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OFFICE OF THE INSPECTOR GENERAL

9

SEMIANNUAL REPORT

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APRIL 1, 1998 ~ SEPTEMBER 30, 1998

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

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

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

**TVA
INSPECTOR
GENERAL**

Hotline

Call toll free:

1-800-323-3835

423-632-3550 (Knoxville)

Tennessee Valley Authority

400 West Summit Hill Drive ET 4C
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Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

George T. Prosser
Inspector General

October 30, 1998

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This, our 25th semiannual report, describes the accomplishments of our office for the six-month period ending September 30, 1998.

During this reporting period, we completed 27 audits which identified almost \$1.8 million in questioned costs and more than \$200,000 in funds that could be used more effectively. Our auditors conducted performance reviews of TVA operations and contract preaward and compliance audits. We also conducted 11 special projects, which identified over \$14.7 million in potential savings.

Our investigations group completed 81 investigations, substantiating allegations in over 34 percent of the cases we investigated. During this reporting period, our investigations resulted in over \$3.6 million in savings and recoveries, five subjects indicted, and nine subjects convicted. Further, as a result of our investigations of alleged misconduct, administrative and disciplinary action was taken against 22 individuals, and management took additional corrective action in 8 cases.

During this reporting period, I noted with interest the congressional hearings on the Inspector General Act. Those hearings illustrated the continuing needs for Inspectors General, and the significant results we are achieving. Congress' foresight in creating Inspectors General has provided lasting benefits to the federal government, including TVA. I am proud of the accomplishments of the Inspector General community and look forward to continuing our work as we move into the next century.

Sincerely,

A handwritten signature in black ink, appearing to read "George T. Prosser".

George T. Prosser

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■ EXECUTIVE SUMMARY

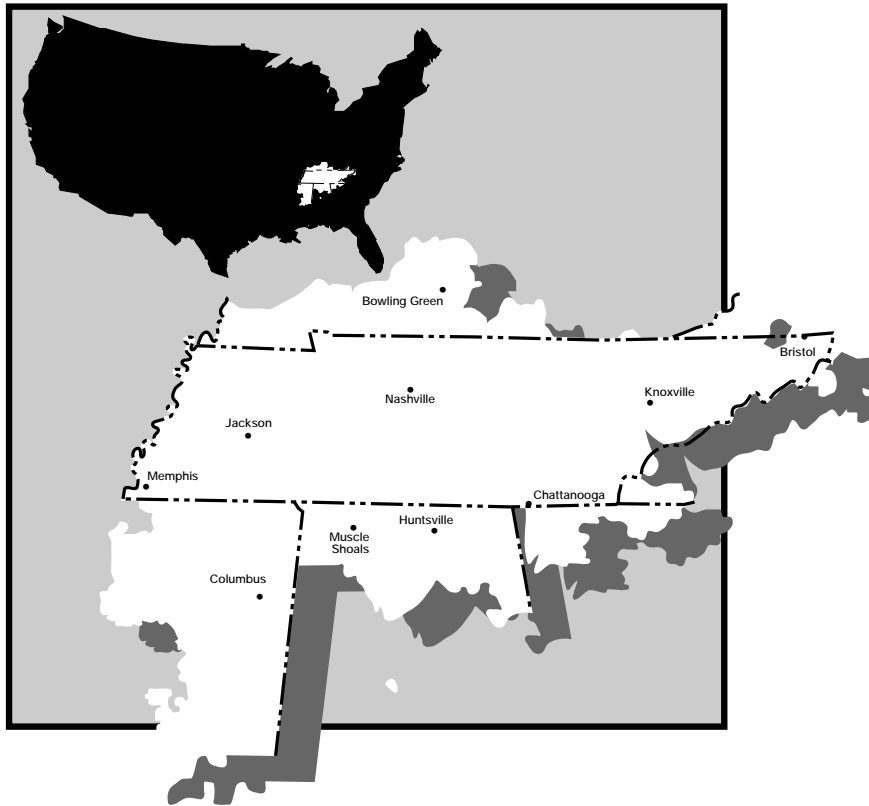
This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending September 30, 1998.

We continued our efforts to support TVA's goals by providing quality service with audits, investigations, and special projects. We completed 27 audits which identified almost \$1.8 million in questioned costs and more than \$200,000 in funds that could be used more effectively. Eleven special projects identified over \$14.7 million in potential savings. We closed 81 investigations which led to over \$3.6 million in savings and recoveries. Investigations of alleged misconduct led to administrative and disciplinary action taken against 22 individuals and other corrective action in 8 cases.

Our audit activities included performance reviews of TVA programs, processes, and systems, as well as compliance and preaward audits of TVA contractors. Representative audits include reviews of Transmission and Power Supply's overtime policy, a contractual arrangement to provide procurement assistance to small businesses, selected contracts, controls on access security in an ADP system, and one of the fiscal year 1999 performance goals submitted in accordance with the Government Performance and Results Act of 1993.

We also conduct special project reviews of high-profile issues as requested by our customers, primarily the Board of Directors, TVA executive management, and the Congress. During this reporting period, the areas we reviewed included the Investment Recovery operations, the Visa Gold Card program, a \$24.7 million uranium mill reclamation claim, and fuel used by the ridesharing program. We also participated on TVA's Supply Chain Redesign Team.

Our investigative activities included inquiries into environmental crimes, criminal misuse of TVA economic development funds, workers' compensation fraud, contractors' fraudulent claims for temporary living expenses, nuclear-related issues, health-care overpayments, and employee misconduct. One investigation led to a former TVA senior executive and a contractor being indicted on 20 counts of mail fraud. Other investigative results include a conviction of a husband and wife for workers' compensation fraud and various findings of misconduct.



TVA's 13,818 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 13,818 employees are involved in regional development, integrated resource management, and the production of low-cost electricity. The power system is funded by power sales, and TVA's other programs are funded primarily by congressional appropriations.

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

Craven Crowell is the Chairman, and Johnny H. Hayes and William H. Kennoy are Directors.

TVA's goals are Customer Driven, Employee Sensitive, Environmentally Responsible, and Growth Oriented. TVA's vision is "to be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs."

Organization

The OIG's Audit Operations unit consists of three operational departments. One is devoted to contract-related topics, both preaward and post award reviews; the two other departments focus on performance, financial, ADP-related issues, and special projects.

The OIG's Investigative Operations unit consists of an investigative services and hotline group and two investigative departments. While both departments work a variety of cases, including employee integrity and environmental issues, one department focuses on contract and workers' compensation cases, while the other focuses on nuclear issues and benefits and entitlement programs.

Office Authority

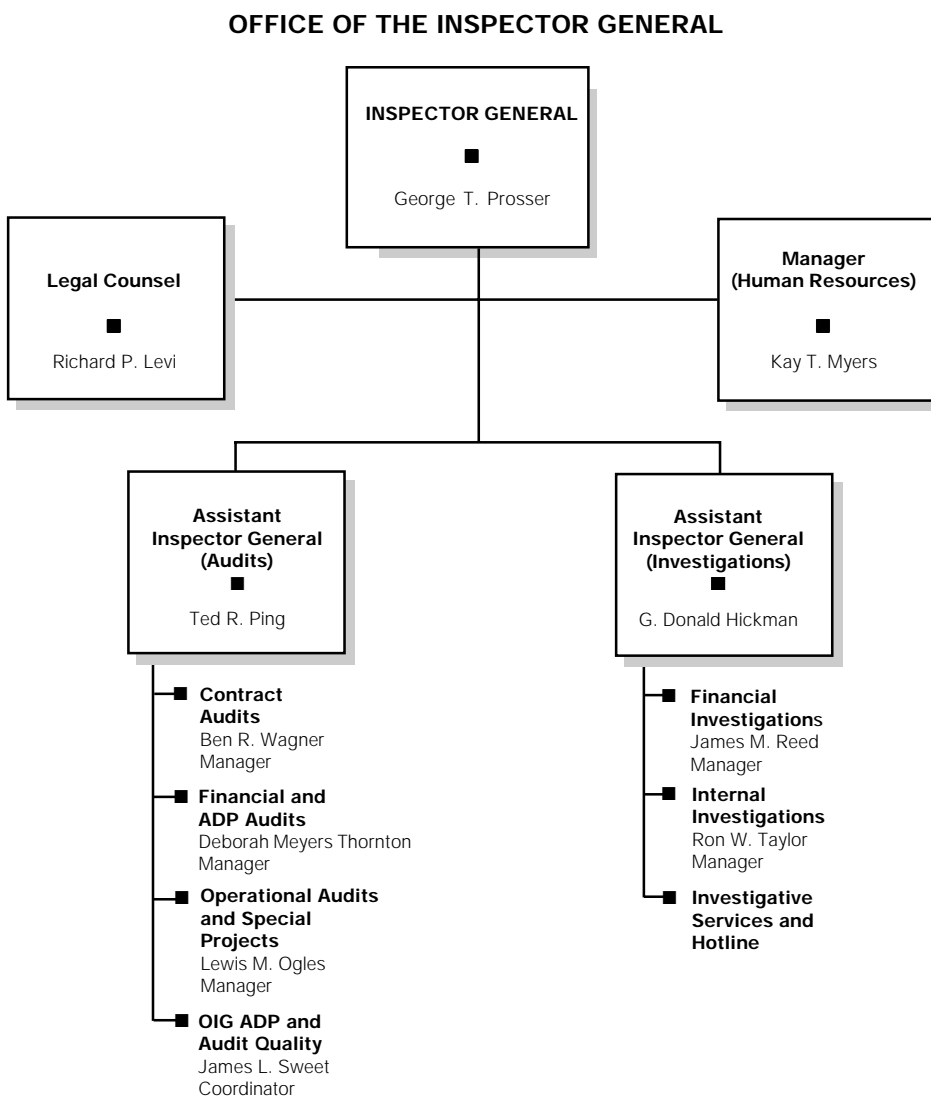
The TVA Board of Directors administratively established the OIG during October 1985. During its early years of operation, the OIG operated much like its statutory counterparts and exercised subpoena powers granted by a provision in a TVA appropriations bill. When Congress enacted the Inspector General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

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

Staffing and Budget

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

The OIG's fiscal year 1998 budget is about \$7.3 million, and during this reporting period, the OIG had 83 employees.



ENVIRONMENTAL CRIMES JOINT TASK FORCE (ECJTF)

The ECJTF's mission is to (1) focus enhanced law enforcement resources against individuals and companies involved in environmental crimes and (2) prosecute those individuals and companies by applying the most effective federal and state criminal and civil statutes. The ECJTF grew out of an awareness of pollution problems in East Tennessee and informal cooperation between the Department of Justice (DOJ) Environmental Crimes Section, the U.S. Attorneys' Office, the Federal Bureau of Investigation (FBI), and the

Tennessee Department of Environment and Conservation. During the 1990s, this informal group grew in size to include other federal law enforcement agencies. The increased resources enabled the group to investigate and prosecute more cases with corresponding successes. These successes built a momentum which resulted in the current task force with 16 different state and federal agencies and a history of significant prosecutions. Highlights of the investigative results during this reporting period include the following.



Members of the Environmental Crimes Joint Task Force are from left to right: (standing) Special Agent Bruce Harkleroad (FBI), Assistant U.S. Attorney Guy Blackwell (Eastern District of Tennessee), Special Agent Roger Holland (DCIS), Assistant U.S. Attorney John MacCoon (Eastern District of Tennessee), Special Agent Bob Gibson (FBI), Special Agent Joe Boehr (TVA OIG), Supervisory Special Agent Gary Steed (FBI), Special Agent Dennis Daniels (TBI), and Special Agent Andy Derryberry (TVA OIG) (sitting) Special Agent Joe Cole (EPA CID), Special Agent in Charge Jim Johnson (EPA CID), Special Agent Randall Kizer (DOE OIG), Departmental Attorney Sprightly Ryan (DOJ), and Attorney Betty Obenshain (EPA CID)

- A family owned business contracted with Arnold Engineering Development Center (AEDC)—located at Arnold Air Force Base, Tullahoma, Tennessee—to collect and dispose of grease waste. Investigation revealed the company's owner directed his employees to illegally discharge grease waste into a manhole at a shopping center in nearby Winchester, Tennessee. (Samples taken from the disposal site were determined, through spectroscopic analysis, to be identical to grease collected at AEDC.) The owner pled guilty to violating the Clean Water Act and was sentenced to five months' imprisonment followed by one year of supervised probation, which will include five months' home detention. Additionally, the individual was ordered to pay \$9,890 in restitution to the Winchester Utility System.
- An individual doing business as a hazardous waste and used oil transporter illegally discharged waste oil into U.S. waters in Bradley County, Tennessee. The individual pled guilty to violating the Clean Water Act and is awaiting sentencing. (The plea agreement stipulates the individual will permanently cease operation of his waste oil pumping service.)
- A certified wastewater plant operator, responsible for operation of several wastewater treatment plants in Greene and Cocke counties (Tennessee) was required to conduct sampling and testing to ensure compliance with the National Pollutant Discharge Elimination System permits for each plant. He was also required to submit monthly operating reports to the Tennessee Department of Environment and Conservation (TDEC). The ECJTF's inquiry revealed he submitted false reports to TDEC. The individual certified on the reports he sampled and tested water when, in fact, he was not physically at the plants. As a result of the task force investigation, the individual pled guilty to violating Tennessee state law by falsifying data he submitted to TDEC.



FBI Special Agent Bob Gibson addressing a recent Task Force meeting in Chattanooga, Tennessee.

He was ordered to pay a \$1,000 fine and was sentenced to 12 months' confinement (9 months' suspended after serving 90 days) and 1 year probation.

Assistant U.S. Attorney Guy Blackwell summarized the work of the task force as follows.

"Investigating environmental crimes is time and manpower intensive. It involves hazardous and radioactive waste and pollutants, often fraud and false statements, and by its very nature includes an active concealment. Issues are often complex, and cases can turn on the interpretation or application of a regulation or a scientific principle or protocol. Prosecutive successes have been measured by the collective efforts of each member of the task force. Whether assembling teams for a surveillance, executing a search warrant, sharing expertise and resources, or planning proactive initiatives, the task force has been the most effective way to attack environmental criminals. In the Eastern District of Tennessee, the focus is on the sum of the parts, not an individual agency, agent, or lawyer. The collective goal is

aggressive and quality prosecutions, a stronger state enforcement program, increased environmental awareness, and a cleaner and safer environment now and for the future." We are proud to be a member of this task force.

Audits are initiated from (1) the OIG annual workplan, (2) issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, or (4) concerns raised by TVA management or others. During this reporting period, we issued 27 audit reports which identified almost \$1.8 million in questioned costs and more than \$200,000 in funds which could be put to better use (see Appendix 1).

Summary of Representative Audits

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

EFFICIENCY IN CONTROLLING OVERTIME COSTS ACHIEVED

On July 1, 1997, TVA's Transmission and Power Supply (TPS) implemented an overtime policy to better manage and control overtime costs. At the request of TPS management, we assessed (1) the effectiveness of the policy in reducing overtime costs and (2) compliance with the policy. Our review covered the period July 1 through December 31, 1997, and included comparisons with the period July 1 through December 31, 1996. In our opinion, TPS's overtime policy was

effective in reducing overtime costs.

We found that (1) overtime costs decreased about 66 percent from \$3.6 million to \$1.2 million, (2) overtime reduction did not appear to negatively affect TPS's operational performance, and (3) total labor costs decreased only slightly due to increased labor rates and bonuses. Based on the results of our samples, we concluded that TPS's employees generally complied with the overtime policy with some minor exceptions.

IMPROVEMENTS RECOMMENDED IN PROCUREMENT ASSISTANCE PROGRAM

TVA contracted with a non-profit organization to provide (1) contract procurement assistance to small businesses and manufacturers and (2) special assistance and encouragement to minority- and woman-owned firms in contracting with government prime contractors. Under the terms of the contract, TVA provided technical assistance and contributed \$125,000 to the contractor annually. Our audit covered the period October 1, 1994 through September 30, 1997. Although TVA contracted with a specific contractor, all contract responsibilities and financial transactions were handled by another organization. We found several deficiencies in contract administration

attributable to both the contractor and TVA, including concerns about (1) which organization performed under the contract, (2) closure of the separate interest bearing bank account, (3) workplans and budgets, and (4) compliance with the Single Audit Act of 1984. We also questioned certain expenses that were not adequately supported by the contractor's records or incurred for project purposes. The contractor and TVA management agreed with our recommendations and are taking steps to correct the deficiencies.

OPPORTUNITIES FOR IMPROVEMENT IN ADMINISTRATION OF CONSULTING CONTRACTS

TVA paid almost \$6.9 million to a consulting firm under six consulting contracts since 1988 to provide managerial assessments and guidance on human resource issues. We estimated the firm has performed at least 900 assessments of TVA employees and employee candidates. Our review of four of the contracts with payments totaling almost \$5.6 million found the following: (1) nearly \$30,000 for assessments, other labor services, and travel which were not paid in accordance with the contract terms; and (2) opportunities for improvement in contract administration.

TVA management and the firm agreed with our findings.

CONTROLS OVER ADP SYSTEM COULD BE STRENGTHENED

TVA's Business Information Delivery System (BIDS) is a web-based application that processes financial and non-financial information from the Interactive Variance Reporting System and other TVA information systems into report formats. BIDS controlled its access security through computer software using identifications and passwords. We found the controls surrounding BIDS need to be improved to adequately protect TVA against inappropriate disclosure of sensitive information. Specifically, we found the following controls need improvement: (1) access authorization and periodic review processes and (2) written procedures for both the above processes. TVA management has agreed to implement the recommendations.

\$5 MILLION CONSTRUCTION CONTRACT REVIEWED

TVA entered into a three-year partnering agreement for the performance of construction and modifications work for TVA generating plant switchyards, substations, electrical transmission system, and other TVA facilities. We assessed whether the contractor

complied with the cost provisions involving equipment and material charges under the contract from March 14, 1996 through March 13, 1997, by reviewing about \$2.6 million of the \$5 million in billings. We identified net overbillings and unnecessary sales tax expense on third-party equipment rentals. Based on our sample results, we estimated the total overbillings and unnecessary sales taxes for the period in question exceeded \$200,000. TVA management agreed to pursue (1) recovery of the overbillings and (2) a solution to avoid unnecessary taxes.

NUCLEAR ENGINEERING CONTRACT REVIEWED

We assessed whether the contractor complied with the cost provisions of contracts for startup engineering and time and material tasks at TVA's Watts Bar Nuclear Plant (WBN). Of the \$20.2 million paid for these tasks, we identified less than \$100,000 in overbillings. TVA management agreed to pursue recovery of these overbillings.

\$39 MILLION NUCLEAR DESIGN AND ENGINEERING CONTRACT REVIEWED

Our review of a contractor's costs totaling \$39 million billed for design and engineering services at WBN during the period November 1994 through April

1996 disclosed questioned costs totaling over \$900,000. We also found potential problems concerning living expense reimbursements which were referred to OIG investigators for further review. TVA management plans to pursue recovery of the amounts questioned.

FOSSIL PLANT EQUIVALENT AVAILABILITY FACTOR FOUND TO BE RELIABLE

The Government Performance and Results Act of 1993 (GPRA) requires government agencies to report planned performance goals, expressed with performance indicators. TVA submitted 26 performance goals for fiscal year 1999. Proposed GPRA changes may require agency OIGs to verify and validate selected data sources and information systems used to support performance reports and strategic plans. One performance goal submitted for fiscal year 1999 was the Fossil Plant Equivalent Availability Factor (EAF). TVA uses the EAF as a measure of customer service performance. We reviewed the process used by TVA to calculate the EAF indicator and the systems that provide source data for the calculation. We found TVA's EAF calculation could be relied upon to accurately indicate the EAF of TVA's fossil (coal-fired) plants.

**UNRESOLVED AUDIT REPORTS WHICH WERE
ISSUED PRIOR TO APRIL 1, 1998**

Listed below are audit reports we issued before this reporting period began and for which no management decision was made by September 30, 1998.

Date Issued	Audit Number	Report Title	Why Management Decision Has Not Been Made
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There were no audit reports in this reporting category as of September 30, 1998.

During the last six months, we substantiated allegations in 28 of the 81 investigations we closed—over 34 percent. Our investigations resulted in over \$3.6 million in savings and recoveries, five subjects indicted, and nine subjects convicted. Representative investigations are highlighted below.

Summary of Representative Investigations

MISUSE OF TVA FUNDS

With the FBI and Kentucky State Police, we investigated an allegation that the former executive director of a Kentucky non-profit corporation misappropriated several thousand dollars. The corporation—which managed a bond-assurance fund to assist minority and female contractors—received contributions from various federal, state, and local government agencies, including \$100,000 from TVA. As a result of our investigation, a grand jury charged the former executive director with fraudulently obtaining over \$700,000 and money laundering in excess of \$100,000 from the fund. The grand jury indicted the individual on the following charges: bank fraud (1 count), money laundering (7 counts), and criminal forfeiture

(2 counts). The individual pled guilty to all ten counts and is awaiting sentencing.

In a second case, our investigation revealed a treasurer of a Western Kentucky economic development agency embezzled funds from a \$100,000 TVA grant. Prior to our investigation, the individual paid the economic development agency \$10,000 for questioned expenditures. Our inquiry, however, uncovered an inappropriate diversion of \$29,225 from the grant by the former treasurer. As a result of our investigation, the individual pled guilty to theft of government property. A federal judge ordered the individual to pay an additional \$19,225 in restitution to TVA and sentenced him to five years' probation, which includes eight months' home detention.

In a third case, as a result of our investigation, a former senior TVA executive and a former TVA contractor were indicted by a federal grand jury on 20 counts of mail fraud related to contracts for a quality management program provided by the contractor. (The senior executive resigned his TVA position during August 1998.)

According to the indictment:

- The contractor had never developed a quality training program prior to entering the TVA contract and had no educational background in quality management systems. When the executive directed that TVA enter the initial contract, the contractor was a full-time employee of another power company and did not have a consulting company or any employees.
- The two individuals schemed to defraud TVA of money by means of false and fraudulent representations, which included the contractor plagiarizing quality management training material with the executive's knowledge.
- TVA was the contractor's only client; and between July 1991 and February 1997, TVA paid the contractor approximately \$3.6 million under five separate contracts.

A trial date in U.S. District Court is pending.

FALSE CLAIMS - TEMPORARY LIVING EXPENSES (TLE)

We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible TLE paid to TVA contractors. During this reporting period, our investigations led to recoveries of over \$200,000. Specifically,

- A former Bechtel Power Corporation contractor employee at Browns Ferry Nuclear Plant (BFN) entered into a settlement agreement in connection with alleged fraudulent TLE claims. As a result of the settlement, the former contractor employee will pay the United States \$125,000. TVA will receive \$99,642, which is the disputed amount of TLE the individual received. The individual was allowed into a federal pretrial diversion program.
- A former Performance Controls Company contractor employee at BFN entered into a settlement

agreement in connection with alleged fraudulent TLE claims. Under the terms of the agreement, the individual paid the United States \$25,960. (The disputed amount of TLE the individual received is \$17,306.)

- Two former United Energy Services Corporation contractor employees at WBN were sentenced for fraudulently obtaining TLE as follows.

A federal judge ordered one individual to pay TVA full restitution (\$13,393) and sentenced the individual to one year at a halfway house and three years' supervised release.

A federal judge ordered another individual to pay full restitution (\$36,179) and sentenced him to 3 months' home detention, 200 hours' community service, and 3 years' supervised probation.

FALSE CLAIMS - OFFICE OF WORKERS' COMPENSATION PROGRAM (OWCP)

During this reporting period, our Federal Employees' Compensation Act fraud investigations led to recoveries and long-term savings of over \$1.4 million.

Highlights of those investigative results follow.

- Investigation revealed a former Sequoyah Nuclear Plant steamfitter collected over \$140,000 in federal disability compensation without reporting his active participation in a trucking company owned by his wife. (From 1994 through 1996, the company's gross income exceeded \$230,000.)

A jury in the Middle District of Florida convicted the individual on five counts of making false statements to receive OWCP benefits. Additionally, the jury found the individual and his wife guilty of conspiracy in connection with his fraudulent claims. The two are awaiting sentencing.

The individual's OWCP benefits were terminated, resulting in long-term savings to TVA of over \$700,000.

- Investigation revealed a former Colbert Steam Plant steamfitter fraudulently obtained almost \$50,000 in OWCP benefits while operating two businesses in his local community, from which he earned over \$106,000.

The former employee pled guilty to making a false statement to obtain OWCP benefits and is awaiting sentencing.

The individual's OWCP benefits were terminated, resulting in long-term savings to TVA of over \$595,000.

EMPLOYEE MISCONDUCT

Investigation revealed two employees accepted golf excursions and other gratuities from a contractor doing business with TVA, in violation of federal ethics regulations. We also concluded one of the individuals falsified travel vouchers and made false statements to the OIG. (The other individual was less than forthcoming during our investigation.) As a result of our reports to management, both employees received suspensions without pay. Additionally, our findings prompted management to issue a written reminder to the contractor, conveying the importance of ethics regulations as they apply to TVA employees.

Investigation revealed an employee claimed overtime he did not work and also had absences from work without taking leave. Additionally, the employee provided false information to the OIG. As a result of our investigation, the individual agreed to resign his TVA employment and provide over \$9,000 to

TVA to compensate for his false overtime claims and unapproved absences.

Our inquiry revealed an employee used TVA time and materials, including wood he took from his job site's warehouse, to build a "bow horse" (a device used in building archery bows). During the course of our investigation, the individual also made false statements to the OIG. As a result of our findings, the employee received a suspension without pay.

Investigation revealed four coworkers used inappropriate sexual language on the job. Additionally, one of the employees accosted and threatened another over a comment that was made, and two of the employees constructed a sexually graphic depiction in their work area. As a result of our inquiry, all four received suspensions without pay, their foreman and supervisor received warning letters, and their department management received training and coaching in sexual harassment issues.

BACKGROUND INVESTIGATIONS

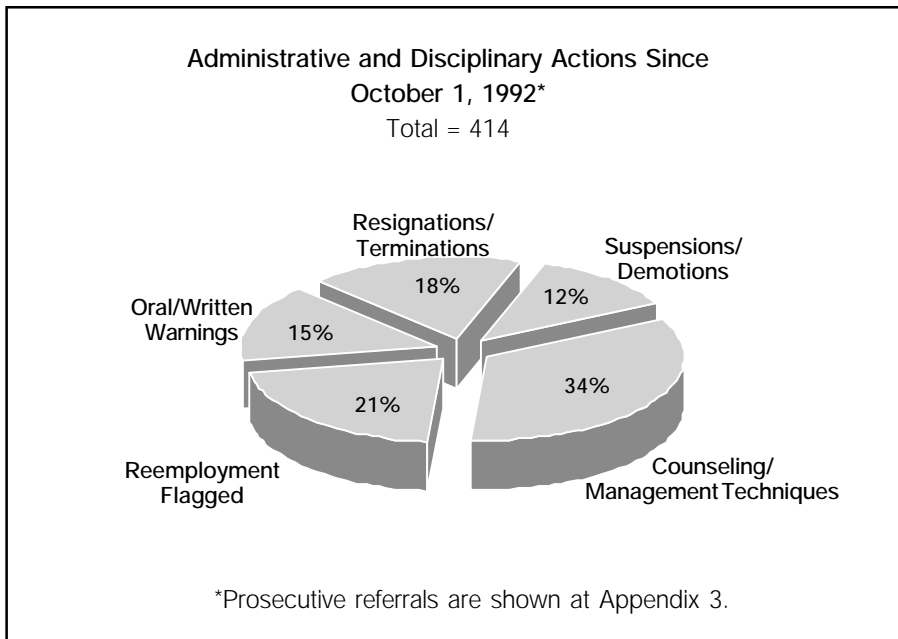
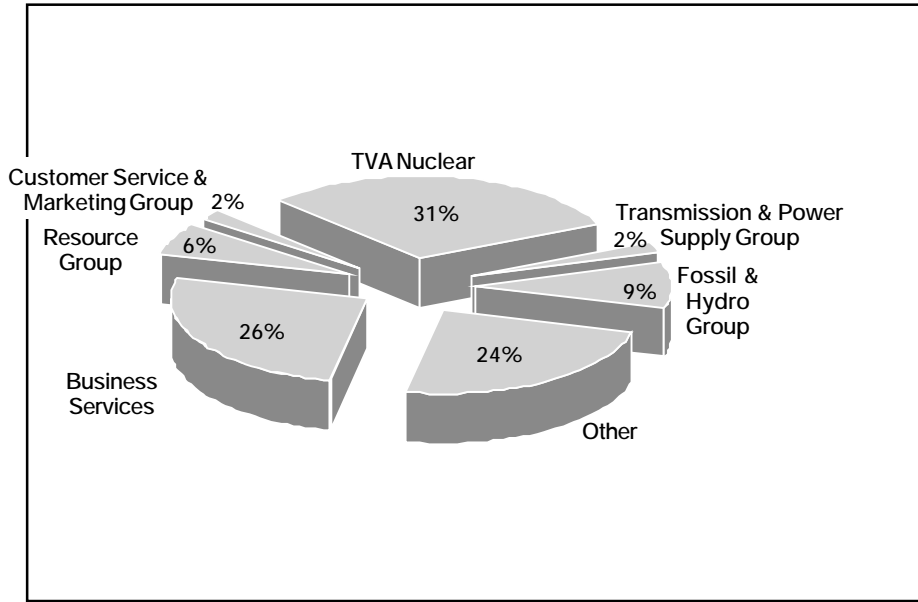
At the request of TVA management, we continued to perform background investigations for sensitive positions. These investigations ensure employees being hired for sensitive positions meet applicable requirements. TVA saves money by using the OIG, rather than the U.S. Office of Personnel Management, to perform these investigations.

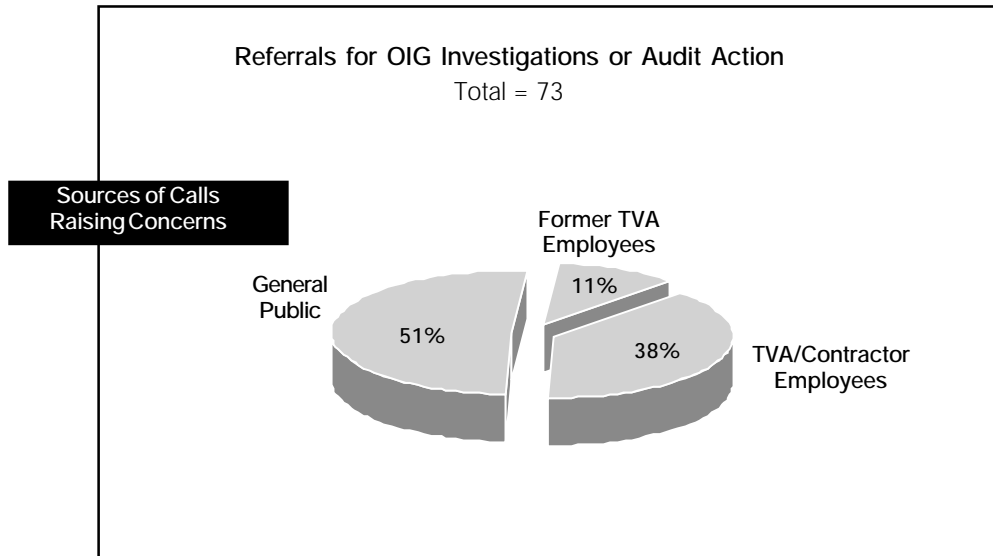
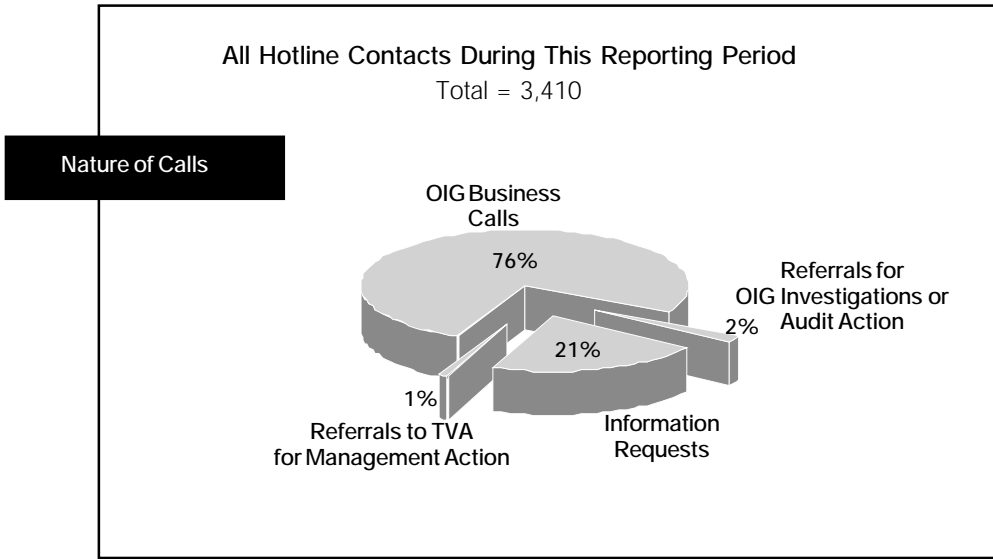
NUCLEAR-RELATED ISSUES

At TVA management's request, we investigate complaints related to Section 211 of the Energy Reorganization Act to provide factual and independent information regarding potential employee misconduct related to hindering the expression of nuclear safety concerns.

During this reporting period, we investigated one case involving a complaint filed with the Department of Labor under Section 211. In addition, we completed six investigations involving other nuclear-related issues. In each nuclear-related case we investigated, we found no misconduct.

The breakdown of the 81 closed investigations involving TVA organizations are shown below.





In addition to conducting audits and investigations, our office continues to perform special projects upon request by our customers, primarily the Congress, the Board of Directors, and TVA executive management. During this reporting period, we conducted 11 such projects which identified over \$14.7 million in potential savings.

TVA'S INVESTMENT RECOVERY OPERATIONS

At the request of TVA Procurement, we assessed TVA's Investment Recovery Center (HIRC) operations and General Investment Recovery (GIR) operations related to (1) controls to mitigate business risks and (2) compliance with prescribed practices. HIRC is responsible for warehousing and handling materials for redeployment, shared inventories, and auxiliary storage. GIR is responsible for non-nuclear surplus materials that are available for redeployment or sale. We found that both organizations are meeting their missions and are generally aware of the risk areas we identified. We suggested additional improvements in certain areas to further reduce risks. TVA Procurement outlined an action plan to address the issues that we identified. We concurred with management's planned actions.

REVIEW OF TVA VISA GOLD CARD PROGRAM

We reviewed selected TVA Visa Gold Card charges for the period from May 1996 through June 1998. This review resulted in recoveries of over \$2,000 and two referrals for investigation. Our review also noted concerns about (1) repeated payment of sales taxes on purchases, (2) compliance with per diem requirements, and (3) little consistency in review and documentation methods. We plan to address these concerns in a comprehensive program review next fiscal year.

URANIUM MILL RECLAMATION COSTS

The Department of Energy (DOE) reached a favorable decision regarding TVA's claim for reimbursement of uranium mill tailings reclamation costs. This brings to a close OIG support for TVA's claim effort that has been ongoing since 1994. TVA originally claimed reimbursement for more than \$24.7 million in 1994, and DOE disallowed about \$14.7 million of that claimed amount. DOE's recent favorable decision reinstated the previously disallowed amount. DOE cited two letters furnished by the OIG as a partial basis for the favorable decision.

**FUEL USED BY RIDESHARE
PROGRAM REVIEWED**

We reviewed the use of fuel cards by rideshare van drivers. Our review of fuel transaction information identified two opportunities for management to enhance the business operations of the rideshare program. First, fuel transaction data should be more complete which would facilitate monitoring fuel purchase irregularities. Second, program monitoring activities should be enhanced. TVA management is implementing our suggestions.

**SUPPLY CHAIN REDESIGN TEAM
PARTICIPATION**

The OIG participated on the Supply Chain Redesign team by reviewing the team's data flow diagrams. Our review was limited to an overview of the deliverables from an internal control and audit perspective. Our concerns were communicated to the team leader, and the team incorporated them into the final process.

■ APPENDICES

**OIG AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1998**

The following table summarizes final audit reports issued by the OIG from April 1 through September 30, 1998.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
4/1/98	96-028P-03	Visions Five Group - Contract TV-85523V	\$30,778		
4/8/98	98-024S	Shook & Fletcher - Preaward			
4/24/98	98-018S	Applied Decision Analysis, Inc.	36,120	\$284	\$58,000
4/28/98	98-017C	Williams Union Boiler - Contract 96P6A-188004 Craft Labor			
4/29/98	98-019S	Vanguard Research, Inc. and Peat, Inc. - Preaward			155,711
5/4/98	98-020S	Strategic Decisions, Inc.			
5/20/98	98-047F	Fossil (Coal-Fired) Plant Equivalent Availability Factor			
5/29/98	97-044C	Millennium Computer Technology	11,783		
5/29/98	98-005F	Tennessee Valley Procurement Center, Inc.	18,823	14,076	
6/9/98	97-066S	BTG, Inc.			
6/12/98	98-041C	Fitzgerald & Company	5,400		
6/22/98	98-026F	Controls In Bids That Protect Sensitive Information From Disclosure to Application Users			
7/10/98	97-022S	RHR International Company	28,970		
7/24/98	98-022C-04	Coopers & Lybrand - Chicago Office			
7/28/98	97-024C	Westinghouse Electric Corporation - Contract 92NNP-79283A	59,239		
7/28/98	97-025C	Westinghouse Electric Corporation - Contract 94NNX-112361	33,189		
8/4/98	98-036S	Aerotek Engineering Services			

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
8/11/98	96-037C-01	Raytheon Engineers & Constructors, Inc. - Contract TV-82466V(3/1/92 through 10/31/94)			
8/27/98	97-045C	The L. E. Myers Company	\$232,262	\$107,998	
8/27/98	98-023S	Meta-Power, Inc.	299,029	404	
9/2/98	98-070C	Law Engineering and Environmental Services - Preaward			\$6,200
9/3/98	96-037C-02	Raytheon Engineers & Constructors, Inc. - Contract TV-82466V(11/1/94 through 4/30/96)	919,409	589,088	
9/14/98	98-044C	Williams Union Boiler - Contract 96P6A-188004 - Staff Labor	47,154		
9/18/98	98-032P	Transmission and Power Supply's Overtime Policy			
9/18/98	98-046C	McDaniel Fire Systems	2,323		
9/21/98	97-059C	TSW International, Inc.	44,668		
9/21/98	98-039C	Midpoint International Corporation			
TOTAL	27		\$1,769,147	\$711,850	\$219,911

**OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE
SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1998**

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	\$585,244	\$65,854
B. Which were issued during the reporting period	14	1,769,147	711,850
Subtotal (A + B)	15	\$2,354,391	\$777,704
C. For which a management decision was made during the reporting period	14	2,309,723	777,704
1. Dollar value of disallowed costs	11 *	1,656,307	711,850
2. Dollar value of costs not disallowed	4 *	653,416	65,854
D. For which no management decision has been made by the end of the reporting period	1	44,668	0
E. For which no management decision was made within six months of issuance	0	0	0

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

TABLE II
FUNDS TO BE PUT TO BETTER USE

AUDIT REPORTS	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE
A. For which no management decision has been made by the commencement of the period	6	\$6,392,592
B. Which were issued during the reporting period	3	219,911
Subtotal (A + B)	9	\$6,612,503
C. For which a management decision was made during the reporting period	9	6,612,503
1. Dollar value of disallowed costs	6*	5,168,625
2. Dollar value of costs not disallowed	5*	1,443,878
D. For which no management decision has been made by the end of the reporting period	0	0
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 costs disallowed and not disallowed by management.

INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	13	5 Indicted 9 Convicted 6 Referrals Declined
Subjects referred to other agencies for investigative or administrative action	5	OWCP terminated benefits for two individuals, resulting in long- term savings of \$1,390,775.
TOTAL	18	



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

Craven Crowell
Chairman, Board of Directors

November 4, 1998

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 Inspectors General Act of 1978, as amended.

The members of the TVA Board appreciate the work of the Inspector General's office in helping TVA improve its efficiency, productivity, and competitiveness as we strive to meet our goals and position TVA to compete in the global marketplace of the 21st century.

Sincerely,

A handwritten signature in black ink that reads "Craven Crowell". The signature is written in a cursive style.

Craven Crowell

Enclosure

TVA MANAGEMENT'S REPORT ON FINAL ACTIONS FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1998

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 TO BY MANAGEMENT
A. For which final action by management had not been taken by the commencement of the period	10	\$3,003,602
B. On which management decisions were made during the reporting period	14	1,656,307
Subtotal (A + B)	24	\$4,659,909
C. For which final action was taken by management during the reporting period	12	300,359
1. Amounts that were recovered by management	12 *	110,276
2. Amounts that were not recovered by management	6 *	190,083
D. For which management has taken no final action by the end of the reporting period	12	4,359,550

* The total number of reports differs from the sum of C.1 and C.2 when a final audit 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 TO BY MANAGEMENT
A. For which final action by management had not been taken by the commencement of the period	1	\$1,408,000
B. On which management decisions were made during the reporting period	9	5,168,625
Subtotal (A + B)	10	\$6,576,625
C. For which final action was taken by management during the reporting period	9	5,168,625
1. Dollar value of recommendations implemented by management	9*	135,533
2. Dollar value of recommendations not implemented by management	5*	5,033,092
D. For which management has taken no final action by the end of the reporting period	1	1,408,000

* The total number of reports differs from the sum of C.1 and C.2 when the same reports contain 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	FUNDS PUT TO BETTER USE	EXPLANATION FINAL ACTION NOT TAKEN
Review of Environmental Restricted Awards List Contracting Process 96-056P	1/3/97	N/A	N/A	TVA has finalized a new procedure which will be issued to all organizations.
Review of Contractor's Financial Conditions 96-035P	6/6/96	\$1,073,291	\$1,408,000	TVA is assessing options.

N/A - Not Applicable

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

OIG REPORTING REQUIREMENTS

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

Section 4(a)(2) — Review of Legislation and Regulations	*
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 5-21
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 5-21
Section 5(a)(3) — Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	None
Section 5(a)(4) — Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 3
Sections 5(a)(5) — Summary of Instances Where Information and 6(b)(2) Was Refused	**
Section 5(a)(6) — Listing of Audit Reports	Appendix 1
Section 5(a)(7) — Summary of Particularly Significant Reports	Pages 8-21
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 11
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.

H I G H L I G H T S

	FOR SEMIANNUAL REPORTING PERIODS				
	SEPT 30, 1998	MAR 31, 1998	SEPT 30, 1997	MAR 31, 1997	SEPT 30, 1996
ANNUAL BUDGET (In Millions of Dollars)	7.3	7.3	7.3	7.3	7.3
CURRENT STAFFING	83	81	83	86	94
AUDITS & SPECIAL PROJECTS					
AUDITS IN PROGRESS					
Carried Forward	46	40	34	41	42
Started	34	50	46	29	50
Canceled	(13)	(14)	(10)	(14)	(6)
Completed	(27)	(30)	(30)	(22)	(45)
In Progress at End of Reporting Period	40	46	40	34	41
AUDIT RESULTS (Thousands)					
Questioned Costs	\$1,769	\$1,191	\$552	\$602	\$2,555
Disallowed by TVA	1,656	636	530	542	2,756
Recovered by TVA	110	2,029	434	434	1,167
Funds to Be Put to Better Use	\$220	\$2,359	\$10,585	\$1,671	\$28,276
Agreed to by TVA	5,169	696	5,707	5,262	31,576
Realized by TVA	136	696	1,078	4,494	22,950
SPECIAL PROJECT RESULTS					
Completed	11	13	24	15	19
Cost Savings Identified/ Realized (Thousands)	\$14,704	\$843	\$5,700	\$38,200	\$3,000
INVESTIGATIONS					
INVESTIGATION CASELOAD					
Carried Forward	142 *	139 *	157 *	157 *	153 *
Opened	78	78	56	96	110
Closed	81	74	77	93	105
In Progress at End of Reporting Period	140	144	139	160	158
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$284	\$946	\$481	\$2,439	\$2,364
Savings	3,388	645	9	2,377	3,374
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	20	24	12	21	24
Actions Taken (# of Subjects)	22	12	14	15	17
Counseling/Management Techniques (# of Cases)	8 **				
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred	12	11	15	22	17
Indicted	5	2	7	1	1
Convicted	9	6	3	8	12

* Adjusted from previous semiannual reports.

** Category added to Highlights this reporting period.

