

OFFICE OF THE INSPECTOR GENERAL

SEMIANNUAL REPORT

OCTOBER 1, 1994 ~ MARCH 31, 1995



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

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

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

**OIG Hotline**

Knoxville: **615-632-3550**

Toll-free: **1-800-323-3835**

Tennessee Valley Authority  
Office of the Inspector General  
400 West Summit Hill Drive  
Knoxville, Tennessee 37902-1499



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

George T. Prosser  
Inspector General

April 28, 1995

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This is our eighteenth semiannual report; it describes our office's accomplishments for the six-month period ending March 31, 1995.

During this reporting period, we issued 36 audit reports which identified over \$4 million in funds which could be put to better use and \$7 million in questioned costs. Our auditors emphasized contract-related issues while also reviewing topics as diverse as the capital project estimating process, economic development funds, air travel management, and telephone system security. At the same time, they worked to improve the quality and usefulness of their products by conducting a major review of risks and vulnerabilities at TVA, interviewing 80 of TVA's top managers in the process.

Our investigations group completed 136 cases and has over 150 cases under active investigation. They continue to uncover fraud in TVA's workers' compensation program—identifying potential savings of more than \$1.8 million. Our investigators also emphasized contract-related issues. They detected fraudulent temporary living allowance claims by contractors totaling over \$150,000. Several indictments and guilty pleas have already resulted, and our investigation is continuing. They also investigated vendor fraud in a TVA coal delivery contract and in TVA's energy conservation loan program in Memphis, Tennessee. Collectively, these two investigations provided over \$200,000 in benefits to TVA.

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

On a personal note, this marks my first anniversary as Inspector General and my ninth year as an OIG employee. During my tenure, I have been constantly impressed by the dedication and skill of the men and women who work here. The successes highlighted in this report reflect their efforts, and I am proud to be associated with them.

Sincerely,

A handwritten signature in cursive script that reads "George T. Prosser".

George T. Prosser

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OFFICE OF THE  
INSPECTOR  
GENERAL

SEMIANNUAL  
REPORT

OCTOBER 1, 1994  
THROUGH  
MARCH 31, 1995

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## ■ EXECUTIVE SUMMARY

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*This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending March 31, 1995.*

We completed 36 audits which identified over \$7 million in questioned costs. These audits included more encompassing reviews—such as five separate reports on the capital project estimating process at TVA's nuclear and fossil facilities—as well as more narrowly focused reviews on topics such as small dollar procurements, air travel management, and alternate payment methods. We also continued to emphasize preaward audits, issuing 12 reports which collectively identified almost \$4 million in funds that could be used more effectively.

Our investigations revealed vendor fraud in a coal delivery contract and in TVA's energy conservation loan program. These investigations provided over \$200,000 in benefits to TVA and resulted in criminal prosecutions. In another contract-related area, our investigation of fraudulent claims for temporary living allowances by contract employees resulted in recoveries of almost \$150,000. We are also continuing to focus on workers' compensation fraud. Our investigations revealed overpayments of more than \$350,000 and long-term savings of more than \$1.8 million.

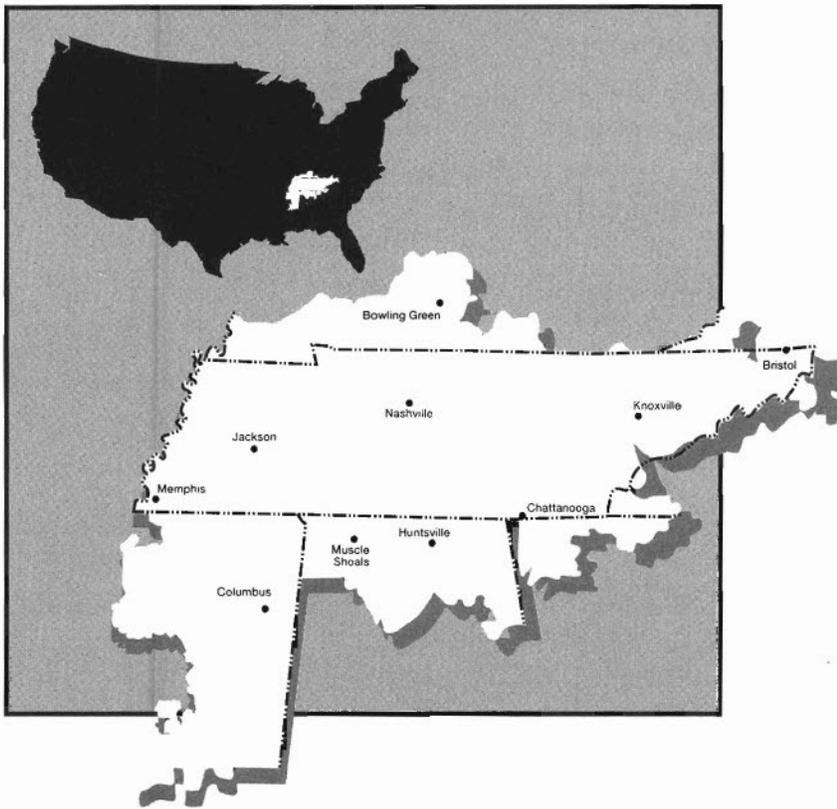
We completed 136 investigations in this reporting period and obtained 8 indictments or convictions. More than 150 cases are currently under active investigation.

We participated in a working group which received the Secretary of Labor's Exceptional Achievement Award for 1995. This group played a key role in enactment of a new federal law which, among other things, bars payment of workers' compensation benefits to claimants who are convicted of defrauding the program and suspends payment of benefits to incarcerated felons.

We have implemented the OIG Information Highway—a state-of-the-art integrated project monitoring system that substantially improves the way we manage information. This system replaces five duplicative systems formerly used to manage OIG activities. Because our Information Highway contains features common to any effective project management system, other TVA organizations and Inspector General community members have expressed interest in adapting it to meet their needs.

## ■ TVA PROFILE

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*TVA's 16,527 employees serve an 80,000-square-mile region spanning seven states.*

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

TVA's 16,527 employees are involved in economic, natural resource, and agricultural development and in the production of low-cost electricity. The power system is funded by power sales, and TVA's other programs are funded by congressional appropriations.

TVA is governed by a three-member Board of Directors appointed by the President and confirmed by the Senate. Craven Crowell is the Chairman and

Johnny H. Hayes and William H. Kennoy are Directors.

Chairman Crowell and Directors Hayes and Kennoy recently introduced TVA's new goals, vision, and values. TVA's goals are Customer Driven, Employee Sensitive, Environmentally Responsible, and Growth Oriented. TVA's vision is "to be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs." TVA's values are Integrity, Respect for the Individual, Teamwork, Innovation, and Continuous Improvement, Honest Communication, Leadership, and Flexibility.

## Organization

The OIG's organizational structure reflects our emphasis on two core functions—audits and investigations. The OIG's Investigative Operations unit consists of an investigative services and hotline group and two investigative departments, both managed by experienced criminal investigators. A Financial Investigations department focuses on contract issues, workers' compensation cases, and employee integrity matters; and an Internal Investigations department focuses on environmental issues, nuclear issues, and benefits and entitlement programs.

The OIG's Audit Operations unit consists of four departments managed by experienced audit managers. It includes two departments—Preaward Contract Audits and Contract Compliance Audits—devoted to contract-related topics. Two other departments—Financial and ADP Audits and Operational Audits—focus on performance, financial, and ADP-related issues.

## Office Authority

The TVA Board of Directors administratively established the OIG during October 1985. During its early years of operation, the OIG operated much like its statutory counterparts and exercised subpoena powers granted by a provision in a TVA appropriations bill. When Congress enacted the Inspector General Act Amendments of 1988, TVA's OIG became 1 of 33 new statutory offices whose Inspector General was appointed by the agency head. TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors.

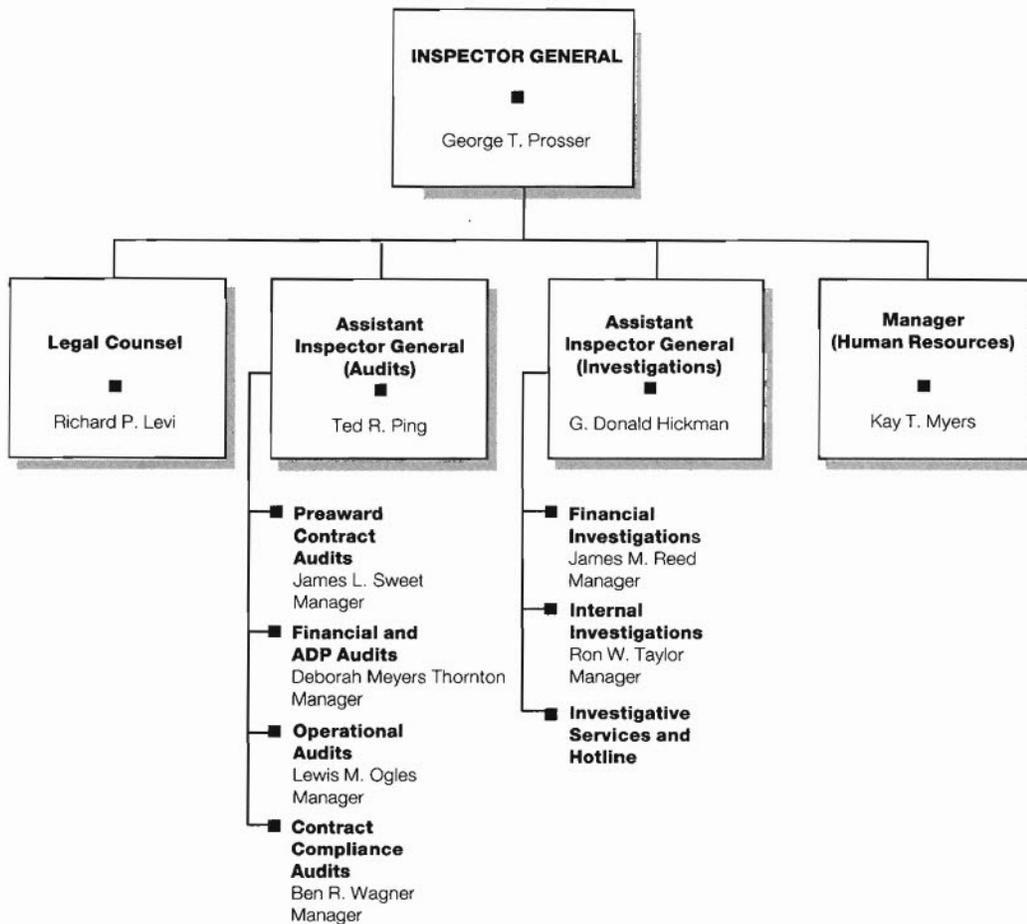
George T. Prosser became TVA's third Inspector General on April 1, 1994.

## Staffing and Budget

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

The OIG's budget is about \$8.5 million, and during this reporting period, the OIG had approximately 100 employees.

### OFFICE OF THE INSPECTOR GENERAL



## Reinvention Principles

*We are agents of positive change striving for continuous improvement in our agencies' management and program operations and in our own offices.*

We have undertaken numerous projects which fulfill the reinvention principles and the Inspector General (IG) Vision Statement adopted by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency (ECIE).

- During 1994, our auditors conducted a major review assessing risks and vulnerabilities at TVA. We interviewed all of TVA's top level managers (over 80 managers); reviewed business plans, budgets, and asset holdings; and assessed public sensitivity, potential for liability, employee morale, and other factors. We then prepared program writeups identifying TVA's prioritized areas of risk, which we then used to develop specific audit workplans for fiscal year 1995. These steps helped us focus our audit activities on areas which were high risk, of concern to management, and consistent with TVA goals.

*Improve the quality and usefulness of our products.*

- Our office participated in the "Federal Employees' Compensation Act (FECA) Fraud Deterrence Group" which was selected to receive the Secretary of Labor's Exceptional Achievement Award for 1995. The group played a significant role in the enactment of Public Law 103-329 which bans payment of FECA benefits to claimants who are convicted of defrauding the program, suspends payment of benefits to incarcerated felons, and changes the FECA fraud statute from

*Work together to address government-wide issues.*

a misdemeanor to a felony.

- We participated in several efforts to improve communications and share information

among federal IG staffs. We continued operating the ECIE Connection, a computer bulletin board system (BBS) which went on-line in May of 1994. The BBS provides IG staffs with a means of sharing ideas and experiences and exchanging information of general interest to the IG community. It also allows TVA auditors and investigators in the field to exchange

files remotely. We also participated in the core team which worked to establish IGNet, an internet-based network serving the federal IG community as well as similar functions in state and local government.

- We are a member of the U.S. Attorney's (Northern District of Alabama) Law Enforcement Coordinating Committee. This is the first time TVA has had a seat on the advisory board which includes representatives from the Federal Bureau of Investigation (FBI), the Drug Enforcement Agency, and the U.S. Customs Service offices in Northern Alabama.
- One of our investigative managers chaired a task team created to review environmental auditing processes. The team, which included representatives from all major TVA organizations, was part of an internal review of all aspects of TVA's environmental program. The team determined customer requirements and developed a process to meet customer expectations. Senior TVA managers approved

*Build relationships  
with program  
managers.*

the team's  
recommendations.

- We are continuing our investigation of alleged violations of

Section 211 of the Energy Reorganization Act. At the request of TVA management, we investigate such complaints to determine whether any current or former TVA employee or contractor engaged in misconduct.

We provide management with the results of our investigations to allow management to take timely action to resolve the concerns.

- During 1994, we participated in a major TVA initiative to improve TVA's contracting process. TVA created a Contract Improvement Team (CIT) to identify and solve various contracting process problems. The CIT was made up of contracting experts from throughout TVA and met regularly to discuss contracting problems, while cross-functional employee teams studied and presented recommendations for TVA's most pressing contracting issues. We provided an auditor to work full-time on this project, conducted several inspections at the team's request, and reviewed various aspects of TVA's contracting process. This team evolved into the TVA Procurement and Contracting Council during fiscal year 1995 and continues to review and improve TVA procurement processes. The Assistant Inspector General (Audits) is a full-time member

of this Council. Currently, we are conducting a survey of procurement systems and processes to determine where TVA procurement activities stand today. After the survey is complete, we will target specific procurement areas for a more detailed review. The OIG is committed to maintaining its independence while also working together and sharing information with management. Our relationship with the Council is a prime example of this effort. We have informed the Council of our findings in the procurement area and are continuing to keep the Council updated on our current projects.

- We are initiating a project to identify health care benefit overpayments and potential fraud issues. In connection with this review, we are working with a national management consulting group to examine, using a proprietary software program, TVA's health care claims for fraud and abuse. We are

*Be innovative  
and question  
existing  
procedures  
and suggest  
improvements.*

also part of a Health Care Fraud Task Force sponsored by the U.S. Attorney's Office for the Eastern District of Tennessee. This group, which

consists of law enforcement officials and health care administrators, was established to identify fraud in the health care arena.

- We are working with TVA management to identify and prevent fraud by contractor employees in connection

*Recommend  
improved  
systems to  
prevent fraud,  
waste, and  
abuse.*

with temporary living expenses (per diem). Our efforts include working to improve contract language and identify fraudulent per diem claims.

## Information Highway

In March 1995, we successfully implemented the OIG Information Highway, a fully integrated project monitoring system operating on a local area network. This system represents the culmination of a joint effort

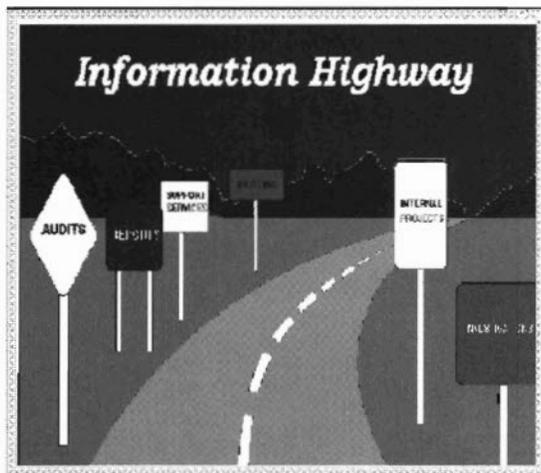
between the OIG and TVA Information Services to improve and streamline the way we conduct our business.

OIG systems were formerly based on outdated

computer technologies being gradually phased out at TVA. There were also separate information systems maintained for audits, investigations, and other office functions which included redundant data and required duplicated data entry. Even with multiple systems, certain data was unavailable, and reporting capabilities were limited.

The new system replaced five systems formerly used for monitoring OIG activities. It was developed in TVA's state-of-the-art software and is being run on computer hardware compatible with the latest technologies used throughout TVA.

The system provides enhanced data retrieval and reporting capabilities that far exceed those of the previous systems. It tracks everything from individual project team members to statistics needed for semiannual reporting.



*OIG implements state-of-the-art automated system to improve project monitoring and management reporting.*

This achievement has streamlined the OIG's information flow and provided a tool that can be shared inside TVA and with outside organizations. The OIG Information Highway contains features that are universal to effective project and information management. Accordingly, other TVA organizations and IG community members are interested in adapting it to meet their needs.

## ■ AUDITS

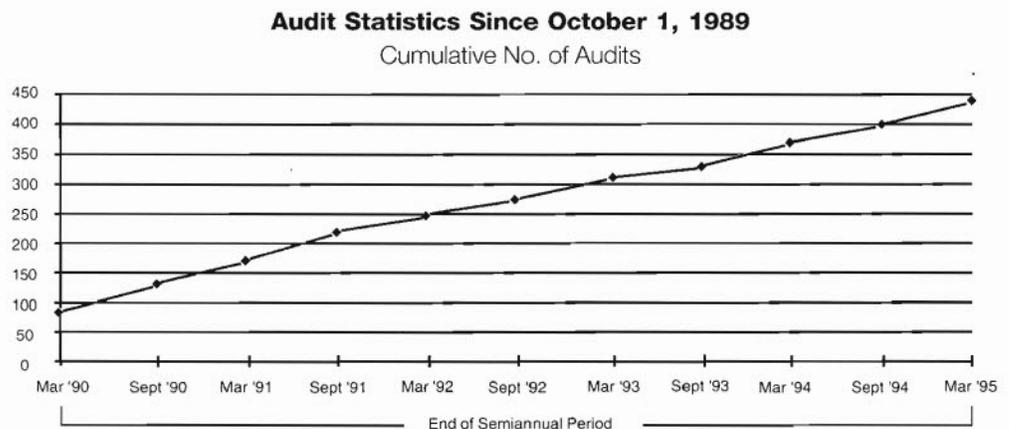
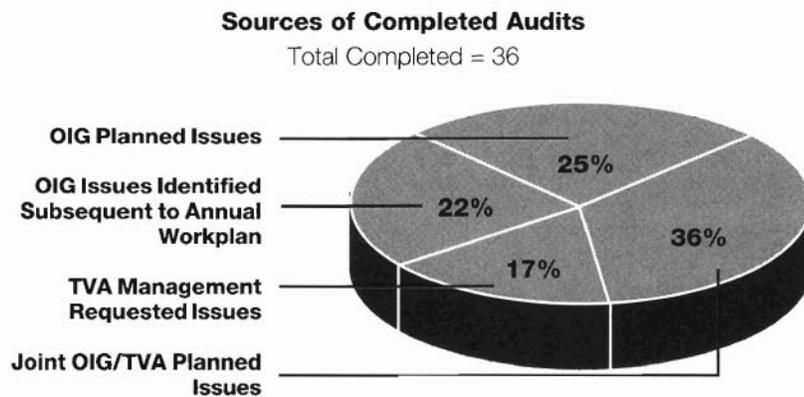
*Our audit activities ranged from reviewing TVA capital project estimating processes to telephone system security.*

We issued 36 audit reports that identified over \$7 million in questioned costs and almost \$4.4 million in funds which could be put to better use (see Appendix 1).

Audits are initiated from (1) the OIG annual workplan, (2) issues identified by the OIG subsequent to the annual

workplan, (3) issues identified by cooperative efforts with TVA management, or (4) performed in response to concerns raised by TVA management or others.

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



## Summary of Representative Audits

### **TVA's Capital Project Estimating Processes**

As of March 23, 1995, we had issued five audit reports addressing the capital project estimating processes used at TVA's fossil and nuclear facilities.

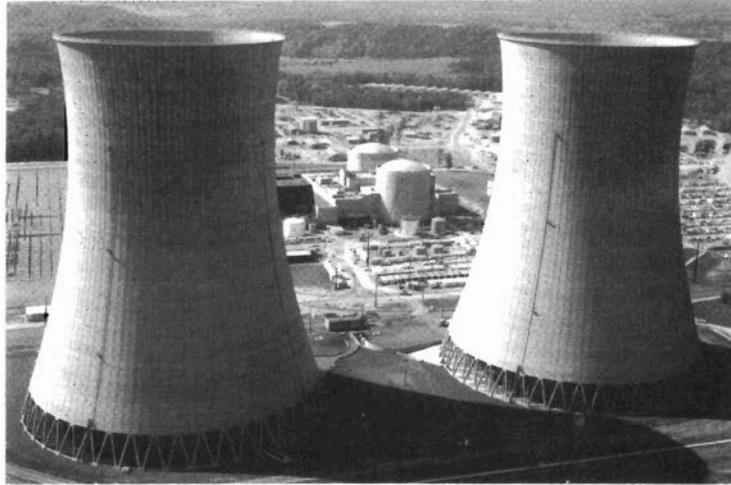
A subsequent capsule report was prepared which identified and highlighted

issues common to the various estimating processes. In summary, we found:

- Project scopes were not adequately defined.
- Comprehensive historical estimating data had not been developed or maintained.
- Contingency allowance estimating was not based on an analysis of the risks associated with the work to be performed.
- Useful and reliable project cost data could not be obtained from TVA's accounting system.

Basing TVA's planning and budgeting decisions on inadequate scope and cost data led to inaccurate estimates.

Inaccurate estimates could adversely



impact the management decision process, including decisions to go forward with projects or alter projects' spending plans, as well as decisions related to evaluating project cost performance.

TVA management generally agreed with our findings and has taken or plan to take action to address most of our findings.

### **Security of Telephone Systems**

We evaluated the configuration and security of TVA-owned telephone systems serving TVA sites in Knoxville and Chattanooga to determine whether these systems provided adequate security protection against outsider toll fraud and employee abuse.

Companies with telephone systems using customer premises equipment, such as customer-owned switches, are susceptible to toll fraud by unrelated third parties. In addition, employees or other related parties may abuse the system from within by making unauthorized calls.

Although TVA had taken some actions to protect the systems, there were weaknesses which could be exploited. We believe the cause of many of the weaknesses was the lack of a substantive security program. Such a program should address security issues on a continuing basis and provide coordinated policies and control over high-risk features and services.

TVA management concurred with our conclusion and will develop a comprehensive plan to address telephone security. In addition, the OIG continues to monitor management actions concerning TVA's telephone system security.

#### **Contractor Overbilled TVA \$5.1 Million**

We reviewed the cost data used by a contractor in developing composite labor rates for an \$85 million contract to provide architectural, design, and engineering services at a TVA nuclear plant. We found the contractor proposed and used composite labor rates

that did not accurately reflect their expected labor costs and resulted in overbillings to TVA totaling \$5.1 million plus associated cost of money of \$1.4 million. TVA negotiated a settlement of \$2.67 million to settle all issues raised in this audit.

#### **Review of TVA's Fiscal Year 1993 Financial Statement Audit**

We reviewed TVA's fiscal year 1993 financial statement audit and determined that it reasonably complied with professional auditing standards and significant legal requirements. We found that:

- The external auditors are well qualified, use effective auditing processes, and have a good understanding of TVA and the electric utility business environment.
- Business arrangements are present, which detract from the appearance of the auditors' independence.
- Concerns exist about the resolution of accounting errors and control weaknesses.

While management's position on these issues did not eliminate our concerns, we do not consider this to be a significant disagreement.

### **TVA's Injury/Illness Criteria Need to be Revised**

We assessed TVA's Occupational Health and Safety (OCH&S) program to determine whether (1) TVA's criteria for recording injuries/illnesses were effective for future benchmarking against other utilities and (2) TVA safety personnel accurately reported injuries/illnesses. In summary, we estimated TVA's fiscal year 1993 recordable injury/illness rate would have been 2.79 rather than 1.03 per 100 employees if TVA had used criteria comparable to the private sector.

Management generally agreed with our recommendations, except management (1) did not believe OCH&S should be responsible for determining the recordability of injuries/illnesses and (2) believed the use of statistical injury rates as an indicator of performance should be limited to the level of vice president and above.

### **OIG Continues to Assist TVA Management With Preaward Audits**

During this reporting period, we assisted management in administering contracts by performing 12 preaward audits which (1) collectively identified almost \$4 million in funds that could be used more effectively, (2) collectively identified about \$340,000 in overpayments made previously under contracts being

supplemented, and (3) provided suggestions for clarifying contract provisions and additional information for use in negotiating and administering the contracts. The proposals reviewed were for contracts or contract supplements totaling about \$200 million in expected TVA expenditures. Some of the more significant recommendations are summarized below.

- Reduce the contractor's proposed labor and labor markup rates to reflect actual costs.
- Maintain current contract labor and markup rates rather than allow proposed increases.
- Include appropriate audit and payment clauses in contracts.
- Clarify contract fee schedules to prevent duplicate billing of direct and indirect costs.
- Recover overpayments made previously under the contract being supplemented.

### **TVA's Air Travel Management Process Lacks Authorization**

We reviewed TVA's (1) travel services contractor's effectiveness and (2) air travel management process. We found the company provided TVA with quality services at a reasonable cost. However, these services could be improved by strengthening internal controls to ensure only authorized personnel are permitted

to obtain airline tickets. In addition, TVA's air travel management process could be improved by ensuring (1) TVA is only charged for authorized business travel and (2) travelers accept the lowest possible air fares. This could result in savings of \$490,000 annually. TVA management is currently working with the company to improve its air travel management process.

#### **Small Dollar Procurements Not Cost-Effective**

Our audit disclosed the number of small dollar procurements and resultant small dollar invoices processed in TVA's Integrated Materials System (ITMS) do not appear to be necessary or cost-effective. We recommended that TVA management form an operational-level cross-functional team to evaluate TVA's current procurement, invoice processing, and payment methods. Based on the team's findings, management should (1) develop a plan for improvements which would meet the agency's needs, utilize available technology, and provide adequate controls; and (2) communicate the evaluation results, the plan, and implementation strategy to TVA's Procurement and Contracting Council for their approval and inclusion in TVA's overall procurement strategy. TVA's management concurred with our

recommendation, and a task team has been formed to address small dollar procurements.

#### **TVA's Alternative Payment Methods**

We reviewed TVA's alternative payment methods to determine if TVA's ITMS contained complete information on amounts paid to TVA vendors. We found (1) contract payments made against specific contracts through alternative payment methods are not accounted for in ITMS, (2) \$86.9 million that was paid to various TVA vendors under an agreement with a TVA contractor that was not accounted for correctly in ITMS, and (3) controls surrounding the authorized contract amount can be circumvented. TVA management generally agreed with our findings and is taking action to address our recommendations.

#### **TVA's Compliance With the Byrd Amendment**

We reviewed TVA's compliance with the certification and reporting requirements of the Byrd Amendment (31 USC 1352). We concluded TVA was in substantial compliance with the certification requirements. We also found TVA submitted the required semiannual reports to Congress for fiscal year 1994.

**TVA's Economic Development Funds**

We reviewed most of TVA's economic development funds to determine the (1) funding and expenditure amounts for each project and (2) criteria for selecting, monitoring, and evaluating the success of the projects.

We found, as of July 1994, TVA had 7 economic development programs with 295 active projects totaling over \$97 million. Of this amount, almost \$15 million had not been spent and about \$19 million remained in project trust accounts. With regard to the criteria for selecting, monitoring, and evaluating the success of the projects, we found the criteria and level of TVA involvement varied by program and project within programs.

**Contractor Unable to Support Costs Billed to TVA**

We audited a contract with a nonprofit corporation to provide onsite degree programs for TVA employees. We found the billings to TVA generally complied with the contract terms, except for markups on direct billed textbooks and materials. However, internal control weaknesses and an inadequate accounting system prevented us from determining the reasonableness of the contractor's rates. After issuing the draft audit report, we learned the contractor lost its accreditation with the Southern Association of Colleges and Schools and could no longer award degrees. TVA did not renew its contract with this contractor, and the onsite degree program is being continued through a different contractor.

**UNRESOLVED AUDIT REPORTS WHICH WERE ISSUED PRIOR TO OCTOBER 1, 1994**

Listed below are three audit reports which we issued before this reporting period began and for which no management decision has been made by March 31, 1995.

Date Issued	Audit Number	Report Title	Why Management Decision Has Not Been Made
12/07/93	93-040C	Analysis of General Electric PIP Contracts	TVA management is currently negotiating the resolution of this audit.
02/23/94	92-054O	Distributors' Financial Position	The management decision was received in April 1995.
09/27/94	93-036C	PRC Engineering - Contract TV-73026A	TVA management is currently negotiating the resolution of this audit.

This period, we closed 136 cases containing 138 allegations. We substantiated 26 of these allegations or almost 19 percent.

## Summary of Representative Investigations

### Substandard Coal

Our investigation of a company with a contract to deliver coal revealed the company falsified coal quality analysis reports to TVA. Based on our investigation,



a Disputes Contracting Officer was appointed and determined that because of these false analysis reports, the contractor owed TVA \$189,937.

Prior to June 1991, TVA's Cumberland Fossil Plant

(CUF) did its own weighing and quality analysis of the coal it purchased. However, during June 1991, CUF changed its procedures and allowed the coal company to weigh and analyze the coal it provided to TVA.

The contractor hired a third-party laboratory to certify the coal weight and quality. On several occasions, when the laboratory reported to the coal contractor that the sample did not meet TVA specifications, the contractor required the laboratory to rerun the analysis until it obtained results meeting TVA's specifications.

In many instances, the laboratory's testing procedures deviated from generally accepted standards. For example, when a coal sample was too high in moisture, the laboratory would dry the sample in an oven-type drying cabinet or collect another sample.

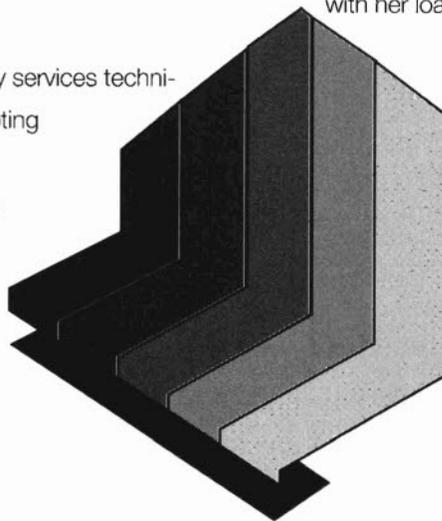
### Energy Conservation Loans

Three people pled guilty, including a former TVA employee, and one person was indicted in connection with our investigation of defaulted TVA Commercial and Industrial (C&I) energy conservation loans in the Memphis, Tennessee, area. To date, TVA has recovered more than \$42,600 as a result of our investigations.

TVA's C&I program encourages the efficient use of electricity by providing funds for energy conservation measures. Our investigative efforts centered around 22 C&I loans which were in default.

In some cases, the funds were embezzled by loan recipients who conspired with a former TVA employee and two principal contractors. To date, our investigations have resulted in the following. (Our investigations are continuing, and more prosecutions and recoveries are expected.)

- A former TVA energy services technician admitted accepting money from two contractors in return for falsifying inspection reports and speeding the paperwork process so that loan checks would reach the recipients more quickly. The TVA technician resigned during our investigation and later pled guilty in federal court to mail fraud and making false statements.
- One contractor hired for work in connection with the loans admitted he was involved in the conspiracy and later pled guilty to two counts of mail fraud. Another contractor was named in a 10-count indictment for his role in the scheme.



Commercial & Industrial Energy Conservation

- Three loan recipients have repaid either the excess funds they received from the loans or completely paid off the outstanding loan balance. These amounts totaled more than \$32,500.
- A health care facility owner pled guilty to making a false claim in connection with her loans. The owner obtained a \$6,000 TVA loan to purchase cooking equipment and another loan for \$17,000 for heating and air conditioning equipment. She admitted she never purchased the cooking equipment and received a \$4,100 kickback from the contractor out of the \$17,000 loan. She was sentenced to four months' home confinement, one year probation, and ordered to make restitution to TVA of \$10,100.

- After learning about our investigation, another health care facility owner paid off her \$14,300 loan for heating and air conditioning equipment. The owner admitted receiving \$2,850 in kickbacks from the contractor.
- During the previous semiannual reporting period, four people, including a church pastor, were

*Excess funds were embezzled by loan recipients who conspired with a former TVA employee and two contractors.*

indicted for mail fraud and making false claims to the government in connection with energy conservation loans (totaling about \$94,400) for work at a church and a restaurant in Tennessee. Prosecution is pending in these cases.

### **Temporary Living Allowances for Contractors Questioned**

We continued our efforts to reduce TVA contract costs by identifying and seeking recoveries for fraudulent and ineligible temporary living allowances (TLAs) paid to TVA contractors. During this reporting period, our efforts resulted in (1) recoveries of more than \$141,800, (2) cost avoidance of more than \$46,000, and (3) one former contract manager being indicted and another former contract manager pleading guilty to fraudulently obtaining TLAs. In addition, during this reporting period we were notified that, based on our investigations of contract employees fraudulently obtaining TLAs, the Internal Revenue Service has generated over \$200,000 in tax deficiencies against such individuals. Some of these activities are highlighted below.

- After learning about an OIG inspection involving TLA, one contractor voluntarily reviewed its own per diem payments. Subsequently, the contractor

offered to repay at least \$85,000 for TLA which its employees were not entitled to receive.

- As a result of our investigations, one contractor terminated TLAs for three of its employees, resulting in a cost avoidance of more than \$46,000.
- A contractor nuclear quality control inspector at the Browns Ferry Nuclear Plant (BFN) made false statements in order to obtain more than \$30,000 in TLA. The employee resigned during our investigation.
- A former contract manager at BFN was indicted in connection with a scheme to fraudulently obtain \$39,450 in TLA. The manager was sentenced to four months' home confinement, three years' probation, and fined \$1,000. Further, he was ordered to repay the contractor \$18,741—the amount he fraudulently obtained. (The contractor previously made restitution in that amount to TVA.) In addition, another former contract manager at BFN pled guilty in federal court to making a false statement in order to receive TLA. (The TLA investigation at BFN is being conducted jointly with the FBI and the U.S. Attorney's office for the Northern District of Alabama.)

**Workers' Compensation Fraud**

We continued our efforts to combat fraud in the workers' compensation program. During this period, as a result of our investigations, the Office of Workers' Compensation Programs (OWCP) determined that three individuals were overpaid more than \$356,300, and our investigations collectively resulted in potential long-term savings of more than \$1.8 million. In one case, OWCP determined a former employee was overpaid more than \$175,000 after our investigation revealed he failed to report that he managed rental properties over a seven-year period. OWCP also reduced his benefits resulting in a potential long-term workers' compensation savings of more than \$351,000. In another case, a former TVA employee, who was receiving workers' compensation benefits, requested OWCP end his benefits after his OIG interview. (During this interview, an OIG investigator showed him photographs of him working in a vinyl siding business.) This resulted in potential long-term savings of more than \$419,000.

Further, during this reporting period, U.S. Attorney offices in several jurisdictions accepted for prosecution six cases involving individuals making false statements about their employment activities. For example, one former TVA employee reported he was not involved in any

employment activities. However, our investigation revealed he operated a service station and had gross earnings of more than \$827,000 over a four-year period. In another case, a former TVA employee made partial or no disclosure of employment activities, and our investigation revealed that over a five-year period he earned more than \$116,000 by, among other things, managing and operating an electrical heat and air conditioning business.

**Vehicle Misuse**

Based on our investigation, a TVA contract employee was terminated, one employee resigned, and another employee was suspended for the unauthorized use of TVA vehicles. In one case, the contract employee was speeding when he wrecked a TVA car. At the time of the accident, he was using the car for an unauthorized, personal trip and had unauthorized passengers in the car. He is required to repay TVA more than \$6,500 for damage to the car. In another case, an environmental scientist admitted she used a TVA car for personal purposes. She resigned during our investigation. In the third case, a heavy equipment operator was suspended for two weeks for driving while intoxicated in a TVA car.

**Theft**

After a search of a BFN employee's house revealed a substantial amount of stolen TVA property, management suspended the employee. (The search was conducted by the OIG and the FBI.) In addition, the search revealed evidence linking the employee to several thefts of computers and related items from BFN and to the sale of stolen property through two businesses operated by the employee. In another case, a search of a contractor employee's home resulted in the recovery of more than \$2,000 in TVA tools which had been stolen from BFN. Subsequently, the contractor terminated the employee. Prosecution is pending in these cases.

A TVA Emergency Service Technician was terminated after our investigation revealed he stole a daily planner belonging to a TVA contractor. He attempted to use the contractor's credit card number, which was listed in the planner, to make personal purchases.

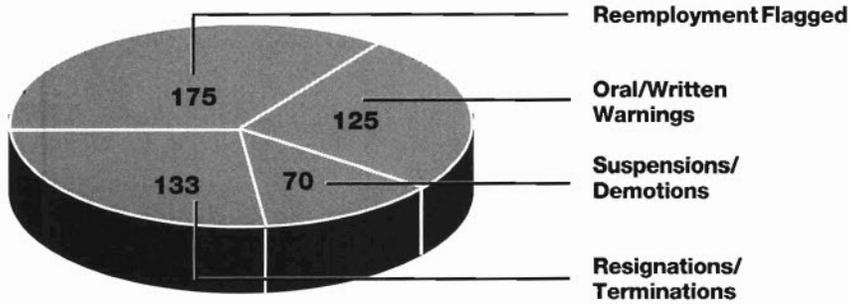
**Investigative Referrals and Prosecutive Results**

We referred seven subjects to federal prosecutors during this reporting period. Some of the results obtained from these referrals and others pending from prior periods are outlined below.

- A former TVA fossil plant materials tester pled guilty in federal court to conspiring with a former Public Safety Officer (PSO) to steal copper wire from the Hartsville Distribution Center. During September 1993, the former PSO pled guilty to his role in the theft of the copper wire and was ordered to make restitution. (The PSO was also terminated by TVA.)
- A TVA contractor pled guilty in federal court to making false statements in order to obtain more than \$29,000 in travel reimbursements. He was sentenced to four months' electronically monitored confinement, 36 days' community service, two years' probation, and fined \$10,000. In addition, he waived all outstanding claims against TVA (approximately \$36,000) and agreed to pay \$22,667 restitution to TVA.

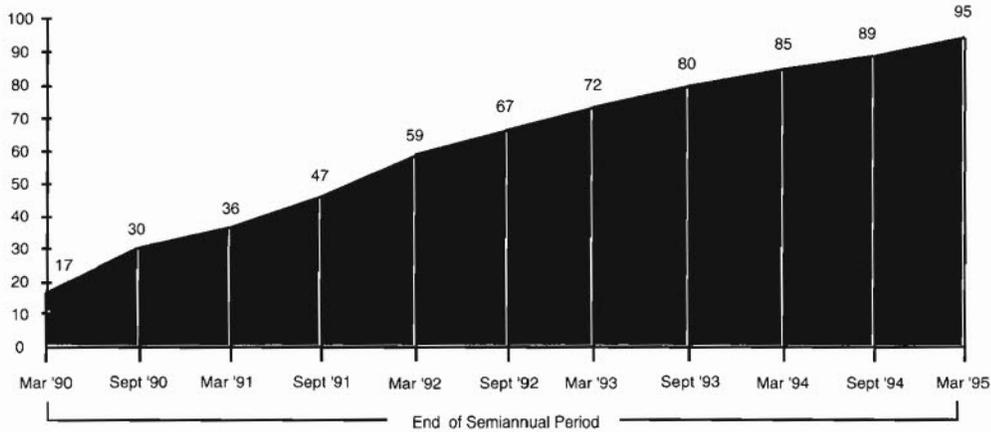
**Administrative and Disciplinary Actions Since October 1, 1989**

Total = 503



**Convictions Since October 1, 1989**

Cumulative No. of Convictions



■ APPENDICES

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**Appendix 1**Page 1 of 3

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**OIG AUDIT REPORTS ISSUED DURING  
THE SIX-MONTH PERIOD ENDING MARCH 31, 1995**

The following table summarizes final audit reports issued by the OIG from October 1, 1994, through March 31, 1995.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
10/04/94	94-064P	Tellico Reservoir Development Agency			
10/11/94	94-061P	Economic Development Activities			
11/07/94	94-029P-01	Review of Watts Bar Unit 1 Capital Project Estimating Process			
11/16/94	94-071C	Law Environmental, Inc. - Preaward			\$260,000
11/18/94	94-072C	Ogden Environmental and Energy Services - Preaward			19,100
12/02/94	94-048P	Medical Insurance Advance Payment Methods			49,000
12/16/94	94-033P	TVA's Air Travel Management			490,000
12/20/94	95-005C	Stone & Webster Engineering Corp. - Preaward			
12/20/94	95-006S	Performance Contracting, Inc. - Preaward	\$ 1,150		21,500
12/23/94	95-008S	Schaerer Contracting Co. - Preaward			
12/28/94	94-050P	Contractor Employment Practices			
12/28/94	94-063C	Tennessee Tombigbee Waterway Development Council Contract TV-79140T			
01/09/95	94-065F	Centran Corporation - Litigation Support	21,287	\$17,393	
01/25/95	94-029P-03	Review of Browns Ferry Unit 2 Capital Project Estimating Process			

**Appendix 1**

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DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
01/27/95	94-025C	American Technical Institute - Contract TV-89967V	\$ 14,882		
01/27/95	95-013P	Review of Timber Sales			
01/30/95	95-022S	Kuether & Associates, Inc. - Preaward			\$ 24,000
01/31/95	94-004C	ABB C-E Services, Inc. - Preaward			235,000
01/31/95	95-011S	Roberts & Schaefer Co. - Preaward			1,026,000
02/08/95	94-012P	Review of TVA Safety Program			
02/24/95	95-020S	Stone & Webster Engineering Corp. - Preaward	254,000		717,000
02/27/95	94-046P-01	Review of TVA's Hazardous Waste Storage Facility			
02/28/95	94-069C	Raytheon Engineers & Constructors, Inc. - 90P25-79058B			
02/28/95	95-024S	EGS Corp. - Preaward			
03/06/95	95-034S	Parsons Main, Inc. - Preaward			525,000
03/09/95	93-032F	Review of TVA's Fiscal Year 1993 Financial Statement Audit			97,485
03/23/95	94-029P-04	Review of Sequoyah Nuclear Plant's Capital Project Estimating Process			
03/27/95	94-040F	Review of TVA Alternate Payment Methods			
03/29/95	95-028P	TVA's Compliance With the Byrd Rider Amendment			
03/30/95	92-059C	Gilbert/Commonwealth, Inc. - Contract TV-72370A	6,660,402	\$142,354	
03/31/95	93-024F	Controls Over TVA Telephone Services			

**Appendix 1**Page 3 of 3

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DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
03/31/95	94-029P-05	TVA's Capital Project Estimating Process			
03/31/95	94-036F	Review of Small Dollar Invoices Processed for Payment			
03/31/95	94-038C	FRHAM Safety Products, Inc. - Contract 93ZMA-01699A-01	\$ 5,308		
03/31/95	95-017P	Review of TVA's Quality Alliance Program			
03/31/95	95-036S	Mesa Associates, Inc. - Preaward	84,621		\$ 891,000
TOTAL	36		\$7,041,650	\$159,747	\$4,355,085

## Appendix 2

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### OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 1995

The following Tables I and II summarize management decisions made by TVA management on OIG recommendations contained in final audit reports. The tables reflect amounts which were questioned and recommended to be put to better use and track the disposition of these amounts through management decision.

TABLE I  
**TOTAL QUESTIONED AND UNSUPPORTED COSTS**

AUDIT REPORTS	NUMBER OF REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the period	1	\$ 124,657	\$ 0
B. Which were issued during the reporting period	7	7,041,650	159,747
Subtotal (A+B)	8	\$7,166,307	\$159,747
C. For which a management decision was made during the reporting period	4*	6,701,879	159,747
1. Dollar value of disallowed costs	4	2,711,477	17,393
2. Dollar value of costs not disallowed	1	3,990,402	142,354
D. For which no management decision has been made by the end of the reporting period	4	464,428	0
E. For which no management decision was made within six months of issuance	3	124,657	0

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

**Appendix 2**

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

AUDIT REPORTS	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE
A. For which no management decision has been made by the commencement of the period	3	\$ 886,853
B. Which were issued during the reporting period	12	4,355,085
Subtotal (A+B)	15	\$5,241,938
C. For which a management decision was made during the reporting period	9*	1,826,438
1. Dollar value of disallowed costs	9	1,610,296
2. Dollar value of costs not disallowed	1	216,142
D. For which no management decision has been made by the end of the reporting period	6	3,415,500
E. For which no management decision was made within six months of issuance	0	0

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

### Appendix 3

Page 1 of 1

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#### INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	7	2 Indictments 6 Convictions 4 Declinations
Subjects referred to other agencies for investigative or administrative action	0	OWCP declared \$422,669 in overpayments and saved TVA more than \$1.8 million in estimated long- term workers' compensation costs.
TOTAL	<u>7</u>	



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

Craven Crowell  
Chairman, Board of Directors

May 1, 1995

TO THE UNITED STATES CONGRESS:

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

TVA is in its eighth consecutive year of having no increase in our electric power rates. Savings and efficiencies identified by the Inspector General have contributed significantly to this accomplishment. We welcome the continued support of the Inspector General as we strive to meet our goals of being customer driven, employee sensitive, environmentally responsible, and growth oriented.

Sincerely,

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

Craven Crowell

Enclosure

**Appendix 4**

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**TVA MANAGEMENT'S REPORT ON FINAL ACTIONS FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 1995**

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

TABLE I  
**DISALLOWED COSTS**

AUDIT REPORTS	NUMBER OF REPORTS	AMOUNTS AGREED BY MANAGEMENT (Thousands)
A. For which final action by management had not been taken by 9/30/94	11	\$3,556
B. On which management decisions were made from 10/1/94 through 3/31/95	4	2,711
Subtotal (A + B)	15	\$6,267
C. For which final action was taken by management from 10/1/94 through 3/31/95		
1. Amounts that were recovered by management	6*	3,933
2. Amounts that were not recovered by management	1*	15
D. For which management has taken no final action by 3/31/95	9*	2,319

\* The number of reports will differ from the arithmetic total when final action includes both amounts recovered and amounts not recovered for a single audit report.

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

AUDIT REPORTS	NUMBER OF REPORTS	AMOUNTS AGREED BY MANAGEMENT (Thousands)
A. For which final action by management had not been taken by 9/30/94	3	\$2,094
B. On which management decisions were made from 10/1/94 through 3/31/95	9	1,610
Subtotal (A + B)	12	\$3,704
C. For which final action was taken by management from 10/1/94 through 3/31/95		
1. Dollar value of recommendations implemented by management	4*	632
2. Dollar value of recommendations not implemented by management	4*	1,273
D. For which management has taken no final action by 3/31/95	6*	1,799

\* The number of reports will differ from the arithmetic total when a final audit action includes both recommendations implemented and recommendations not implemented for a single audit report.

TABLE III  
**EXPLANATIONS FOR FINAL ACTIONS NOT TAKEN**

AUDIT REPORT NUMBER	DATE ISSUED	DISALLOWED COSTS (Thousands)	FUNDS PUT TO BETTER USE (Thousands)	EXPLANATION FINAL ACTION NOT TAKEN
Polychlorinated Biphenyls 90-023P	2/28/91	N/A	N/A	Due to restructuring, the recommendations will remain open, pending a follow-up review by the OIG.
TVA Administration of Medical and Dental Insurance Contract 90-042G resolved.	11/30/92	N/A	N/A	With the exception of two items, all audit issues previously identified have now been addressed and  Efforts will continue to be directed toward resolution of the remaining items.
LAN and WAN Management and Operation 93-029F	12/20/93	N/A	N/A	Most audit issues have been resolved. Final resolution is expected during fiscal year 1996.

N/A - Not Applicable

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

## Appendix 5

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### OIG REPORTING REQUIREMENTS

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

Section 4(a)(2) — Review of Legislation and Regulations	*
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 9-20
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 9-20
Section 5(a)(3) — Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4) — Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Pages 19-20 Appendix 3
Sections 5(a)(5) and 6(b)(2) — Summary of Instances Where Information Was Refused	**
Section 5(a)(6) — Listing of Audit Reports	Appendix 1
Section 5(a)(7) — Summary of Particularly Significant Audits	Pages 10-14
Section 5(a)(8) — Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 2
Section 5(a)(9) — Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 2
Section 5(a)(10) — Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period	Page 14
Section 5(a)(11) — Significant Revised Management Decisions	***
Section 5(a)(12) — Significant Management Decisions With Which the Inspector General Disagreed	****

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

\*\* There were no instances where information or assistance was unreasonably refused or not provided.

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

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

## ■ HIGHLIGHTS

	FOR SEMIANNUAL REPORTING PERIODS				
	MAR 31, 1995	SEPT 30, 1994	MAR 31, 1994	SEPT 30, 1993	MAR 31, 1993
ANNUAL BUDGET (In Millions of Dollars)	8.5	8.7	8.7	8.7	8.7
CURRENT STAFFING	98	118	119	126	133
AUDITS					
AUDITS IN PROGRESS					
Carried Forward	31	29	27	21	41
Started	48	43	36	34	19
Canceled	(6)	(7)	(3)	(3)	(6)
Completed	(36)	(34)	(31)	(25)	(33)
In Progress at End of Reporting Period	37	31	29	27	21
AUDIT RESULTS (Thousands)					
Questioned Costs	\$7,042	\$10,948	\$6,708	\$ 11,517	\$ 17,543
Disallowed by TVA	2,711	9,900	1,649	10,291	9,586
Recovered by TVA	3,933	8,054	1,268	10,673	9,794
Funds to Be Put to Better Use	\$4,355	\$3,791	\$2,043	\$ 636	\$140,788
Agreed to by TVA	1,610	4,004	171	104,955	17,854
Realized by TVA	632	1,477	92	120,833	927
INVESTIGATIONS					
INVESTIGATION CASELOAD					
Carried Forward	174*	149	135	163	231
Opened	120	155	122	99	154
Closed	136	(150)	(108)	(127)	(222)
In Progress at End of Reporting Period	158	154	149	135	163
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	18	38	22	35	67
Actions Taken (# of Subjects)	23	23	19	44	42
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referrals	7	19	8	38	33
Indictments	2	4	2	6	0
Criminal Complaints	0	3	0	0	1
Convictions	6	4	5	8	6

\*Adjusted from previous semiannual reports.

OFFICE OF THE INSPECTOR GENERAL OF THE TENNESSEE VALLEY AUTHORITY

400 WEST SUMMIT HILL DRIVE

KNOXVILLE, TENNESSEE 37902-1499