementation of a written procedure for calculating space allocations.
- In response to our audit of a contract with a company to furnish and install insulation at a nuclear site and subsequent claims related to that contract, TVA's contracting officer reached a proposed settlement with the contractor on all contract issues. A successful settlement will save TVA \$685,324 in contract and claimed costs which our audit questioned. Final settlement is pending the resolution of legal issues.
- Following our audit of a contractor's \$1.7 million claim for services at a TVA fossil plant, the contracting officer denied the claim. After subsequent discussions and additional information from the contractor, TVA issued a change of contract for a final equitable adjustment, which saved TVA \$1.2 million.

-
- TVA management has taken action to identify workers' compensation claims with third-party potential and agreed to ask OWCP to notify claimants of their third-party rights and obligations. Potential recovery from 50 asbestos-related claims identified in our audit could total \$2,751,000.
 - In response to our audits of TVA's Residential Energy Services Program, one distributor refunded \$723,652 to TVA and other distributors either refunded or reinstated \$15,229 in loans that were inappropriately written off. In addition, TVA management agreed to (1) advise power distributors that current TVA employees are able to pay outstanding conservation loans totaling \$43,148 and (2) suggest the distributors pursue collection.

In response to our review of TVA's Employee Concern Program (ECP), Nuclear Power agreed that performance standards for ECP staff personnel will include better tracking, more timely follow-up for referrals, and better responsiveness for concerns ECP investigates. Nuclear Power also agreed that performance standards for line managers will include specific time frames for resolving concerns. Better communication to Nuclear Power employees about concerns, findings, and corrective actions has begun.

As a result of three preaward audits which we performed for Nuclear Power, TVA management agreed with audit findings which identified almost \$19 million in cost avoidance for these contracts.

We have not disagreed with any final management decision made during this reporting period. However, we have requested that TVA management advise us of the rationale used in resolving the audit findings contained in two audit reports. We will follow up on the actions taken on these reports during the next semiannual 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, 1991**

	Number of Reports	Dollar Value	
		Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the period	6	1,551,721 *	589,962
B. Which were issued during the reporting period	10	6,225,240	2,112,674
Subtotals (A+B)	16	7,776,961	2,702,636
C. For which a management decision was made during the reporting period	11 **	5,325,406	1,983,218
(i) Dollar value of disallowed costs	10	4,870,060	1,981,305
(ii) Dollar value of costs not disallowed	3	455,346	1,913
D. For which no management decision has been made by the end of the reporting period	6	2,451,555	719,418
Reports for which no management decision was made within six months of issuance	0	0	0

* This number differs from the prior report's ending total because of a misclassification of funds in the prior report.

** The total number of reports differs from the sum of C.(i) and C.(ii) when the same reports contain **both** costs disallowed and not disallowed.

**INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS
THAT FUNDS BE PUT TO BETTER USE
FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 1991**

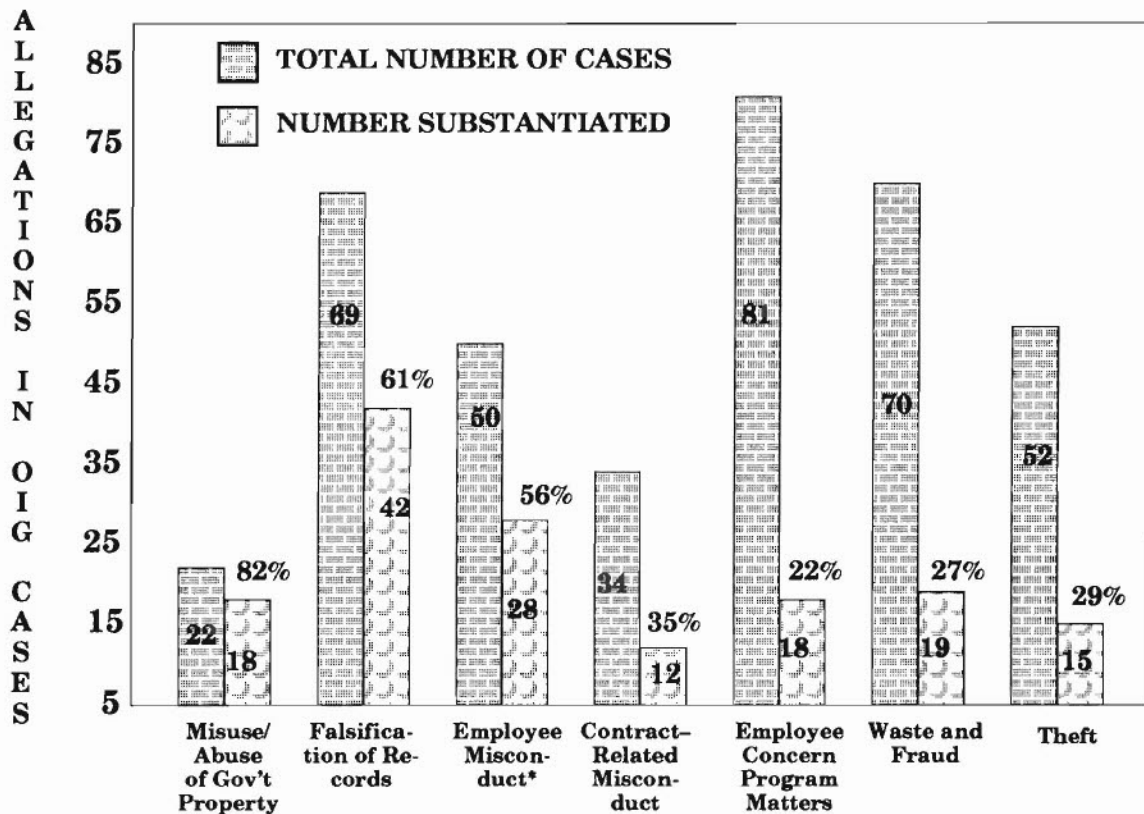
	Number of Reports	Dollar Value
A. For which no management decision has been made by the commencement of the period	10*	24,742,477*
B. Which were issued during the reporting period	13	53,586,092
Subtotals (A+B)	23	78,328,569
C. For which a management decision was made during the reporting period	14**	70,332,156
(i) Dollar value of recommendations that were agreed to by management	9	20,044,199
(ii) Dollar value of recommendations that were not agreed to by management	6	50,287,957
D. For which no management decision has been made by the end of the reporting period	9	7,996,413
Reports for which no management decision was made within six months of issuance	1	30,000

* These numbers differ from the prior report's ending totals because of a misclassification of funds in the prior report.

** 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.

INVESTIGATIONS

ALLEGATIONS SUBSTANTIATED IN MAJOR COMPLAINT CATEGORIES



* Includes time and leave abuse, conflict of interest, unauthorized gifts, and unauthorized outside employment.

During this reporting period, our special agents completed 332 investigations, referred 58 cases involving 62 subjects to United States Attorneys for prosecution, and obtained 1 indictment and 5 convictions. We issued 130 formal investigative reports to TVA management.

A description of our overall investigative activities follows.

INVESTIGATIVE CASELOAD

Investigations Carried Forward as of September 30, 1990	385
Investigations Opened This Reporting Period	261
Investigations Closed This Reporting Period	<u>332</u>
Total Investigations in Progress as of March 31, 1991	314

SOURCES OF ALLEGATIONS

Source of Allegation*	Number of Cases
OIG Hotline	64
Concerns Mailed In	12
Referrals From Other TVA Offices	49
Audit Referrals	19
TVA's Employee Concern Program	9
Congressional Inquiries	3
TVA Board of Directors	4
OIG Employee Applicants	3
OIG Special Agent Developed	60
Other	<u>46</u>
TOTAL	269

* Some allegations were from more than one source.

CLASSIFICATION OF INVESTIGATIONS

Classification of Cases		Number of Investigations			
		Carried Forward 9/30/90	Opened	Closed	In Progress 3/31/91
1	Employee Misconduct	34	27	39	22
2	Employee Concern Program Matters	37	44	43	38
3	Misuse or Abuse of Government Property	12	6	13	5
4	Vehicle Operations	11	15	17	9
5	Substance Abuse	3	2	3	2
6	Personnel Matters	13	18	16	15
7	Terrorism and Sabotage	1	0	1	0
8	Discrimination and Harassment	3	5	5	3
9	Safety	0	1	1	0
10	Trades and Labor	0	0	0	0
11	Theft	29	20	26	23
12	Falsification of Records	61	25	57	29
13	Contract-Related Misconduct	33	27	26	34
14	Fraud and Waste	129	55	69	115
15	General Criminal Activities	1	0	0	1
16	Employment Suitability	1	3	4	0
17	Public Concerns	0	2	2	0
18	Board Concerns	0	0	0	0
19	Archaeological Resources Protection	0	0	0	0
20	Special Projects	12	4	6	10
21	OIG Personnel Matters	2	0	0	2
22	Other	1	0	1	0
23	Environmental Matters	1	1	1	1
24	Destruction of Government Property – Miscellaneous	<u>1</u>	<u>6</u>	<u>2</u>	<u>5</u>
TOTAL		385	261	332	314

ALLEGATIONS IN OIG CASES

Many of the 332 cases we completed this reporting period contained multiple allegations. More specifically, these 332 cases contained 461 separate allegations. Of these allegations, 253 (about 55 percent) were not substantiated, 174 were substantiated, and 34 were not resolved or were not reportable. The following chart describes these allegations.

Classification of Allegation	Total Number	Number Substantiated	Number Not Substantiated
1 Employee Misconduct	50	28	21
2 Employee Concern			
Program Matters	81	18	60
3 Misuse or Abuse of			
Government Property	22	18	4
4 Vehicle Operations	19	4	7
5 Substance Abuse	5	0	3
6 Personnel Matters	22	5	10
7 Terrorism and Sabotage	1	0	1
8 Discrimination and Harassment	11	0	10
9 Safety	2	1	0
10 Trades and Labor	0	0	0
11 Theft	52	15	36
12 Falsification of Records	69	42	25
13 Contract-Related Misconduct	34	12	21
14 Fraud and Waste	70	19	50
15 General Criminal Activities	0	0	0
16 Employment Suitability	4	N/A	N/A
17 Public Concerns	2	0	2
18 Board Concerns	1	0	0
19 Archaeological Resources			
Protection	0	0	0
20 Special Projects	12	9	2
21 OIG Personnel Matters	0	0	0
22 Other	0	0	0
23 Environmental Matters	1	0	1
24 Destruction of Government			
Property – Miscellaneous	<u>3</u>	<u>3</u>	<u>0</u>
TOTAL	461	174*	253

** Thirty-four 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 81 of the 332 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 in response to our investigative findings.

Terminations	12
Suspensions	2
Written Warnings	20
Oral Warnings	3
Reemployment Flagged	<u>28</u>
TOTAL	65

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

- TERMINATIONS**
- A TVA nuclear inspector was terminated after our investigation revealed the inspector (1) was physically able to work and took sick leave in order to avoid an assignment at a TVA nuclear plant, (2) worked at his own construction company while he was on extended sick leave from TVA, and (3) did not get formal approval for his employment at his construction company.
 - A TVA clerk-word processor was terminated for misusing a TVA vehicle when she (1) drove the vehicle from her ex-husband's home to a salvage store to purchase a piece of metal and (2) returned to her ex-husband's home in the vehicle and used the metal to break his windows and outdoor lights.
 - A TVA Public Safety Officer was terminated for stealing items from TVA and being untruthful to the OIG.

SUSPENSIONS

- An energy services technician was suspended for ten days after our investigation revealed the technician anonymously telephoned his former TVA supervisor's home and left a message for the supervisor's wife concerning her husband's alleged infidelity.

**WRITTEN
WARNINGS**

- A hydro plant manager received a written warning for, among other things, (1) failing to report a work-related accident (when he broke both wrists) and (2) improperly instructing a hydro plant laborer to spread poisoned corn to kill pigeons. In addition, a second plant manager received a written warning for improperly directing the same laborer to distribute poisoned corn.
- A TVA fire protection foreman received a written warning after our investigation revealed the foreman, while in a supervisory position, made inappropriate remarks about taking advantage of TVA. Our investigation also revealed that during 1989 the foreman received \$39,032 in regular salary and \$41,032 in overtime and some people believed the foreman was abusing overtime. However, our investigation did not substantiate an allegation that the foreman claimed overtime he did not work.

INVESTIGATIVE REFERRALS

We referred 138 matters to federal or state prosecutors and to other officials during this reporting period. These referrals are described below.

Investigative Referrals	Subjects	Results This Period*
Subjects referred to U.S. Attorneys	62	1 Indictment and 2 Convictions
Subjects referred to State prosecutors	0	3 Convictions
Cases referred to other agencies for investigative or administrative action	<u>76</u>	OWCP declared \$500,000 in overpayments and saved TVA more than \$6.5 million in estimated long-term workers' compensation costs.
TOTAL	138	

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

PROSECUTIVE ACTIVITIES

During this reporting period, we referred 58 cases involving 62 subjects to United States Attorneys for possible prosecution. The results of those referrals are described below.*

Total Number of Subjects in Cases We Referred	62
Subjects Accepted	22
Subjects Declined	69
Indictments	1
Convictions	2
Referrals Pending	14

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

Some of the indictments and convictions which occurred during this reporting period are described below.

- A federal grand jury indicted a former TVA welder after our investigation revealed the welder, who was receiving federal disability benefits, failed to report his employment activities to OWCP. Our investigation revealed the former welder earned more than \$200,000 working for 27 different companies. Our investigation also revealed the welder used aliases and other individuals' social security numbers to conceal his employment while receiving federal benefits. Subsequently, OWCP terminated the welder's benefits and determined the welder received more than \$182,000 in disability benefits to which he was not entitled.
- A former TVA machinist was found guilty in federal court of stealing TVA property after more than \$100,000 worth of TVA property was recovered during a search of the machinist's residence. The machinist was sentenced to 21 months in prison and fined more than \$4,000.
- Two juveniles admitted in juvenile court that they vandalized TVA property. The juveniles cut locks securing electrical switches and closed a switch causing a power failure at two manufacturing plants. (The two manufacturing companies estimated they sustained over \$1.25 million damage in loss of property and revenue.) The juveniles were required to perform 75 hours of public service work and placed on probation for a year.
- A non-TVA employee pled guilty in state court to arson charges after Alabama Forestry Commission employees saw the individual set three fires on TVA forest land in Alabama. The individual received a one- to five-year suspended sentence with the stipulation that he receive treatment at a mental health facility.
- During last reporting period, we reported that a former mid-level TVA manager was indicted by a federal grand jury on seven counts of filing false travel vouchers. During this reporting period, a jury acquitted the former manager of the charges.

SPECIAL FEATURE

TRAVEL VOUCHER FRAUD

During this reporting period, we investigated allegations involving falsification of records which included several alleged instances of travel voucher fraud. We identified several different types of travel voucher fraud, including a scheme where employees received free nights of lodging in connection with a motel's promotional program and then claimed the nights on their TVA travel vouchers. In each instance of travel fraud, management responded to our investigations with prompt corrective action. Highlights of these investigations follow.

- A TVA engineer was terminated for submitting a fraudulent travel voucher in connection with his temporary assignment and subsequent transfer to a TVA nuclear plant. More specifically, our investigation revealed the engineer:
 1. Claimed he **rented** a computer and computer furniture because he needed a computer in order to do TVA work at home. However, the engineer had actually **purchased** the computer, and it was not required for his work.
 2. Submitted receipts indicating he rented furniture for his motel room. However, our investigation revealed he rented a furnished motel room and he purchased, not rented, furniture which was not delivered until he moved to his permanent residence.
- Management terminated a TVA machinist for submitting a fraudulent travel voucher in connection with his transfer between TVA nuclear plants. More specifically, the machinist provided a false lodging receipt and claimed temporary living expenses for his wife, even though she did not accompany him when he was transferred. He also claimed extra miscellaneous expenses because his wife moved to Tennessee when, in fact, she did not move.
- A TVA nuclear plant laborer was terminated for submitting a fraudulent travel voucher after the laborer admitted (1) his family did not relocate from Alabama to Tennessee as he claimed on his voucher and (2) he only incurred a \$30 expense for moving his furniture to Tennessee rather than the \$650 expense he claimed on his voucher.
- A TVA welder submitted a false travel voucher when he indicated he paid for lodging when he had not paid for the lodging. Further, although TVA reimbursed the welder for the lodging, he still did not pay the motel for his lodging expenses. Subsequently, management gave the welder a written warning.

-
- We identified nine employees who received free nights' lodging (in connection with a motel's promotional program) while on TVA business during 1985–1987. The employees received the free nights' lodging and then submitted travel vouchers indicating they paid for the rooms. Each of the employees received from one to eight nights' free lodging. Management gave each employee a written warning and required them to reimburse TVA for the cost of the lodging.

OTHER REPRESENTATIVE INVESTIGATIONS

Some of our other significant investigations are described below.

CONTRACTOR OVERCHARGES TVA

A TVA contractor overcharged TVA about \$512,216 under his contracts with TVA to pick up garbage at a TVA nuclear plant and a fossil plant. More specifically, when the contractor's drivers took any solid waste containers from the plants to the landfill (and on occasion when they inspected the containers without taking any to the landfill), the contractor billed TVA the service fee for all the containers at the site. TVA is initiating action to recover the overpayment.

In addition, the same contractor did not, as required by another TVA contract, (1) apply the required amounts of herbicide and fertilizer to the fields he cultivated at the Land Between The Lakes or (2) plant the type of corn specified by the contract. Subsequently, the fields he planted did not produce an adequate crop.

Our investigation revealed the contractor submitted false invoices to TVA in an apparent attempt to (1) persuade TVA he applied the required amounts of herbicide and fertilizer, (2) persuade TVA he planted the specified type of corn, and (3) inflate his actual expenses under the contract.

***TVA MECHANIC
RESIGNS AFTER
TVA PROPERTY
FOUND AT
RESIDENCE***

As alleged, a TVA mechanic refused to allow a Public Safety Officer to search his lunch box one day when he was leaving the plant at the end of his shift. Although there was insufficient evidence the mechanic was trying to steal TVA property, a search of the mechanic's residence revealed some TVA property. Subsequently, as a result of our investigation, the mechanic resigned.

***WORKERS'
COMPENSATION
INVESTIGATIONS
SAVE MILLIONS***

During this reporting period, we continued our efforts to reduce fraud in connection with Federal Employees' Compensation Act (FECA) benefits for employees with work-related injuries. Because of our efforts, OWCP declared overpayments of more than \$500,000 in 11 cases we referred to them for action. Further, our efforts may have saved TVA more than \$6.5 million over the long term in estimated avoided disability benefits.

More than \$1 million of the \$6.5 million in avoided long-term disability benefits was the result of two investigations we completed on suspicious claims employees filed for FECA benefits. In one of the cases, OWCP disallowed a former TVA boiler-maker's claim for disability after our investigation revealed the employee (1) did not actually incur a work-related injury and (2) falsified his TVA medical records by concealing the fact he was disabled and receiving social security benefits. In the second case, OWCP disallowed a TVA storekeeper's claim after our investigation revealed the storekeeper failed to report her employment activities. Further, TVA management terminated the storekeeper for, among other things, filing a false claim to OWCP and failing to report her employment activities to TVA.

***INTIMIDATION
AND
HARASSMENT
INVESTIGATIONS***

For more than a year we have been assisting Nuclear Power management by investigating allegations of intimidation and harassment, including alleged violations under Section 210 of the Energy Reorganization Act. During the last 6 months, we completed 18 cases involving Section 210 allegations and

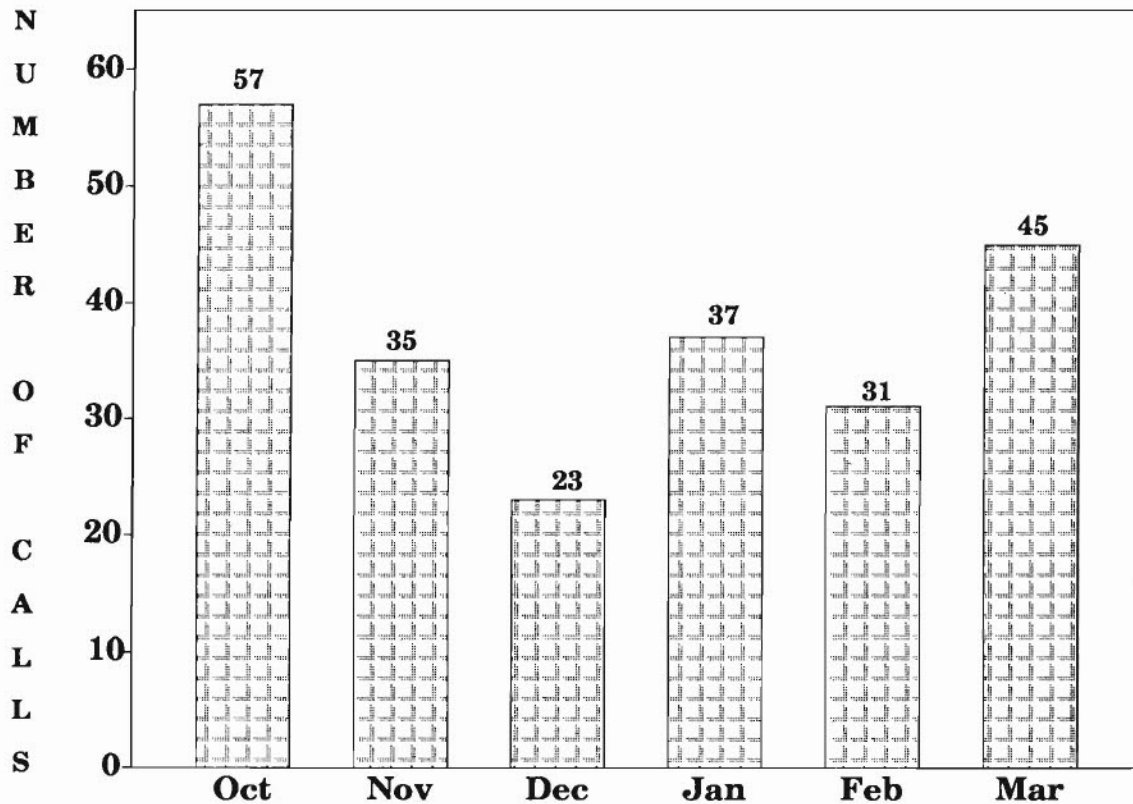
determined there was no misconduct on the part of TVA management. In addition, the Department of Labor (DOL), who determines whether a Section 210 violation occurred, has initially ruled in favor of TVA in eight of these cases. DOL had initially ruled that Section 210 violations did occur in two cases and has not made a decision in the remaining eight cases we completed this reporting period. Two of our significant Section 210 investigations are described below.

- TVA management did not, as alleged, intimidate or harass an engineering associate by, among other things, failing to issue his service review on time. Although a Nuclear Power manager and the associate's supervisor provided a reasonable explanation for delaying the issue of the associate's revised service review from mid-July to approximately August 20, 1990, they did not provide a plausible justification for continuing to hold it until October 15—three days after the associate signed off on a particular corrective action plan. While we could not establish that the managers intended to coerce the associate into signing off on the corrective action plan, we concluded that, at the least, the associate reasonably perceived, and others could have perceived, that the managers held his revised service review “hostage” until he approved the corrective action plan.
- TVA did not, as alleged, discriminate against a TVA quality assurance engineer for reporting nuclear safety concerns. The engineer alleged that because he reported safety concerns, TVA (1) did not select him for any of 25 positions for which he applied and (2) suspended him for two weeks.

However, our investigation revealed the (1) selecting managers considered the engineer, along with many other applicants, for the various positions and decided he was not the most qualified person and (2) engineer received a ten-day suspension for falsifying his time sheet.

OTHER OIG ACTIVITIES

OIG HOTLINE SUMMARY OCTOBER 1990 – MARCH 1991



THE OIG HOTLINE

The OIG Hotline continues to be our primary source of allegations. This reporting period, we received 228 Hotline calls, and more than three-fourths of those calls were from current and former TVA employees. Of those calls, 85 were about personnel matters—a category which constituted about 37 percent of all calls we received. Our Hotline activities are further described on the next page.

Classifications	October 1, 1990 – March 31, 1991	
	Number of Calls	Percentage of Calls
1 Employee Misconduct	17	7.5
2 Employee Concern Program Matters	14	6.1
3 Misuse or Abuse of Government Property	9	3.9
4 Vehicle Operations	24	10.5
5 Substance Abuse	7	3.1
6 Personnel Matters	85	37.3
7 Terrorism and Sabotage		
8 Discrimination and Harassment	15	6.6
9 Safety	2	0.9
10 Trades and Labor	2	0.9
11 Theft	6	2.6
12 Falsification of Records	8	3.5
13 Contract-Related Misconduct	6	2.6
14 Fraud and Waste	10	4.4
15 General Criminal Activities		
16 Employment Suitability		
17 Public Concerns	20	8.8
20Z Special Projects	1	0.4
24A Destruction of Government Property	<u>2</u>	<u>0.9</u>
TOTAL	228	100.0

WHO CALLED

Employees	135	59.2
Former Employees	39	17.1
Public	<u>54</u>	<u>23.7</u>
TOTAL	228	100.0

THE OIG'S USE OF SUBPOENAS

During this reporting period, we issued 36 subpoenas for documents. Thirty-five of the subpoenas were issued in connection with investigations, while one of the subpoenas related to an OIG audit. The investigative subpoenas we issued sought information related to the following topics.

Workers' Compensation Fraud	27
TVA Employees' Improper Acceptance of Gifts or Gratuities From TVA Contractors	5
Travel Voucher Fraud or Theft	3

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

- We issued three subpoenas in connection with our investigation of allegations TVA contractors, among other things, paid several TVA employees for catering parties and picnics other TVA employees attended.
- One subpoena we issued sought mobile telephone records of an individual suspected of stealing an employee's TVA-related credit card. The records we obtained provided leads concerning the current whereabouts of the individual. We referred this matter to the U.S. Secret Service for further investigation.
- During our investigation that a TVA employee used a TVA vehicle to pick up a friend at a hospital, both the employee and the friend (a hospital employee) denied the friend worked on the date in question. However, records we subpoenaed from the hospital regarding the friend's work schedule indicated the contrary. The TVA employee was suspended for 30 days for his unauthorized use of the TVA vehicle.
- Two subpoenas we issued to cockfighting specialty magazines sought records and information concerning a federal workers' compensation recipient's cockfight winnings.

APPENDICES

**INSPECTOR GENERAL AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING MARCH 31, 1991**

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS (DOLLARS)	UNSUPPORTED COSTS (DOLLARS)	FUNDS TO BE PUT TO BETTER USE (DOLLARS)
10/03/90	89-050G	American Welding Institute – Contract TV-65181A	\$114,000*		
10/18/90	90-073P	NUS Corporation – Preaward – RFP RD-10-90			
10/31/90	90-031N-10	Selected Contract Terms Common to All Personal Services Contracts			
11/05/90	90-068P	Science Applications Internal Corporation – Preaward – RFP RD-10-90			
11/09/90	90-071G	Dames & Moore – Preaward – RFP RD-10-90			\$25,000
11/16/90	90-054G	Haleyville, Alabama, Demon- stration Project – Contract TV-70467A			
11/19/90	90-003P-02	Power Conservation Loans – 2/2/79 through 4/3/90			53,248
11/20/90	90-083P	Environmental Science & Engineering, Inc. – Preaward – RFP QB-79481B			
11/30/90	89-026N-10	Management of Cash – Confirmation of Receipt by Payee of TVA-Issued Treasury Checks	46,000*		46,000
12/04/90	90-078N	Bechtel North American Power Corporation – Preaward – RFP dated 8/17/90			5,920,080

**INSPECTOR GENERAL AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING MARCH 31, 1991**

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS (DOLLARS)	UNSUPPORTED COSTS (DOLLARS)	FUNDS TO BE PUT TO BETTER USE (DOLLARS)
12/06/90	89-047G	Wyle Laboratories - Contracts TV-73032A and TV-73743A			
12/10/90	90-075N	TCT-St. Louis - Preaward - RFP RD-10-90**			
12/11/90	90-025G	TVA Health Benefits Program; Subrogation, COB, Work-related Claims - 10/87 through 9/89	\$1,445,405*	\$39,081	
12/14/90	90-084G	Dames & Moore - Preaward - RFP QB-79481B			\$71,000
12/14/90	90-088G	EA Engineering, Science, and Technology - Preaward - RFP QB-79481B			13,000
12/19/90	90-087G	CDM Federal Programs Corporation - Preaward - RFP QB-79481B			25,000
12/19/90	90-047G	TVA Health Benefits Program - Eligibility			
12/21/90	90-062N	Ebasco Services Incorporated - Preaward Audit - Contract TV-82466V			42,537,052
01/02/91	91-013N	Gilbert/Commonwealth, Inc. - Preaward - RFP dated 11/26/90**			233,379
01/22/91	89-066G	Tellico Reservoir Development Agency - Contract TV-60000A			
01/25/91	89-053P-02	General Electric Company - Contract TV-73040A	107,232	46,188	

**INSPECTOR GENERAL AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING MARCH 31, 1991**

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS (DOLLARS)	UNSUPPORTED COSTS (DOLLARS)	FUNDS TO BE PUT TO BETTER USE (DOLLARS)
01/29/91	90-085N	Ebasco Services Inc. - Cost and Fee Proposed for Services			
01/30/91	90-086G	ERC Environmental and Energy Services Company - Preaward - RFP QB-79481B			\$4,900
01/31/91	90-035G	Bicentennial Volunteers, Inc. - Contract TV-63720A	\$194,651*		
02/11/91	90-080N	Contract Terms - Standby Environmental Support for National Fertilizer and Environmental Research Center - October 1990			
02/14/91	88-0182-12	DOE-Interagency Agreement TV-68345A - Statistical Sampling - 10/1/85 through 6/31/89	2,529,347*	\$1,384,357	
02/19/91	90-003P-03	Power Conservation Loans - Distributors Collection Procedures - 7/1/89 through 4/30/90			
02/22/91	89-068P	Talmadge Tinsley Co., Inc. - Claims - Contract 86KTB-737997			
02/28/91	88-0182-10	DOE-Interagency Agreement TV-68345A - 10/1/85 through 6/30/89	1,047,000		

**INSPECTOR GENERAL AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING MARCH 31, 1991**

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS (DOLLARS)	UNSUPPORTED COSTS (DOLLARS)	FUNDS TO BE PUT TO BETTER USE (DOLLARS)
02/28/91	90-023P	Polychlorinated Biphenyls – Fiscal Years 1988–1989	\$84,000*		
03/12/91	91-020P	Law Engineering, Inc. – Preaward – RFP 2S-89376B			
03/21/91	89-065G	Tennessee Elk River Development Agency – Contract TV-50000A	14,000*		
03/22/91	90-039G	Bear Creek Development Authority – 10/1/87 through 9/30/89			
03/25/91	90-065P	Bledsoe Coal Leasing Company and Leeco, Inc. – Contracts TV-73681A and TV-79936T			
03/27/91	90-089N	Digital Engineering, Inc. – Preaward – Contract TV-83423V			\$1,737,220
03/27/91	91-022P	Workers' Compensation Chargeback – Asbestos-Related Claims			2,750,000
03/29/91	89-021N	ATESI – Contract TV-73026A – 8/26/87 through 6/30/89	643,605	\$643,048	
03/29/91	90-048G	TVA Health Insurance Claims Processing – 10/1/88 through 9/30/89			
03/29/91	91-018N	TENERA, L. P. – Preaward – RFP dated 12/20/90			170,213

**INSPECTOR GENERAL AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING MARCH 31, 1991**

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS (DOLLARS)	UNSUPPORTED COSTS (DOLLARS)	FUNDS TO BE PUT TO BETTER USE (DOLLARS)
03/29/91	91-019G	TVA Compliance With the Byrd Amendment (Public Law No. 101-121)			
TOTAL	40		<u>\$6,225,240</u>	<u>\$2,112,674</u>	<u>\$53,586,092</u>

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

Report Number

89-050G	\$ 114,000
89-026N-10	46,000
90-025G	946,259
90-035G	194,651
88-0182-12	1,144,990
90-023P	84,000
89-065G	<u>14,000</u>
	\$2,543,900

** Contracts were not awarded to these respondents to requests for proposals.

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, 400 West Summit Hill Drive, Knoxville, Tennessee 37902

Marvin Runyon
Chairman, Board of Directors

April 30, 1991

TO THE UNITED STATES CONGRESS:

We have enclosed 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.

TVA welcomes the efforts of the Inspector General's office to provide new and innovative ideas, as TVA works to become the very best electric utility in North America and the most productive and effective agency in the Federal Government.

Best regards,

A handwritten signature in black ink that reads "Marvin Runyon" followed by a horizontal flourish.

Enclosure

**TVA MANAGEMENT'S REPORT ON
FINAL ACTIONS FOR THE SIX-MONTH
PERIOD ENDING MARCH 31, 1991**

The following Tables I and II reflect dollar amounts of audit findings reported by the Inspector General, amounts agreed to by TVA management, and final action taken to resolve the audits. The tables are presented in summarized form. All material differences between amounts reported by the Inspector General and amounts agreed to by management (\$500,000 or greater per audit) are explained in notes to the tables. Table III lists audit reports which final action has not been taken one year from the date a management decision was made.

TABLE I
DISALLOWED COSTS
(In Thousands)

	No. of Reports	Amounts Questioned By IG	Amounts Agreed By Management (Disallowed)
IG audit reports for which final action by management had not been taken by 10/1/90	11	\$7,977	\$6,524
IG audit reports on which management decisions were made during the reporting period	10	<u>5,288</u>	<u>4,832</u>
Subtotal	21	13,265	11,356
Less:			
IG audit reports for which final action was taken by management from 10/1/90 through 3/31/91			
(a) Amounts that were recovered by management (through collection offset, property in lieu of cash, or by other means)	4 *	3,599	3,552
(b) Amounts not recovered by management	3 *	1,561	1,561
(c) Amounts classified by the IG as unrecoverable	3 *	<u>330</u>	<u>216</u>
IG audit reports for which management has taken no final action by 3/31/91	14 *	\$7,775	\$6,027

* The number of reports will differ from the arithmetic total when final action for an audit includes both recovery and nonrecovery of disallowed costs.

Note Audit report No. 89-014N, State of Alabama, questioned costs of \$1,444,000 as being unsupported. While the audit does not suggest that all amounts questioned be recovered, it does recommend that management review the questioned costs and recover any portion which cannot be justified or adequately supported. Management has done so and has identified approximately \$91,000 it intends to recover.

Audit questioned costs	\$1,444,000
Amounts agreed by management	\$91,000

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

	No. of Reports	Amounts Recommended By IG	Amounts Agreed By Management
IG audit reports for which final action by management had not been taken by 10/1/90	8	\$41,409	\$41,133
IG audit reports on which management decisions were made during the reporting period	14	<u>70,331</u>	<u>20,044</u>
Subtotal	22	111,740	61,177
Less:			
IG audit reports for which final action was taken by management from 10/1/90 through 3/31/91			
(a) Dollar value of recommendations completed by management	7*	26,703	22,010
(b) Dollar value of recommendations that management decided should not or could not be implemented	9*	<u>52,800</u>	<u>7,206</u>
IG audit reports for which management has taken no final action by 3/31/91	10*	\$32,237	\$31,961

* The number of reports will differ from the arithmetic total when final action for an audit includes recommendations completed and not completed or implemented.

Notes Audit report No. 91-019N, Combustion Engineering Preaward, had recommendations that funds be put to better use of \$7,326,000. Of this total, \$4,693,000 was attributable to an expanded scope in the contractor's proposal. This expanded scope was never considered by management. Of the remaining audit recommendations totaling \$2,633,000, negotiations with the contractor resulted in cost avoidance of \$1,962,000.

Audit recommendations	\$7,326,000
Amounts agreed by management	\$2,633,000

Audit report No. 90-055P, Stone & Webster Preaward, had recommendations that funds be put to better use totaling \$975,000. Subsequent to audit fieldwork, management decided not to award a contract for the services originally intended.

Audit recommendations	\$975,000
Amounts agreed by management	\$0

Audit report No. 90-081P, MPR Associates Preaward, had recommendations that funds be put to better use totaling \$1,493,000; \$1,000,000 for proposed handling charges for subcontract costs and \$493,000 for proposed hourly labor rates. Management evaluated the recommendations and awarded a contract to include both the handling charge for subcontracts and the higher labor rates. This was based on the significant use of subcontracting anticipated and the special technical capabilities provided by the contractor.

Audit recommendations	\$1,493,000
Amounts agreed by management	\$0

Audit report No. 90-062N, Ebasco Preaward, had recommendations that funds be put to better use of \$42,537,000. This amount consists of \$18,335,000 identified as overstated overhead and nonbeneficial costs plus \$24,202,000 of avoidable interest (associated with the \$18,335,000). Management awarded the contract based upon the contractor's certification of compliance of overhead rates and allowable costs. The Inspector General plans to audit the cost certification in the future. If necessary, action will be taken at this time.

Audit recommendations	\$42,537,000
Amounts agreed by management	\$0

TABLE III

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.

DOLLAR VALUE (In Thousands)				
Audit Report Number	Date Issued	Disallowed Costs	Funds Put to Better Use	Explanation Final Action Not Taken
MH Sturdivant 87-077P	10/27/87	8	N/A	Resolution of this audit is on hold pending findings and action plan development of a subsequent audit.
Enercon 87-119P	6/7/88	114	N/A	Resolution efforts to date have been unsuccessful due to lack of cooperation by the contractor. Turned over to TVA's General Counsel in March 1991.
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.
Nuc. Power Emergency Procurements 88-165G	2/8/89	N/A	N/A	Management is in the process of developing and implementing new procedures which will address audit concerns.
Employee Qualifications 87-117N	3/20/89	N/A	20,000	Management is in the process of developing and implementing new procedures which will address audit concerns.
N/A – Not Applicable				

**DOLLAR VALUE
(In Thousands)**

Audit Report Number	Date Issued	Disallowed Costs	Funds Put to Better Use	Explanation Final Action Not Taken
Tn. Emergency Management 88-183N	3/30/89	20	N/A	Most of the audit findings have been successfully addressed. Plans for resolving outstanding items are continuing.
Enercon 89-016P	7/10/89	106	N/A	Same as 87-119P above.
Accident Investigations 88-182N 30	7/17/89	N/A	576	Resolution of this audit is basically complete. Notification of final action will be forthcoming.
Coal Inventory 89-054P	12/12/89	N/A	N/A	Four of the five audit findings have been resolved. Plans for resolving outstanding items are continuing.
TOTALS		248	27,276	

N/A – Not Applicable

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

400 West Summit Hill Drive
Knoxville, Tennessee 37902-1499

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

The OIG focuses on the prevention, identification, and elimination of (1) waste, fraud, and abuse; (2) violations of laws, rules, or regulations; and (3) inefficiencies in TVA programs and operations.

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

OIG TELEPHONE HOTLINE

Knoxville: (615) 632-3550

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

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