

**INSPECTOR**



**GENERAL**

# **SEMIANNUAL REPORT**

**April 1, 1986 to September 30, 1986**

# TENNESSEE VALLEY AUTHORITY

KNOXVILLE, TENNESSEE 37902

OFFICE OF THE BOARD OF DIRECTORS

December 2, 1986

(THE FOLLOWING LETTER WAS SENT TO THE TENNESSEE VALLEY DELEGATION OF CONGRESS AND APPROPRIATE COMMITTEES OF CONGRESS AND OTHER INTERESTED PARTIES.)

Dear :

We are enclosing a copy of the TVA Inspector General's first semiannual report which highlights the significant activities of the Office of the Inspector General (OIG) since its inception. As the report demonstrates, the Inspector General has established an independent organization capable of reviewing all TVA programs and operations and detecting inefficiency, waste, fraud, and abuse.

When the Board of Directors approved, on October 18, 1985, a plan for establishing an OIG, it was our intention that the Inspector General would be a positive force for improvement within TVA. We also wanted to assure TVA employees, the public, and Members of Congress that management problems and other significant TVA issues would be reviewed objectively and independently and appropriate corrective action taken. To achieve these goals, we delegated broad powers to the Inspector General and directed that his office would, to the maximum extent possible, function just like a statutory Inspector General's office. We remain firmly committed to this goal and would like to emphasize that the Inspector General is free to conduct any audit or investigation, issue any subpoena, or prepare any report. We would also like to reaffirm our commitment that the Inspector General will keep Congress fully and currently informed of any major problems or deficiencies through semiannual reports such as this or whatever other reports the Inspector General determines are necessary or desirable.

Under the plan the Board approved in 1985, we announced our intention to forward OIG semiannual and certain other reports to Congress under the procedures set forth in the Inspector General Act of 1978. The act provides that the agency head is to forward such reports to Congress, along with any comments the head of the agency determines are appropriate. We have two comments on the enclosed semiannual report.

Our first comment addresses the Inspector General's role in connection with the annual financial audit of TVA that is conducted by an outside audit firm. The Inspector General's semiannual report states that certain TVA managers questioned the Inspector General's preeminent role with respect to that audit contract. This issue has been resolved by the Inspector General and the General Manager, and the Inspector General will be responsible for administering this contract beginning with the 1987 audit.

Our second comment relates to the impairment of the Inspector General's proposed comprehensive audit of the \$2.4 billion TVA Retirement System. It is our understanding the Inspector General and the Retirement System's Board of Directors have recently agreed to the terms under which the Inspector General will conduct a financial and compliance audit of the Retirement System. While this agreement does not remove all of the impairments relating to this issue that are reported in the semiannual report, we feel this agreement is a positive first step toward the complete resolution of this issue. The Board is continuing to discuss its oversight responsibilities with the Retirement System's Board of Directors who have resisted the Inspector General's proposed comprehensive audit.

As this first semiannual report demonstrates, TVA has an active and independent Inspector General. We are committed to preserving his independence and assuring he remains free to pursue whatever audit or investigation he thinks is appropriate, to follow the facts wherever they may lead, and keep the Board and Congress fully informed of significant findings.

Sincerely,

Original signed by  
Charles H. Dean, Jr.

Charles H. Dean, Jr.  
Chairman

Original signed by  
John B. Waters

John B. Waters  
Director

(See page 3 for distribution)

OCTOBER 31, 1986

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

This is the first Semiannual Report of the Inspector General of the Tennessee Valley Authority. It summarizes the significant organizational, audit, and investigative activities undertaken by the Office of the Inspector General (OIG) for the period ending September 30, 1986. This report has been prepared by the Inspector General for transmittal to Congress by the TVA Board of Directors in accordance with the Board's October 18, 1985 Resolution establishing an OIG within TVA.

When we began organizing the Office of the Inspector General eight months ago, we set out to accomplish two objectives. We planned to complete the organization and be fully operational by October 1, 1986. And, we planned to address those issues that led to the creation of the OIG. The OIG is now fully operational. Our examinations of nuclear program issues and of related employee concerns are under way.

Two important reviews were concluded during this reporting period. Our investigation of the contract conflict of interest issues surrounding the manager of nuclear power concluded that there were no criminal violations but there were management shortcomings in the contract process. Our audit of personal services contracts revealed that TVA has not complied with Public Law No. 98-72 in its contract to acquire annual financial audits. This law is intended to promote competition in Government contracting.

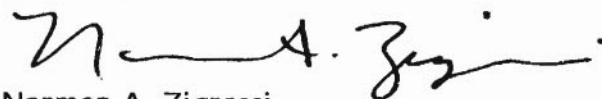
During the OIG's formative period there have been two instances in which the independent authority of the Inspector General has been challenged. First, a proposed OIG audit of TVA's Retirement System was seriously impaired due to a limitation imposed on the scope and procedures of the audit by the Retirement System's Board of Directors. Second, TVA management officials have been reluctant to turn over to the OIG management of the annual financial audit of TVA. The TVA Board is now considering whether to let the OIG manage the audit contract in the future. The TVA Board Resolution which established the OIG clearly assigned all audit responsibility to the OIG.

In order to ensure an effective program, we have selected five goals and developed a Master Plan for achieving them. The OIG will undertake a balanced program of investigative and audit projects that will improve TVA.

During the next six months, the OIG will focus on three areas: (1) gaining an understanding of TVA goals and the factors critical to their accomplishment, (2) continuing to address those issues that led to establishment of an OIG, and (3) developing a program for achieving professional excellence as an office.

We appreciate the support of the TVA Board of Directors, TVA employees, the public, and TVA's friends and constructive critics in the Congress who have provided useful advice and assistance. We would like to assure all of you that the men and women of the OIG are dedicated to maintaining the trust and support that have been bestowed on them.

Sincerely,



Norman A. Zigrossi  
Inspector General

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## SEMIANNUAL REPORT

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ORGANIZING THE OFFICE OF THE INSPECTOR GENERAL

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I. AUTHORITY AND ROLE OF TVA'S INSPECTOR GENERAL

On October 18, 1985, the TVA Board of Directors passed a resolution establishing an Office of the Inspector General (OIG). The resolution gave the OIG broad authority. The Inspector General is an independent TVA official subject only to the general supervision of the Board of Directors. The Inspector General reports directly to the Board. The Inspector General cannot be prevented or prohibited by the Board or any other TVA official from initiating, carrying out or completing any audit, investigation or other inquiry or inspection, or from issuing any report. The Inspector General may report matters to Congress by means of the Semiannual Report or by interim reports.

The Board resolution includes a mandate for the OIG to carry out the duties and exercise the authorities provided under the Inspector General Act of 1978 to the maximum extent possible.

The Inspector General Act of 1978 includes the following duties and authorities:

- Provide policy direction for, and conduct, supervise, or coordinate audits and investigations.
- Review existing and proposed legislation and regulations to make recommendations concerning the impact of such legislation and regulations on economy and efficiency.
- Recommend policies for, and conduct, supervise, or coordinate other activities to promote economy and efficiency, or to prevent and detect fraud and abuse.
- Recommend policies for, and conduct, supervise or coordinate relationships between the OIG and other Federal agencies, state and local governmental agencies, and nongovernmental agencies with respect to promoting economy and efficiency or preventing and detecting fraud and abuse.
- Keep the head of the agency and Congress fully and currently informed of fraud and other serious problems, abuse, and deficiencies in connection with agency programs and operations, recommend corrective action concerning such matters, and report on the progress made in implementing such corrective action.

## II. ORGANIZING THE OIG

In the fall of 1985, TVA faced a crisis in its nuclear power program. By September all five of its operating reactors had been shut down, and construction had been either halted or abandoned on 12 additional reactors. An investment of more than \$12 billion was lying completely idle and unproductive. TVA management had been extensively criticized for ineffective operation of its nuclear program. As criticism mounted, the TVA Board of Directors created two offices. An Office of Nuclear Power was established to get the nuclear program back into operation. An OIG was created to act as an independent investigator and auditor of TVA programs and operations.

Appendix I gives a chronology of significant events since October 1985 regarding organization of the OIG and the two primary issues leading to the OIG, namely the nuclear program and employee concerns.

## III. STAFFING THE OIG

Norman A. Zigrossi, a 23-year career Federal employee, assumed his duties as TVA's first Inspector General after he resigned his position with the Federal Bureau of Investigation (FBI). Prior to his TVA appointment, Zigrossi was the Special Agent in Charge of the FBI's Washington, D.C., field office.

The Inspector General is responsible for establishing and maintaining the OIG's independence so that its opinions, conclusions, judgments, and recommendations will not only be impartial in fact but will be viewed as impartial by others.

The OIG's management team, consisting of the Assistant Inspectors General (AIGs) for Audit and Investigation and their seven branch chiefs, was selected on the basis of professional qualifications and independence. The Inspector General, the two AIGs, and six of the seven branch chiefs are professional auditors and investigators with no prior association with TVA. One branch chief was the previous TVA General Auditor.

The balance of the OIG staff was recruited from throughout the U.S., including eight Federal agencies, four state agencies, and private industry as well as other offices in TVA, including the former internal audit organization of TVA.

#### IV. STRUCTURE OF THE OIG

The OIG consists of three components: the Division of Audit, the Division of Investigation, and the immediate Office of the Inspector General.

The Division of Audit is headed by the AIG for Audit and is organized into four branches responsible for auditing TVA's resource, contract, information, and general management systems. In addition to financial statement and contract compliance audits, the Division of Audit will conduct expanded scope audits to ensure the economy, efficiency, and effectiveness of TVA operations and programs.

The Division of Investigation is headed by the AIG for Investigation and is organized into three investigative branches which perform general, fraud, and internal investigations. The Division of Investigation undertakes all types of investigations, such as employee concerns about the management or operation of nuclear programs, harassment and intimidation of TVA employees, fraud and waste in TVA operations, disputes concerning personnel matters, and employee misconduct.

Within the Inspector General's immediate office are the legal counsel, the information services manager and the administrative services section.

See Appendix V, the OIG's 90-Day Report, for details on the organization of the office.

#### V. OIG POLICY AND PRACTICES

The development of policies and procedures to guide OIG audits and investigations has been a key organizational activity. During this formative period, the OIG has adopted professional standards, proposed extensive revisions to the TVA administrative code, drafted operating policies and procedures, and developed a policy which defines the conditions under which source confidentiality will be extended by the OIG.

##### A. Quality Standards

The President's Council on Integrity and Efficiency (PCIE) provides leadership and coordination for government-wide activities to reduce fraud, waste, and abuse in Federal programs and operations. The PCIE, which is composed of the 19 statutory OIGs as well as representatives from other government agencies, has established standards for the management, operation, and conduct of OIGs. These standards were published by the PCIE in January 1986 as the "Quality Standards for Federal Offices of Inspector General." The TVA Inspector General adopted these standards and thus became the first Inspector General's office to have implemented these standards from its inception.



OIG audits will be conducted in accordance with generally accepted governmental audit standards, as promulgated in "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (U.S. Comptroller General, 1981).

For its investigators, the OIG has decided to follow the interim "Professional Standards for Investigations" adopted by the PCIE in April 1985.

B. Revision of TVA Administrative Code

The establishment of the OIG as an independent office within TVA has required extensive revisions of the TVA Administrative Release System. These revisions reflect the OIG's unique role within TVA. The revisions assure that (1) OIG investigations and audits can be conducted in a completely independent manner, and (2) the OIG's organizational independence and jurisdiction are formally acknowledged in TVA's internal guidelines and policies.

C. Confidentiality

The TVA Board resolution requires the OIG to establish a policy for keeping the identities of concerned individuals confidential when appropriate. The Nuclear Regulatory Commission (NRC) also requested a confidentiality policy as a prerequisite for turning over nuclear employee concern cases to the OIG. A Policy on Confidentiality has been prepared to comply with both the Board and the NRC requirements.

The OIG's Policy on Confidentiality will be presented to the TVA Board, and its adoption is expected within the next six months.

D. OIG Manual

To guide the work of the OIG, a directives manual has been drafted and was in the final stages of internal review at the end of this reporting period. The manual prescribes OIG policies and procedures in the following areas: (1) the Policies and Procedures System, (2) Organization and Responsibilities, (3) General Management, (4) Office Administration, (5) Documentation Control, (6) Project Management, (7) Communications, and (8) Automated Data Processing.

The OIG will review its policies, procedures, and operations using the OIG self-evaluation guide designed by PCIE.

## VI. OIG GOALS AND MASTER PLAN

Setting of long-term goals and developing a Master Plan for achieving those goals have been major OIG activities. The goals and Master Plan comprise the strategic framework guiding OIG work over the next three years. The plan encompasses examinations of 40 major TVA activities. Some of the projects specified in the plan are already in progress.

The guiding principle in this plan is that the OIG's only purpose is to be a constructive force for improvement in TVA. While the OIG is completely separate from other TVA organizations, it is working toward the same mission.

The five OIG goals are to:

- EARN EMPLOYEE TRUST through fairness
- GUARD TVA INTEGRITY through adherence to law
- PROMOTE A COST-EFFECTIVE TVA with lower power rates
- PROTECT TVA RESOURCES through accountability and compliance
- GAIN PUBLIC CONFIDENCE through increased safety and communication.

The plan was developed according to Federal OIG planning standards and incorporates suggestions by TVA management, OIG staff and officials of the NRC and the General Accounting Office.

Most of the projects will be led by the OIG audit branches, while five proactive projects will be led by investigative branches. Auditors and investigators will work jointly on several of the projects. About 80 percent of the OIG's investigative resources have been reserved for responding to complaints, and about 15 percent of the OIG's audit resources are reserved for unforeseen issues.

Projects identified in the plan are intended to support the OIG's long-range goals and satisfy at least one of five selection criteria:

- Is there significant vulnerability to fraud, waste, or abuse?
- Does it meet management's needs?
- Is there the potential for significant savings?
- Is it a systematic cause of problems or just a particular case?
- Is it related to preventing problems?

One of the OIG's aims in the current fiscal year is to use a broad approach to lay a foundation for more narrowly focused inquiries in the future. The plan gives priority to management requests and TVA-wide issues. In addition, the plan anticipates that the policy and planning aspects of TVA activities and programs will generally be reviewed before operational aspects.

Major projects planned by the OIG include the following reviews:

- Conflict of interest in contracts
- Corporate policy and planning
- Career development
- Coal procurement
- Employee concerns programs
- Quality Technology Company contract
- Contract management and execution
- Nuclear quality assurance
- The Retirement System

#### VII. LEGISLATIVE AND REGULATORY REVIEW

Both the Inspector General Act of 1978 and the PCIE quality standards require that the OIG review proposed legislation and regulations and make recommendations about the impact of such legislation and regulations on the economy and efficiency of agency operations and on the detection and prevention of fraud, waste and abuse. Preparations for establishing such a review system are under way. It will be operational in time for tracking legislation in the 100th Congress.

## CHAPTER TWO

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### INVESTIGATIVE AND AUDIT OPERATIONS

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This chapter discusses the significant problems, abuses, deficiencies, and recommendations for corrective action that were identified during this reporting period by OIG investigative and audit activities.

#### I. CONTRACT CONFLICTS OF INTEREST IN THE OFFICE OF NUCLEAR POWER

The most significant activity of the OIG during the last six months involved a review of the facts surrounding the controversial arrangements under which a manager was hired to revive TVA's nuclear program. The review was requested by the TVA Board of Directors after TVA's General Counsel, in a memorandum dated May 5, 1986, suggested that the Board may have violated Federal criminal law. The three objectives of our review were to (1) determine if the contracts were legal; (2) identify any potential of criminal acts; and (3) determine if management decisions contributed to the conflict of interest controversy.

TVA arranged for independent counsel to assist in determining the legality of the contracts and whether there was any potential criminal acts. The OIG reviewed over 600 documents and interviewed approximately 40 people.

After reviewing the results of our investigation, the independent counsel has advised that the contracts were legal, and no violations of criminal law were identified. However, the independent counsel also concluded that the credibility of TVA would be enhanced if the contract was changed to eliminate hiring of contractor staff by the nuclear manager.

The OIG concluded that there were management shortcomings in the process of entering into the nuclear manager contracts. The magnitude of the nuclear problems and pressure from many sources (Congress, Nuclear Regulatory Commission (NRC), news media, and TVA employees) led to rushed management decisions and poor communication. As a result, there have been public controversy and damage to TVA's credibility.

The OIG recommended that, for future decisions of this magnitude, the TVA Board:

1. Instruct the General Manager to assume personal responsibility for leading major planning efforts;
2. Instruct the General Counsel and designated agency ethics officer to report in writing all known or suspected violations of criminal law to the Board, General Manager and Inspector General within five working days of becoming aware of the problem;
3. Instruct the General Manager and other senior officials to attend and participate in all critically important meetings falling within their areas of responsibility;

4. Instruct the General Counsel and other senior officials to provide required reports or information to outside agencies on a timely basis;
5. Reaffirm to the General Counsel and other TVA officials their obligation not to disclose confidential or privileged TVA information unless expressly authorized to do so by the Board of Directors; and
6. Ensure that Stone and Webster Engineering Company is compensated for its November 1985 review of TVA's nuclear program as required by 31 USC 1342 which limits the Government's receipt of voluntary services.

Following issuance of the reports of the OIG and the independent counsel, the TVA Board directed the General Manager to prepare a plan to restructure the personal services contracts in the Office of Nuclear Power. The General Manager has submitted a plan to the Board. The OIG will audit the plan to assure that the contracts are free from conflict of interest, both in fact and appearance.

## II. EMPLOYEE CONCERNS IN TVA'S NUCLEAR PROGRAM

One of the principal reasons TVA's OIG was established was the need to investigate and resolve employee concerns about the TVA nuclear program. The shutdown of TVA's nuclear plants was largely due to safety and employee concerns registered with the Nuclear Regulatory Commission. For example, in early 1985 TVA was planning to load fuel at the new Watts Bar Nuclear Plant near Spring City, Tennessee. However, in mid-April 1985, NRC notified TVA that it was receiving numerous safety concerns from TVA employees about this facility.

Other complaints were received by TVA's Nuclear Safety Review Staff (NSRS), an independent unit reporting to the TVA Board of Directors. NSRS concerns related to safety conditions, questionable materials, harassment of employees by management, and allegations of misconduct and wrongdoing.

### A. Role of the Quality Technology Company (QTC)

In order to satisfy the NRC that TVA was taking these employee concerns seriously, TVA contracted with QTC in May 1985 to investigate and document employee concerns. QTC interviewed all Watts Bar plant employees as well as headquarters engineering staff. QTC conducted more than 6,000 interviews and identified 5,081 separate concerns by more than 2,000 individuals. In March 1986, QTC proposed a fifth revision to the contract, including higher costs. TVA rejected the revisions and the contract was terminated. Copies of QTC's case files were obtained by NRC.

B. Role of the OIG Division of Investigation

With the creation of the OIG, TVA had a vehicle for independent investigation of employee concerns. NRC retained a few sensitive cases, but then transferred 2,047 QTC files to the OIG. In order to protect confidentiality of concerned individuals, names and other individual identifiers were deleted from the files.

The OIG's Division of Investigation has assumed two responsibilities in respect to the QTC/NRC cases. One is oversight of TVA's responses to the concerns. Second is direct investigation of those concerns within the OIG investigative mandate.

The Office of Nuclear Power is responsible for resolving all safety or technical issues. The OIG is conducting investigations of 605 concerns regarding alleged misconduct, wrongdoing, or harassment and intimidation (H&I).

The OIG investigations are proceeding according to the following priorities:

1. Issues of H&I or safety-related wrongdoings at the Sequoyah Nuclear Plant. Sequoyah is the first nuclear plant scheduled for restart.
2. H&I or safety-related wrongdoing at other nuclear facilities.
3. Recommendations of appropriate penalties for 53 individuals allegedly responsible for H&I against TVA employees.
4. All other employee concerns within the OIG's investigative responsibility.

A major hindrance to the OIG investigations is the confidentiality granted to concerned individuals by QTC. In the majority of the 605 QTC referrals, the NRC expurgation process to protect confidentiality conceals from the OIG the names of both the concerned individual and the alleged wrongdoer. This makes it virtually impossible to investigate the incident. The OIG is working with NRC to resolve this problem.

C. Audit of Employee Concerns Programs

The OIG Division of Audit in July began a review of TVA's responses to the employee concerns problems. The results of that audit will be presented in the next semiannual report.

Apart from the QTC contract, TVA initiated two other major employee concerns programs. First, it established the Employee Concerns Task Group to study concerns from Watts Bar employees prior to February 1, 1986. Second, the Employee Concerns Program (ECP) was created as a permanent unit to receive employee concerns about the nuclear program. All concerns registered after February 1, 1986, are investigated by the new ECP rather than the Watts Bar task group. Cases involving alleged criminal wrongdoing or other employee misconduct are referred to the OIG for investigation, as are alleged harassment and intimidation violations of Section 210 of the Energy Reorganization Act of 1974.

III. OTHER INVESTIGATIONS

A. Reactive Mode

At least 80 percent of the work of the investigative division has been in reaction to a large number of employee complaints and other allegations received from various sources. These complaints and allegations have been received via the OIG Hotline, other telephone calls and letters from concerned individuals, TVA's Board of Directors, senior management officials, congressional inquiries, and from information developed by OIG special agents conducting other investigations. A total of 1,444 cases (including the 605 QTC/NRC referrals) are currently under investigation. Immediate attention to incoming complaints will continue to be a priority of the Division of Investigation. As time permits, the Division of Investigation will evaluate program areas within TVA which are major sources of employee complaints or are the most susceptible to waste, fraud, and other abuses.

B. Leading Categories of Cases

The greatest number of investigative matters have involved discrimination and harassment; personnel matters; and fraud, waste and abuse. In addition, background investigations of OIG employee suitability are a time-consuming activity.

1. Discrimination and Harassment

The OIG has received a significant number of concerns from TVA employees alleging they have been the victims of discrimination or harassment by TVA management. These cases constitute 28 percent of the OIG caseload. The OIG investigates such allegations to promote the creation and maintenance of trust between TVA line managers and employees and, more importantly, the elimination of these abuses within TVA.

The OIG will recommend administrative or corrective actions to TVA line management when alleged harassment, discrimination, or other form of employee misconduct can be substantiated by a preponderance of the evidence. The OIG will also review the corrective action taken by TVA management to ensure the concern or misconduct has been addressed adequately and timely.

2. Personnel Matters

Nearly all of the 125 investigations regarding personnel matters are the result of specific complaints made by TVA employees who have been adversely affected by a TVA management decision. These cases constitute 9 percent of OIG case load.

These include complaints regarding promotion and demotion, appraisal and evaluation, pay and benefits, reduction in force (RIF), favoritism, nepotism, employment/working conditions, morale, workers' compensation, veterans' issues and labor disputes.

Several complainants are requesting a review of prior investigations by other offices such as TVA's Equal Opportunity staff. Some allegations concern incidents which occurred as far back as the 1970s.

Each complaint is evaluated as a separate issue. It is anticipated that as additional complaints are received, trends will become apparent which will enable the OIG to evaluate potential problem areas with respect to TVA's personnel management policies and procedures.

3. Fraud, Waste, and Abuse

Allegations of fraud, waste, and abuse have been directed to the OIG primarily by concerned TVA employees and by congressional inquiries. These cases constitute 24 percent of the OIG case load.



Priority has been given to those issues requiring immediate resolution, such as nuclear contract conflict of interests, contract bid-rigging, improper contract bid procedures, kickback schemes, and workers' compensation fraud. The investigation of types of fraud, waste and abuse requiring extended procedural review has been addressed at a more deliberate pace. In this area, a program has been initiated to investigate the awarding of separation pay during voluntary and involuntary reductions in force.

#### 4. Employee Suitability

The OIG has established suitability standards for OIG employees and has adopted the investigative policies of the Federal Bureau of Investigation and the Office of Personnel Management for conducting employee suitability inquiries. The inquiry is a two-staged process. The first part is a medical evaluation, including psychological and drug testing, and the second is an inquiry into the character and reputation of the employee. These cases constitute 5 percent of the OIG investigative cases.

The report of inquiry for each OIG employee is personally reviewed by the Inspector General. One individual has been terminated as a result of a background investigation.

#### C. Closed Cases

At September 30, 1986, the OIG Division of Investigation had closed 259 cases. Virtually all resulted in findings that allegations were unfounded. We attribute this to several factors. The creation of the OIG inspired a rush of new filings of complaints and allegations, some of which had already been registered via other avenues open to complainants. Initially, OIG policy has been to accept and investigate all complaints. Many cases involving unfounded allegations have been opened and closed quickly. Other major investigations which are expected to produce significant findings are still ongoing.

As the OIG gains experience in TVA investigative caseload, we expect to develop criteria for screening complaints to focus our resources on the most important problems. We also plan to direct attention to systemic causes indicated by patterns of closed investigations.

#### IV. AUDIT OPERATIONS

Audit activity in this period consisted primarily in concluding the pre-OIG audit plan. Reports were issued on vendor overcharges on CRT equipment, excessive claims for damages by a contractor, a questionable proposal to procure color graphics equipment, and noncompliance with statutory requirements in contracting for the annual financial audit of TVA.

##### A. Annual Audit Contract In Violation of Public Law No. 98-72

In recent years, TVA's contract for the annual financial audit has not been handled in compliance with applicable legislation. The Small Business Act, as amended by Public Law No. 98-72, requires published notice and waiting periods for all procurements involving \$10,000 or more in appropriated funds.

TVA's annual contract with the public accounting firm to audit TVA's financial statements has never been advertised or issued on a competitive basis. Since 1983 when Public Law No. 98-72 became effective, TVA has failed to comply with the law's public notice and waiting period requirements on the grounds they were "inconsistent with the cost-effective management of TVA's power system." This is not a valid exemption under the statute.

Procedures and controls should be developed by TVA to ensure that the annual audit is planned in sufficient time for the required notice to be published in the Commerce Business Daily. Further, because other accounting firms have the capability for auditing TVA's financial statements, these firms should be given an opportunity to compete for the auditing contract. TVA has postponed a proposed 66 percent increase in the 1986 contract pending resolution of this issue.

##### B. Vendor Overcharges on CRT Equipment

An audit of an indefinite quantity four-year term contract for the lease and purchase of CRT terminals, printers, and controllers disclosed several problems. Overcharges of about \$160,400 resulted from the vendor's failure to give TVA adequate credit for lease payments when purchase options were exercised. TVA overpaid the vendor an indeterminate amount for premature rental and maintenance charges and did not receive adequate credits for equipment downtime because of poor TVA documentation of acceptance tests and equipment failures. TVA exceeded the contract limit for purchase conversions by \$240,000.

TVA subsequently recovered the \$160,400 of overcharges by offset against other invoices. TVA has also taken steps to improve its documentation of equipment performance and assure that it receives appropriate credits from the vendor for machine downtime.

C. Excessive Claim for Damages by a Contractor

An equipment supplier claimed it incurred damages of \$640,000 by not receiving two anticipated orders from TVA. The contractor allegedly relied on a conversation with a TVA purchasing agent. An audit of the contractor's records and methods for calculating the charges resulted in reducing the claim by \$435,000. Disallowances included adjustments for completed units on hand and overstated overhead and profits.

D. Questionable Proposal to Procure Color Graphics Equipment

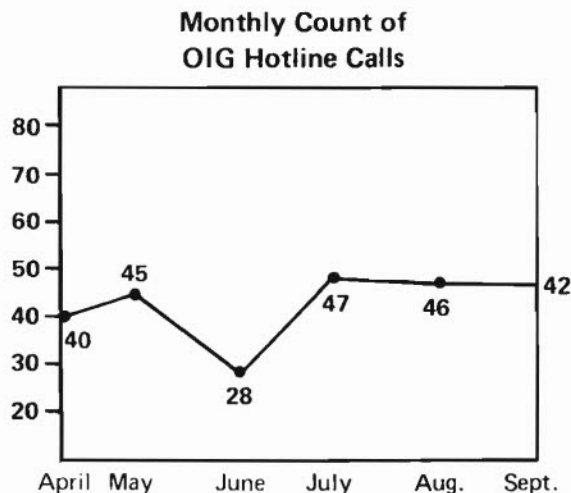
In April 1986, TVA was proceeding to procure \$1.7 million in color graphics equipment, software, and maintenance for three organizational groups. The separate procurements would have ignored an October 1985 internal recommendation that all general graphics support services be centralized in the Office of Corporate Services. Cost justifications prepared in support of the proposed new procurement were questionable.

We recommended that any new procurement be deferred until a decision is made on the organizational structure for TVA's graphics services. Also, valid cost justifications should be prepared and reviewed before any new equipment is ordered. TVA has taken corrective action on these recommendations.

V. OIG HOTLINE

In February 1986, a telephone hotline was established to receive and respond to calls from individuals wishing to report information or concerns to the OIG. The toll free hotline can also be used to maintain contact between complainants and witnesses and OIG investigators.

The OIG Hotline has averaged between 40 and 50 calls per month. The following chart shows the pattern of hotline calls during the six months ending September 30, 1986.

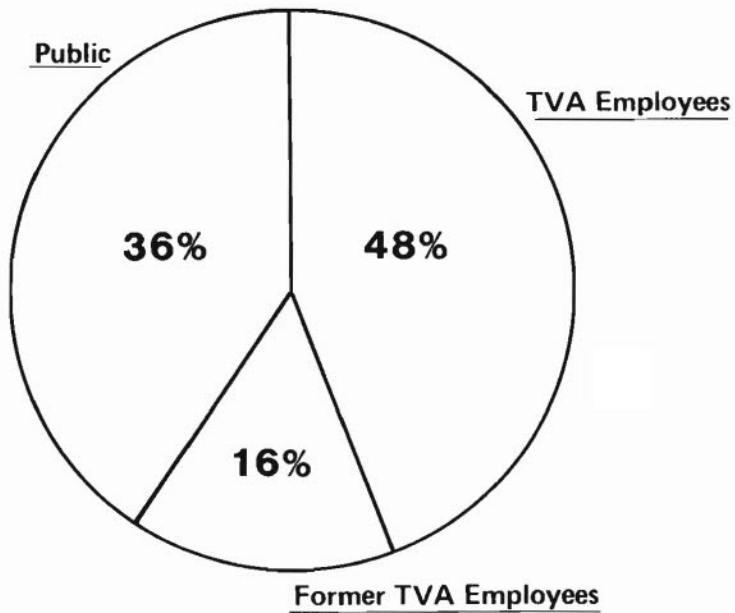


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Chapter 2  
Investigative and Audit Operations

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The OIG Hotline was used by 338 callers from its inception through September 30, 1986. The callers included current TVA employees, former employees, and the general public. The following chart shows the sources of Hotline calls from those three categories.



TRANSITION ISSUES CONCERNING OIG AUTHORITY AND ROLE

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The OIG role is still new and evolving. This chapter discusses transition issues regarding the authority and independence of the OIG. Of concern are an impairment of the scope and procedures of the audit of the TVA Retirement System, a delay in the transfer of management of the annual financial audit to OIG, and subpoena authority.

I. REVIEW OF THE TVA RETIREMENT SYSTEM (TVARS)

The OIG cannot at present audit the Retirement System because of opposition by the TVARS board. However, OIG investigations of allegations of misconduct in administration of the Retirement System are continuing unimpeded.

A. Audit Suspended

We have suspended a planned audit of the Retirement System because of limitations on our scope and procedures by the TVARS board.

Prior to 1986, TVA's former Office of Audit and Evaluation (OAE) performed a limited financial and compliance review of the Retirement System each year. This review supported the annual financial audit by TVARS external auditors and also led to a management report by OAE.

With its larger charter, the OIG planned an expanded scope audit of the Retirement System. An expanded scope audit would cover both financial management and program effectiveness issues. The start of the audit in August was influenced by an investigation of various complaints about administration of the Retirement System. At the entrance conference for the audit, the TVARS board raised a legal argument that expanding the scope of the audit might expose board members to legal liabilities. TVARS officials also asserted that the Retirement System was independent of TVA and therefore outside the scope of the OIG. We agreed not to proceed beyond the survey and planning phase until the TVARS board obtained further legal advice.

On September 10, the TVARS board advised the OIG that its attorney asserted there was no legal obligation to permit an expanded scope audit. Two weeks later, attorneys hired by the TVA Board of Directors provided a written opinion that the OIG not only has the right to fully audit the Retirement System but also has a responsibility to the TVA Board to do so.

Pending resolution of the scope question, we agreed to conduct only a financial and compliance audit.

On October 8, the TVARS Board informed the OIG that its financial audit procedures must be limited to those performed in prior years by the OAE internal auditors. This constitutes such a material infringement on auditor judgment that we have postponed the audit completely until such time as all the impairments are lifted. In order to meet the independence provision of generally accepted auditing standards, the auditor must be free to apply whatever procedures are necessary in the circumstances without hindrance by the auditee.

Attorneys for the TVA Board of Directors are pursuing the legal issues. We agree with the TVA Board that the Retirement System is part of TVA and therefore within the OIG jurisdiction. Since the Retirement System is not subject to provisions of the Employee Retirement Income Security Act of 1974, the TVARS Board's position would make the Retirement System immune from independent oversight of its performance by anyone. Oversight by the TVA Board of Directors is necessary to fulfill its responsibilities under the TVA Act of 1933. The Retirement System was created by the TVA Board in exercise of its powers under the TVA Act.

**B. Investigation of Retirement System Continues**

Various allegations have been received by the OIG Division of Investigation regarding misconduct and improprieties by officials and staff of the Retirement System. The TVARS board has not blocked this investigation and it is continuing.

**II. DELAY IN TRANSFER OF TVA'S ANNUAL FINANCIAL AUDIT TO THE OIG**

In accordance with both the TVA Board Resolution creating the OIG and the Inspector General Act of 1978, the Inspector General has the responsibility to manage the annual financial audit of TVA. On August 4, 1986, we provided the TVA Board a plan for an orderly transition of the management of the audit contract to the OIG. Subsequent to that date, the OIG has discussed ways for accomplishing the transition with the General Manager and his staff. The discussions have been unproductive because the General Manager and senior management officials have taken a position that the transition should not occur. Further, they oppose OIG oversight of the quality of the financial audit.

The Inspector General Act of 1978 provides that all audits are to be performed in accordance with the U.S. Comptroller General audit standards. Furthermore, the act requires the OIG to take steps to assure that work by non-Federal auditors complies with the audit standards. Because we have not assumed management of the audit contract, we are unable to perform the quality control necessary to assure conformance to the Comptroller General's standards. Further, there has been no other TVA oversight of the quality of the audit firm's work.

Since the transfer of management of the annual financial audit has become stalemated and important quality control functions are not being performed, we have requested the TVA Board to take necessary action to ensure a prompt and orderly transfer to the OIG. The Board has agreed to take the matter under advisement.

### III. SUBPOENA AUTHORITY

A provision authorizing the TVA Inspector General to subpoena documents and records is included in TVA's fiscal year 1987 appropriation bill. According to the Congressional committee report, this subpoena power may be used during fiscal year 1987 "in connection with any audit, investigation, or inquiry the TVA Inspector General might undertake in the performance of his duties and responsibilities." Thus the grant of subpoena power is limited to one year.

In addition to the power to subpoena records, the Inspector General needs the power to subpoena persons and to take oaths in order to be fully effective in the discharge of his responsibilities.

During the next session of Congress, the OIG will seek broader subpoena authority on a permanent basis, as well as the power to administer oaths.

## CHAPTER FOUR

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### STATISTICAL SUMMARY

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#### STATISTICAL SUMMARY OF ACTIVITIES FOR THE PERIOD APRIL 1, 1986 TO SEPTEMBER 30, 1986

##### I. AUDIT RESULTS

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Audit Reports Completed	10
Audit Letters Issued	5
Disallowed Costs	\$715,846
Cash Recoveries	\$160,432

##### II. STATUS OF AUDIT PROJECTS

---

Audit Projects in Progress as of April 1, 1986	27
Audit Projects Started	26
Audit Projects Completed	15
Audit Projects in Progress as of September 30, 1986	38

##### III. INVESTIGATIVE ACTIVITIES

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Investigations Opened	1,444
Investigations Closed	259
Investigations Inactive	13
Investigations Pending	1,172

##### IV. HOTLINE ACTIVITIES

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Total Calls Received	248
From Current TVA Employees	119
From Former TVA Employees	40
From the General Public	89

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V. CLASSIFICATION OF HOTLINE CALLS FOR THE PERIOD FEBRUARY 28, 1986 TO SEPTEMBER 30, 1986

<u>CLASSIFICATIONS</u>	<u>NUMBER OF CALLS YEAR-TO-DATE</u>	<u>YEAR-TO-DATE PERCENTAGE OF TOTAL</u>
1 - Employee Misconduct	22	6.5
2 - Employee Concerns Program Matters	21	6.2
3 - Misuse/Abuse of Govt. Property	9	2.7
4 - Vehicle Operations	40	11.8
6 - Personnel Matters	82	24.3
8 - Discrimination and Harassment	53	15.7
9 - Safety	15	4.4
11 - Theft	7	2.0
12 - Falsification of Records	5	1.5
13 - Contract-Related Misconduct	3	0.8
14 - Waste and Fraud	45	13.4
17 - Public Concerns	<u>36</u>	<u>10.7</u>
	338	100.0

WHO CALLED

	<u>SEPTEMBER 1986</u>	<u>YEAR-TO-DATE</u>
Current TVA Employees	69%	48%
Former Employees ....	5%	16%
General Public	<u>26%</u>	<u>36%</u>
	100%	100%

NOTE: This report reflects merger of past subject categories with new subject classifications currently being used.

APPENDIX I - CHRONOLOGY OF EVENTS

<u>Mo/Yr</u>	<u>Activities Relating to the Organization &amp; Planning of the OIG</u>	<u>Activities Relating to the Conflict of Interest Issues in TVA's Nuclear Program</u>	<u>Employee Concerns</u>	<u>Impairment of OIG Activities</u>
May 1985			TVA contracted with Quality Technology Company (QTC) to investigate and document employee concerns at TVA nuclear facilities. QTC reported over 5,000 employee concerns.	
October 1985	The TVA Board resolved to establish an OIG and to retain a nuclear advisor.			
November 1985	TVA contracted for the services of Chuck Dempsey, a former Housing and Urban Development Inspector General (IG), to recruit qualified OIG candidates.	TVA contracted for the services of William Bibb from Management Analysis Company (MAC). The MAC contract was viewed as a model for a later contract with Stone & Webster Engineering Corporation (SWEC) under which TVA obtained the services of Steven A. White.		
December 1985	The Board offered the IG position to Norman A. Zigrossi.	SWEC and White proposed that TVA hire an outsider to run TVA's nuclear program. Later in the month, the Board offered White the job of running the nuclear program.		
January 1986	Zigrossi reported for duty at the end of the month as TVA's first IG.	White assumed the position of Manager of Nuclear Power on January 13, 1986.		
January 1986	The IG visited all members of the Valley Congressional Delegation and key TVA managers.			
February 1986	The OIG Hotline was put in place.	White hired four loaned employees from SWEC to fill TVA management positions.		
February 1986		All parties considered the application of conflict of interest laws.		
February 1986		TVA's General Counsel and one of his assistants wrote a memorandum recording their recollections of the TVA-White-SWEC arrangement.		
February 1986		TVA's General Counsel concluded the Board could determine Bibb's financial interests in MAC were "not substantial"; thereby resolving his conflict of interest problems as a TVA line manager.		

Mo/Yr	Activities Relating to the Organization & Planning of the OIG	Activities Relating to the Conflict of Interest Issues in TVA's Nuclear Program	Employee Concerns	Impairment of OIG Activities
March 1986	The IG hired his own legal counsel.  The IG hired Assistant Inspectors General for audit and investigation.	TVA's General Counsel discussed potential criminal liability in connection with SWEC contracts with Chairman Dean. A week later the Board asked that this concern be put in writing.	TVA refused to accept QTC's proposal for a fifth supplemental increase in their contract. The Nuclear Regulatory Commission (NRC) took control of QTC files. The OIG would later assume investigative responsibility.	Office of Audit and Evaluation (OAE) informed the TVA Retirement System (TVARS) Board that it would begin a review of TVARS. TVARS branch chief requests OAE to delay the start of the audit until conversion is complete on new computer system (scheduled for June 1986) and the workload of TVARS employees is less. The OAE agreed to postpone audits.
April 1986	IG and his Assistant Inspectors General (AIGs) talked to the NRC, the General Accounting Office (GAO), and various IG offices.			OAE General Auditor met with Coopers & Lybrand (C&L) to inform them that the annual workplan, which included the TVARS audit, would be completed as scheduled.
April 1986	AIGs reviewed pre-OIG audit and investigative programs.			
April 1986	IG adopts President's Council on Integrity and Efficiency quality standards and GAO audit standards as a guide to organization and staffing.			
April 1986	An OIG plan of organization and staffing was defined.			
April 1986	A complaint classification system was defined.			
April 1986	A policy on confidentiality was developed.			
April 1986	AIG of Audit assigned responsibility for annual financial audit to Resources Management Branch.			
May 1986	IG submitted a report to TVA and Valley Congressional Delegation discussing the first 90 days of the IG. The report committed to creating an OIG Master Plan and policy manual by the first of the fiscal year.	TVA's General Counsel advised the Board in writing that SWEC contracts had conflict of interest problems.		
May 1986		The TVA Board asked the IG to investigate conflict of interest issues that had arisen in connection with TVA's contractual arrangements for acquiring nuclear managers.		

Mo/Yr	Activities Relating to the Organization & Planning of the OIG	Activities Relating to the Conflict of Interest Issues in TVA's Nuclear Program	Employee Concerns	Impairment of OIG Activities
May 1986		The Board retained the legal firm of Akin, Gump, Strauss, Hauer, and Feld to review the legal issues regarding conflict of interest.		
May 1986	The IG met with the Comptroller of Tennessee regarding audit coordination.	The TVA General Counsel notified the Office of Government Ethics (OGE) of his conflict of interest concerns the day after the Board hired an independent law firm.		
May 1986	Seven branch chiefs who will lead the 3 investigative and 4 audit branches were selected.	The IG initiated an investigation regarding conflict of interest issues relating to the TVA-SWEC-White arrangements.		
June 1986	The new audit branch chiefs interviewed auditors and analysts from the pre-OIG audit organization. Thirty-five TVA auditors were transferred to OIG.	The Director of the OGE wrote and expressed his concerns over TVA's arrangements with White and SWEC. Later, OGE requested that TVA's IG address other contracts as well as SWEC's.		The OIG publicly announced plans to reschedule an audit of the TVARS.
June 1986	OIG advertised nationally for 40 more auditors.			Allegations of misconduct were received regarding conduct of certain TVA employees associated with the administration of the TVARS.
June 1986	OIG finalized its information requirements and related automation plans.			
June 1986	The IG invited all TVA office and division managers to submit auditable issues or investigative subjects for IG consideration.			
July 1986	OIG received over 800 applications for its new auditor positions. Screening and interviewing began.			The TVARS audit was rescheduled to coincide with and support an OIG investigation of specific allegations of misconduct associated with TVARS.
July 1986	The AIGs met individually with top management of all TVA offices to describe OIG's direction and progress as well as hear management concerns.			The OIG prepared a plan for obtaining through competition the services of a CPA firm to perform TVA's annual financial audit for fiscal year 1987.

Mo/Yr	Activities Relating to the Organization & Planning of the OIG	Activities Relating to the Conflict of Interest Issues in TVA's Nuclear Program	Employee Concerns	Impairment of OIG Activities
July 1986	The structure of an OIG directives system was defined and a plan was devised to complete the system by November 1986.			Staff of OAE were assigned to the 4 branches, and OAE ceased to exist. OIG assumed responsibility for completing the portion of the annual OAE workplan related to the annual financial audit.
August 1986	The Division of Audit completed the screening and interviewing of over 800 applicants. By September 30, the division had 63 professionals and 7 vacancies.	A draft of the IG's conflict of interest investigation was delivered to Akin, Gump, Strauss, Hauer and Feld.	All QTC files that NRC intended to release have been received.	OIG informed TVA Board and TVARS that it plans to begin an expanded scope audit of the TVARS.
August 1986	The IG selected long-range goals and developed an annual planning process.		An audit was initiated to assess the effectiveness of TVA's Employee Concerns Program.	OIG authority to audit the TVARS was questioned by the TVARS Board of Directors.
August 1986				The TVA Board wrote the TVARS Board Chairman (TVA General Counsel Herbert Sanger) to cooperate fully with the OIG in its effort to conduct a thorough investigation and audit of TVARS.
August 1986				The Office of the General Counsel, at the OIG's request, placed its files regarding TVARS under lock and key with restricted access and informed the OIG that files regarding TVARS were properly safeguarded.
August 1986				IG submitted its plan for obtaining the annual financial audit to the TVA Board. The TVA General Manager outlined his reasons to the Board for disagreeing with the plan, after which the IG commented on the General Manager's views on the plan.
August 1986				Manager of Corporate Administration and Planning (OCAP) expressed concern on IG's progress in completing OAE workplan.
August 1986				IG responded to Manager of OCAP concerns August 29, 1986.

Mo/Yr	Activities Relating to the Organization & Planning of the OIG	Activities Relating to the Conflict of Interest Issues in TVA's Nuclear Program	Employee Concerns	Impairment of OIG Activities
September 1986	The AIGs visited the GAO and the NRC to determine their interest in specific OIG projects.			The TVARS Board and the TVA Board obtained conflicting legal opinions regarding IG's and TVA's authority to audit TVARS.
September 1986	OIG advertised in <u>Commerce Business Daily</u> to acquire services of audit firms primarily to audit contracts.			OIG prepared a plan for performing a quality review of the fiscal year 1986 annual financial audit of TVA.
September 1986	OIG completed fiscal year support to the pre-OIG audit plant. Results are discussed in this report.			IG discussed plan for annual financial audit services with General Manager, the TVA Comptroller, and Manager of OCAP, after which the Manager of OCAP asks the General Manager to relieve him of the management of the audit services contract.
September 1986	OIG's automated data processing security plan was finalized.			OIG staff discussed support of fiscal year 1986 annual financial audit with TVA's long-time outside audit firm.
October 1986	The OIG Master Plan was published and distributed.	The conflict of interest investigation was completed and discussed with the Board, Congress, and the press.		TVARS Board of Directors responded to OIG's proposal for a financial/compliance audit and TVARS further limited the scope of the proposed audit.
October 1986	The IG issued this first Semiannual Report.			The OIG concluded that the limitation placed on the scope of work constituted an impairment of its ability to provide an opinion in a financial and compliance audit of TVARS.
October 1986				The TVARS audit was suspended due to severe scope and timing impairments and limitations on choice of audit procedures imposed over the IG's objections by the TVARS Board of Directors.
October 1986				Management of annual financial audit contract still not resolved.

## APPENDIX II

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### AUDIT REPORTS COMPLETED APRIL 1 THROUGH SEPTEMBER 30, 1986

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<u>Report Number</u>	<u>Report Title</u>	<u>Date of Report</u>
86-8	Regency Electronics, Inc., Contract 86PJ6-938467-1	4/10/86
86-9	Blount Brother Corporation, Contract 81K51-826976-1 - Review of Subcontractor's Claim for Delay Costs on the Chattanooga Office Complex, H. H. Robertson Company	4/14/86
86-10	Treasury Branch for the period August 1, 1985 through February 28, 1986	4/28/86
86-11	American Commercial Barge Line Company--Uniontown Belt Terminal Operating Costs for 1980 Through 1984 - Inland Waterways User Tax 1982 Through 1984	5/15/86
86-12	Review of Payroll Practices at the Paradise Steam Plant	5/23/86
86-13	Review of Harris Data Communications, Inc., Contract 80TJ3-550800-2	6/10/86
86-14	Silver King Mines, Inc., Edgemont Project, Contract 78P66-148567	8/13/86
86-18	Review of Contract Administration in the Division of Conservation and Energy Management for the period October 1, 1983 through March 31, 1986	10/8/86
86-19	Review of Personal Services Contracts for the period April 1, 1982 through March 31, 1985	10/29/86
86-20	Phasteel Products Corporation, Contract Reconcilia- tion Problems for the period January 1979 through March 1986	10/8/86

APPENDIX II

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AUDIT LETTERS ISSUED  
APRIL 1 THROUGH SEPTEMBER 30, 1986

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<u>Letter Number</u>	<u>Letter Subject</u>	<u>Date of Report</u>
86-013	Review of Allegation at the Agricultural Research Farm, Office of Agricultural and Chemical Development	4/02/86
86-014	Allegation of Misuse of Funds by the Division of Management Systems	4/09/86
86-015	Review of Allegation Concerning Request for Proposal No. YD 738666 (Color Graphics System)	5/19/86
86-016	Review of the Power Program Summary, Volume 1, for Fiscal Year 1985	5/22/86
86-017	Review of Annual Report of Electric Public Utilities (EIA-412) to the Energy Information Administration - Fiscal Year 1985	6/20/86



APPENDIX III

SUMMARY OF INVESTIGATIVE CASES THROUGH SEPTEMBER 30, 1986

The following is a table showing the percentage of investigations opened by investigative classification.

CASE CLASSIFICATION	% OF TOTAL
1. Employee Misconduct	19%
2. Employment Suitability	5%
3. Misuse of Government Property	1%
4. Vehicle Operations	3%
5. Substance Abuse	2%
6. Personnel Matters	9%
7. Terrorism and Sabotage	0%
8. Discrimination/Harassment	28%
9. Safety	1%
10. Trades and Labor	0%
11. Theft	3%
12. Falsification of records	13%
13. Contract Related Misconduct	2%
14. Waste and Fraud	5%
15. General Criminal Activities	4%
16. Public Concerns	3%
17. Other (All Branches)	2%

**POLICY ON CONFIDENTIAL INFORMATION  
TVA OFFICE OF THE INSPECTOR GENERAL**

1. The Office of the Inspector General (OIG) may receive, in confidence, information from a TVA employee or other individual (employee) regarding a possible violation of:
  - A. A Federal or State criminal law or other statutory requirement;
  - B. A regulation or other requirement established by a Federal agency or other entity with administrative, regulatory, or investigatory authority over TVA; and
  - C. A TVA policy, procedure, or practice that has been approved by appropriate TVA management or which is otherwise set forth in the TVA Administrative Release System.
2. In connection with any information of the type described in paragraph 1 above (confidential information), the OIG will:
  - A. Not disclose, to individuals outside the OIG, the identity of the employee who provided the confidential information or any other information which could clearly be expected to result in the unauthorized disclosure of the employee's identity;
  - B. Take reasonable precautions to assure that OIG reports, records, and other documents which indicate the identity of an employee who provided confidential information are appropriately safeguarded; and
  - C. Take reasonable precautions to assure that information regarding the identity of an employee who provided confidential information is disseminated to only those OIG employees who have a need to know such information.
3. While the *identity* of an employee who provided confidential information will not, without the employee's prior written consent, be disclosed to TVA officers and employees who are not OIG employees, the OIG may disclose to any person confidential *information* provided by the employee. The disclosure of such information may occur in the course of any OIG audit, investigation, or other inquiry or activity.
4. The *assurance of confidentiality* set forth in paragraphs 2 and 3 of this policy statement *does not apply to*:
  - A. Any employee who, at any time, waives in writing any such assurance of confidentiality;
  - B. Any information disclosed in accordance with (1) a decree, order, or other directive issued by a judicial, administrative, investigatory, or regulatory authority with jurisdiction over TVA, or (2) the requirements of a Federal law, regulation, order, or other directive which requires the release or disclosure of such information, including disclosures in accordance with TVA's policy—obligation to report evidence of crimes to law enforcement officials;
  - C. Any instance in which the Inspector General personally determines that (1) the disclosure of the identity of the employee is unavoidable in the course of the investigation, or (2) there is good cause for such disclosure;
  - D. Any information disclosed in connection with the consideration of or action on disciplinary measures or other corrective or preventative personnel measures undertaken by TVA or other authorized entity;
  - E. Any information obtained after the employee is informed that no assurance of confidentiality will apply; or
  - F. Any information provided by an employee who later discloses his or her identity as a source of confidential information or who takes any action that may reasonably be expected to disclose the fact that the employee provided such information to the OIG.
5. Preventing the unauthorized disclosure of the identity of employees who provide information in confidence is a significant OIG responsibility. The Inspector General and OIG employees will take reasonable precautions to prevent such unauthorized disclosures from occurring. The OIG will investigate and, in appropriate cases, recommend that disciplinary action be taken in connection with any TVA employee who intentionally and without authority compromises (or attempts to do so) any assurance of confidentiality that is established under this policy, including any actions designed to obtain, without authorization, the identity of an employee who has provided information in confidence to the OIG. In addition, the Inspector General will recommend that disciplinary penalties, up to and including termination, be imposed on any TVA employee who is found to have taken an action in reprisal against another employee on account of the employee's disclosing information to the OIG. The Inspector General will propose corrective or remedial actions that reduce or eliminate the negative effects of any acts of reprisal on the TVA employee who was adversely affected by such acts.
6. Any questions regarding the interpretation of this policy statement or its scope and coverage shall be resolved by the Inspector General whose decision shall be final and not subject to review. In addition, the Inspector General may amend this policy statement from time to time as he determines is necessary to carry out the responsibilities of his office, which amendments shall be effective from the date this policy was first approved by the TVA Board of Directors.

OIG-5 (7-86)

## **CONFIDENTIALITY AGREEMENT**

I wish to provide information in confidence to the Inspector General of the Tennessee Valley Authority. I understand that any such information I provide (including my identity and other personal identifiers) will:

1. Be held in confidence solely in accordance with the terms and conditions of the Inspector General's *Policy on Confidential Information* that appears on the reverse side of this form; and
2. Not be subject to any other promises or representations, whether written or oral, that may have been made to me by any person.

By signing below, I acknowledge that I have read this document and that it constitutes the entire agreement between the parties.

Assurance of confidentiality extended to:

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Office of the Inspector General

\_\_\_\_\_  
Date

APPENDIX V

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OIG'S 90-DAY REPORT

---

May 8, 1986

TO THE TVA BOARD OF DIRECTORS AND MEMBERS OF THE TENNESSEE VALLEY DELEGATION:

The enclosed report summarizes my first ninety days as TVA's Inspector General. It is also the first report to the Board of Directors and Congress on the plans and activities of this new office.

While much remains to be done, the following matters have primarily occupied my attention during these first three months:

- Organizing the office and hiring competent and independent-minded men and women who will work to prevent, detect, and correct instances of waste, fraud, and abuse;
- Focusing available investigative resources on employee allegations involving TVA's nuclear power program;
- Enhancing the effectiveness of audit programs that were underway in TVA before the creation of the Office of the Inspector General; and
- Communicating the role of the Inspector General to TVA managers and employees.


Among all the activities that have been undertaken, none may prove to be more important than reaching out to the Congress, the public, and TVA managers and employees at all levels. I believe it is important to tell them plainly and clearly why this office is here and the contribution the OIG can make in improving TVA's operations and programs throughout the seven state Tennessee Valley region.

I have been gratified that the Board of Directors, TVA managers and employees, and TVA's friends and constructive critics in Congress have been very supportive of this office and its goals. Clearly, their goals and those of this office are the same--to ensure that TVA's programs are properly administered, and the needs of management and the concerns of rank-and-file employees are adequately taken into account.

The report accompanying this letter is as much a prescription for the future as it is a description of the past. Hopefully, it is a roadmap that will guide all OIG employees as they work to help establish a fully operational IG's office within TVA.

I appreciate your support and will strive to retain it. If you have any questions about the matters covered in this report, please call me.

Sincerely,



Norman A. Zigrossi  
Inspector General

Enclosure

**TENNESSEE VALLEY AUTHORITY**  
**Office of the Inspector General**

**THE FIRST NINETY DAYS: A REPORT**

**Prepared by**  
**Office of the Inspector General**

**Knoxville, Tennessee**

**May 8, 1986**

## FOREWORD

On October 18, 1985, the Board of Directors of the Tennessee Valley Authority established a corporate Office of the Inspector General. The Board selected Norman A. Zigrossi as the TVA's first Inspector General. Senator James Sasser requested that the new Inspector General provide after 90 days a report on the activities of the new office.

This report was prepared by the Office of the Inspector General as a self assessment to communicate the progress that has been made during the first 90 days of its existence. The report is structured along the lines of the publication, Quality Standards For Federal Offices of Inspector General (January 1986), which sets forth standards established by the President's Council on Integrity and Efficiency (PCIE).

## SUMMARY

The TVA Office of the Inspector General (OIG) has a special need for professionalism and integrity. Because of this need, the Inspector General (IG) has adopted the PCIE's Quality Standards For Federal Offices of Inspector General. The Office of the Inspector General is being planned and organized with those quality standards in mind. Accordingly, the IG, with the support and backing of the Board of Directors, is making every effort to ensure that OIG:

- Staff is free from personal or external impairments to independence;
- Planning systems address the needs, trends, issues and risks in TVA programs and identify productive OIG goals;
- Operations are organized efficiently and effectively;
- Staff collectively possess the qualifications to accomplish the mission;
- Performance is consistent with professional standards;
- Programs do not overlap or duplicate relevant efforts of others;
- Reporting provides full and appropriate disclosure to the Congress, the TVA, and public; and
- Confidential sources and information are protected.

In addition, the Inspector General will ensure that:

- Proposed legislation and regulations are reviewed to ensure that they promote or do not impede the economy, efficiency, and integrity in TVA programs; and
- Each allegation or complaint is adequately screened and controlled for appropriate disposition.

The initial organization and staffing of the OIG and the preliminary investigations that are underway demonstrate the independence of the new Inspector General and the support of the Board of Directors.

Actions which support this conclusion include:

- The majority of OIG managers have been recruited from outside TVA and have significant experience in a variety of relevant agencies including the Federal Bureau of Investigation and three Offices of Inspector General;
- The IG organized along the lines of and will perform the duties and functions of a statutory IG;
- The IG has initiated investigations associated with the major employee harassment cases;
- The IG has visited and consulted with appropriate Members of Congress; and
- The IG has created a General Management Branch to audit management as well as accountability systems.

The Office of the Inspector General will keep TVA and Congress fully and currently informed of significant issues.

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## THE FIRST NINETY DAYS: A REPORT

### A. OVERVIEW

#### 1. Resolution of the Board of Directors

During recent years considerable public and congressional attention has focused on rising utility rates and TVA's nuclear operations. TVA employees were concerned by the internal TVA reorganizations and the layoffs which occurred when nuclear construction projects were cancelled or deferred.

TVA's Board of Directors has expressed deep concern over these matters. Throughout 1985 the Board monitored, through its Audit Review Group, the increasing number of complaints and investigative and audit issues. On October 15, 1985, the TVA Board of Directors adopted a resolution establishing an IG:

"Resolved, that the Board of Directors (Director Richard M. Freeman abstaining) hereby approves the Plan for the Creation, Structure, Authority and Function of the Office of Inspector General, Tennessee Valley Authority, as submitted by the General Manager to the Board, a copy of which plan and voting statement of each Board member are filed collectively with the records of the Board as Exhibit 10-18-85a;. . ." (See Appendix I for a copy of that resolution.)

This decision was supported by a number of TVA's key supporters in Congress who, like the Board of Directors, recognized the need for an IG for TVA.

On November 20, 1985, the TVA Board contracted with Mr. Charles L. Dempsey, a consultant and the former Inspector General for the U.S. Department of Housing and Urban Development. Mr. Dempsey advised the Board on establishment of the TVA Office of Inspector General and assisted in recruiting several respected applicants.

Mr. Dempsey reported that the success of the IG "depends a great deal on:

- a. The support, interest, and insistence of the Board on a strong, independent Office of Inspector General;
- b. How this office is perceived by the TVA staff and workers; and

- c. The first six months of operation and the care and attention given to the IG organization, recruitment, and staffing . . ."

## 2. Selection of the Inspector General

The Inspector General, Norman A. Zigrossi, assumed his duties on January 27, 1986. The IG's appointment was for a minimum of three years. Prior to this appointment, the IG held various management and executive positions in the Federal Bureau of Investigation (FBI) and with professional law enforcement associations.

During his tenure with the FBI, the IG served tours of duty as Special Agent in Charge of the Washington, D.C., San Diego, California, Field Offices and as an Inspector at FBI Headquarters. He was a member of the Executive Committees of the Council of Governments, the California Police Officers Association, and Board of Directors of the Association of Federal Investigators.

## 3. Standards for Self-Assessment

The Quality Standards For Federal Offices of Inspectors General, adopted by the President's Council on Integrity and Efficiency on January 14, 1986, have been adopted by TVA's IG. These quality standards provide guidelines for each Office of Inspector General to observe in conducting audits and investigations. The standards address:

- maintaining independence,
- planning,
- organizing,
- assuring staff qualifications,
- directing and controlling,
- coordinating,
- reporting,
- preserving confidentiality,
- maintaining quality assurance,
- reviewing legislation and regulations, and
- implementing professional standards,

This report discusses the TVA Inspector General's assessment of the progress that has been made to date and how these quality standards will be attained when the OIG is fully operational.

## B. MAINTAINING INDEPENDENCE

The IG management team was selected independently by the IG based on his review of each applicant's qualifications. The team is free from personal or external impairments to independence.

The IG, his two Assistant IG's, and three of four OIG branch chiefs are professional auditors and investigators who have no prior relationships or involvement with TVA or with TVA management decisions. One branch chief was the previous TVA General Auditor. The IG has hired his own legal counsel, administrative support, and an information officer dedicated to the OIG.

The OIG has complete and unimpeded access to records, reports, or other materials, as well as complete access to TVA employees, managers, and directors at all levels when requested.

The TVA Board of Directors has indicated its willingness to see to it that the OIG has the resources necessary to accomplish its mission. In fact, the budget of the OIG is separate and independent from other TVA organizations.

#### C. PLANNING AUDITS AND INVESTIGATIONS

The IG will establish a three-year master plan covering fiscal years 1987 through 1989. He will communicate that plan to the Board prior to the end of this fiscal year. The plan will consist of (1) goals associated with significant TVA issues, (2) annual objectives required to achieve those goals, and (3) semiannual project plans that will address issues which will be covered in the OIG's semiannual reports to the Board and Congress.

The IG's annual plans will provide for a balance of investigative, audit, and cooperative reviews. The review will vary in scope, purpose, and TVA program coverage. The views of congressional representatives, TVA management, and TVA employees are being sought in formulating these plans.

The IG's planning process to date has addressed three areas: (1) organizing and staffing the office; (2) directing and controlling ongoing investigations and audits; and (3) receiving, controlling, and screening allegations.

#### D. ORGANIZING THE OFFICE OF THE INSPECTOR GENERAL

(See Appendix II for Organizational Charts.)

The Office of the Inspector General has been organized along the traditional lines of audit and investigation. Assistant IG's have been selected to direct the Division of Investigation and Audit.

##### 1. Organization of the Division of Investigation

The IG has organized the Division of Investigation to function with three branch chiefs, each supervising 10 or more investigators having assignments in all classifications of investigations in all geographical areas of the Tennessee Valley region. A separate group of

uniquely qualified, independent contract investigators will conduct selected investigations and report directly to the Assistant Inspector General (Investigation).

One branch chief for the Division of Investigation presently supervises all pending investigations and criminal investigators. As additional investigative personnel report for work and investigations are assigned, the IG will fill the other two branch chief positions.

## 2. Organization of the Division of Audit

The Inspector General has organized the Division of Audit along program lines similar to those of the General Accounting Office's program audit divisions. The division will include four branches for auditing TVA's resource, contract, information, and general management systems. Organization along these lines will ensure appropriate focus on expanded scope audits regarding efficiency and effectiveness of TVA operations.

### (a) Resources Management Branch (RMB)

The RMB will audit all financial and human resource systems within TVA. The branch will be responsible for acquiring the services of a CPA firm to perform TVA's annual financial statement audits. The branch chief position is vacant.

### (b) Contract Management Branch (CMB)

The CMB will be headed by the former General Auditor of TVA, a Certified Public Accountant. This branch will audit all contracting decision processes and contractors of TVA. The branch will also oversee the use of CPA firms by the area distributors of TVA's electrical power.

### (c) Information Management Branch (IMB)

The IMB will be headed by a certified EDP auditor from the Office of the Inspector General in the Department of Agriculture. In addition to leading the audits of TVA's EDP resources, this branch will be the provider of EDP auditor training. The IMB will (1) audit the development and operation of TVA's automated information systems, (2) provide information systems support to all other OIG branches, and (3) operate OIG computer hardware.

### (d) General Management Branch (GMB)

Effective May 15, 1986, the GMB will be headed by a Certified Public Accountant from the Office of the Inspector General in the Department of Energy. This branch will audit general and program management systems to determine their efficiency and effectiveness. Management systems of interest will include, for example, those for rate management, general planning, project planning, and nuclear materials management.

## E. ASSURING STAFF QUALIFICATIONS

The TVA Office of the Inspector General is not unique in its need for a large variety of skills, knowledge, and abilities among its professional and technical employees. The plan of organization described in this report reveals the IG's intended grouping of skills and expertise around certain categories of projects.

The IG has established a uniform career ladder through which any investigator, auditor, mathematician, analyst, or other professional might progress. Movement through the career ladder will be based on the individual's performance.

The career ladder was built to accommodate a project management environment. The grade and salary structure is commensurate with other TVA career ladders associated with project management. (See Appendix III for Career Ladder Chart.)

Initial recruiting to date has focused on audit and investigative management positions and on hiring a base of IG investigators. The following subsections describe staffing efforts in each OIG division.

### 1. Division of Investigation

The Assistant IG for Investigation reported for duty in Knoxville on April 7, 1986. He is a 16-year veteran of the FBI, most recently assigned as a Supervisory Special Agent in the San Diego, California, FBI office. This Assistant IG has previous law enforcement experience with the U.S. Immigration and Naturalization Service and has also conducted, coordinated, and supervised investigations of the very highest complexity with particular emphasis in organized crime and general crime matters. He was the FBI coordinator for the Southwest Border Region on the Presidential Organized Crime Drug Enforcement Task Force. As Assistant IG he will (in concert with the IG) provide overall leadership, direction, and coordination of all investigation activities relating to TVA programs and operations which are broad in scope and which are essential to effective management of TVA.

Since arriving, the Assistant IG for Investigation has concentrated his efforts on completing the hiring of the initial staff of investigators, setting investigative priorities, formulating policy, and establishing the necessary high-level liaison. Considering TVA's size, its operations in seven States, and the diversity and scope of its activities, liaison will be a significant responsibility.

The Division of Investigation has hired one of its three branch chiefs. This branch chief is a 15-year veteran of the FBI, most recently assigned as a Supervisory Special Agent in the Terrorism Section at FBI Headquarters where he supervised the FBI's National Counterterrorism Planning and Nuclear Terrorism programs. He served three years as the Senior Supervisory Special Agent in the

Chattanooga, Tennessee, FBI office and managed all FBI investigative programs in an 18-county area of southeast Tennessee. Before his assignment to Chattanooga, he served four years as an investigator on the Surveys and Investigations Staff of the House Committee on Appropriations (on loan to Congress from the FBI). He has experience in all investigative programs of the FBI but has concentrated on white collar crime, organized crime, and narcotics.

The branch chief has concentrated his efforts in the areas of organizing the investigative staff and reviewing and assigning current investigative matters. He has assisted in setting investigative priorities and formulating investigative and reporting policies.

To date the IG has appointed 24 investigators, all of whom possess exceptional skills and experience. Of the 24 investigators, 12 were former Special Agents with the FBI. Two other investigators were former FBI service employees. The remaining investigators were formerly employed by either the Internal Revenue Service, the Tennessee Bureau of Investigation, the Georgia Bureau of Investigation, the Military Investigative Services, or TVA's Personnel Security Section. Four other individuals (former FBI agents) are employed under personal services contracts.

## 2. Division of Audit

An Assistant IG for Audit was selected on February 21, 1986. His assignment is to build and manage the Division of Audit. The Assistant IG, a Certified Public Accountant, reported to work on March 12, 1986. His background includes nearly eight years of audit experience in the Offices of Inspector General at the Departments of Labor and Agriculture. He most recently had five years of audit and financial management experience in the U.S. Department of Justice. He was the Executive Secretary of the Justice Audit Policy Steering Committee prior to becoming the Chairman of Justice's Financial and Accounting Working Group.

The Assistant IG (Audit) has interviewed a number of candidates from within and from outside TVA regarding branch chief positions. Three selections have been made.

A certified EDP auditor from the U.S. Department of Agriculture was selected as Chief of the Information Management Branch. His EDP audit experience includes eight years with the Air Force and 15 years with the USDA Office of Inspector General. He was the Director of the Inspector General's Southeast Computer Center.

A Certified Public Accountant from the Department of Energy's Office of Inspector General was selected to manage the General Management Branch. He has held financial management positions in the Departments of Interior and Labor. He also has senior audit experience in the Departments of Energy and Labor and has done journalistic work with three daily newspapers.

TVA's former General Auditor, also a Certified Public Accountant, was selected as the Chief of the Contract Management Branch. His TVA experience and qualifications are extensive. His support and enthusiasm in making the transition to the Office of Inspector General have been most valuable.

The TVA Board identified the Office of Audit and Evaluation (OAE) as the primary audit organization to be replaced by the Office of the Inspector General. OAE's audit and program evaluation units have temporarily reported to the IG pending the formation of the IG's new Division of Audit. (See Appendix IV for a summary of Audit Reports, Letters, and Findings.) The IG plans to have accomplished the transfer of functions from the Office of Audit and Evaluation by July 1986. Any associated employee transfers will have occurred by that time.

The Division of Audit should be fully staffed with 70 professionals by September. Great care will be taken to select only those individuals with management and business skills demanded by the TVA environment.

The existing TVA audit group includes 33 accounting graduates, 17 Certified Public Accountants, 4 with masters degrees, 4 Certified Information Systems Analysts, and 7 others with degrees in mathematics, industrial management, or education. Of these individuals, 26 are currently involved in audits internal to TVA and 13 are involved primarily in contract audit work. Each of these individuals will be interviewed regarding potential placement in the OIG.

#### F. DIRECTING AND CONTROLLING INSPECTOR GENERAL ACTIVITIES

The OIG will comply with the Quality Standards for Federal Offices of Inspector General and other Investigative guidelines adopted by the President's Council on Integrity and Efficiency. The IG will comply with Federal policies relating to coordination of law enforcement activities.

Audits will be conducted, supervised, and coordinated consistent with Executive Branch policies and with Standards for Audit of Governmental Organizations, Programs, Activities and Functions issued by the U.S. General Accounting Office. In addition, generally accepted industry auditing standards will be applied. The Division of Audit will provide for an expanded program of financial and compliance, efficiency, and effectiveness audits.

##### 1. Status of Investigations

Initial efforts by the IG focused on quick reaction to the concerns of TVA employees, management, and the public. On March 5, 1986, the IG's Hotline was established and staffed by two experienced TVA employees. The Hotline was well received, generating 90 referrals in the first week of operation. A microcomputer application is in place to track these complaints.

Many allegations are being received outside the Hotline procedure. Direct contact has been made by the public, TVA employees, and TVA management. Other potential sources of allegations are: other Federal agencies, the TVA Board of Directors, State and local law enforcement officials, TVA Public Safety Service, the TVA Office of the General Counsel, and the Congress.

The TVA IG has made a commitment to respond to all allegations. The OIG's supervisory staff will determine the appropriate disposition for each allegation. As a historical base is developed, the IG will review the response pattern and adjust policy as appropriate. (See Appendix V for Classification of Complaints, Summary of Cases by Classification, and Geographic Distribution of Cases.)

The following is a table depicting the resolution of early investigative matters:

Office of the Inspector General  
Resolution of Investigative Matters  
April 30, 1986

<u>Classification</u>	<u>Number of Cases Resolved</u>
Employee Concerns	2
Public Concerns	5
Theft of Government Property	1
Vehicle Misuse	1
Misuse of Government Property	1
Falsification of Records	2
Harassment	2
Claims Against TVA	1
Personnel Matters	<u>6</u>
 TOTAL	 <u>21</u>

The Quality Technology Company (QTC) was under contract with the TVA to investigate employee concerns at nuclear facilities. They are no longer under contract. The OIG will investigate those concerns in coordination with the Nuclear Regulatory Commission (NRC) and the Office of Nuclear Power (ONP). The OIG will assume investigative jurisdiction for at least 432 employee concerns which have been identified. When this procedure is completed, more than 5000 concerns about safety and job related issues will have been addressed. The IG is formulating a procedure for ensuring employee confidentiality.



The following is a table of QTC referrals:

Office of the Inspector General  
Quality Technology Company (QTC) Referrals

<u>QTC Characterization</u>	<u>Number of Referrals</u>
Harassment and Intimidation	26
Employee Misconduct Allegations, Geographic Area Undefined	394
Employee Misconduct Allegations, Sequoyah Nuclear Plant	<u>12</u>
TOTAL	<u>432</u>

These matters were identified to OIG by QTC and the TVA Office of the General Counsel (OGC) on March 19, 1986, and March 26, 1986.

2. Status of Audit Results

The Auditing Branch of the former Office of Audit and Evaluation has continued its fiscal year 1986 audit program. That plan will be replaced by a three-year IG plan to be developed by September 1986.

(See Appendix IV for a Summary of Audit Reports and Letters.)

G. COORDINATING INSPECTOR GENERAL ACTIVITIES

The IG applied his first four weeks in orientation and briefing sessions with the management of TVA. Discussions concerned the role of the Office of the Inspector General in relation to the roles of other offices of TVA, other governmental agencies, law enforcement agencies, and the Congress.

The IG will use the guidance provided by Federal management agencies regarding the planning and coordination of audits and investigations. This will include reliance on the work of other agencies and avoiding duplication of efforts.

The IG has already begun coordination with a number of agencies:

- The IG has met with the local United States Attorney. He plans to work closely with the U.S. Attorneys in the TVA service area.
- On February 26, 1986, the IG met with representatives of the General Accounting Office (GAO). GAO provided a status of their TVA activities.
- The IG and his assistants have met with IG staffs at HUD, Labor and Agriculture to benefit from the foundation of policies and procedures in use at headquarters and field locations.
- The IG and his assistants have met with a number of TVA program managers to clarify and solidify the IG's positions regarding harassment and intimidation of employees.

- The IG has appeared before professional groups, associations, and media representatives in the Valley to advertise the role and functions of the OIG. In those discussions, the IG described the mandate to serve as an independent and objective unit within TVA responsible for detecting and preventing waste, fraud, and abuse. Integrity and credibility of the OIG has been stressed. The IG promised to investigate complaints of employee harassment and intimidation and to assure that full confidentiality will be maintained in accordance with law and policies.
- On February 27 and 28, 1986, the IG met with 17 members of the Tennessee Valley's congressional delegation to discuss the role and functions of the OIG and to receive congressional views pertaining to TVA.
- The IG attends weekly conferences and working sessions with the TVA Board of Directors. The IG and the Board discuss issues relative to the role and functions of the OIG. The Board has consistently pledged and demonstrated support for the independence of the OIG.

#### H. REPORTING BY THE INSPECTOR GENERAL

The TVA Board's "Inspector General" Resolution established that ". . . the Inspector General carries out duties and exercises authority such as that provided under the Inspector General Act of 1978, 5 U.S.C. Appendix 3, as amended." In that regard, the IG will report semiannually and on significant matters to the Board of Directors for transmittal to the Congress.

A policy regarding preparation and dissemination of investigative reports is still being formulated. Full disclosure of all investigative results will be provided to the United States Attorney and/or other prosecutive entities.

The Inspector General's audit reporting policies will resemble those currently applied by major Offices of Inspectors General. An OIG manual will be developed, portions of which will be included in TVA's Administrative Release System in order to ensure effective communication and resolution of the results of audits and investigations.

#### I. PRESERVING CONFIDENTIALITY

The Board determined that the TVA Inspector General should exercise, to the maximum extent possible, with the authorities and carry out the duties of a statutory IG. Under Section 7 of the Inspector General Act, the identities of employees (whistleblowers) may not be released without their consent unless the IG determines that disclosure is unavoidable during the course of an investigation.

The IG will safeguard, within the limits of the law, identities of confidential sources and privileged and confidential information. The IG will abide by the intent of the Freedom of Information Act, the Privacy Act and other pertinent statutes, and case law regarding protection of identities of sources and for sensitive information.

There are potential problems associated with full disclosure of any investigative results to any program manager. The IG's communication policies will balance the safeguarding of confidential sources and information with management's requirement for information to implement successful actions.

The IG's proposed policy on confidentiality (dated May 1, 1986) is attached. (See Appendix VI.)

#### J. MAINTAINING QUALITY ASSURANCE OVER INSPECTOR GENERAL PROJECTS

The OIG will, in the interim, use reviewers who are independent of a project to perform quality assurance. Project leaders will have to document the manner in which independent review findings were resolved.

A more formal quality assurance program will be developed later to allow for peer reviews among the various branches within the OIG. The formal program will be based on Intergovernmental Audit Forum guidelines for peer quality assessments and on the GAO's assignment review guides.

The OIG is in one central location and is not so large as to require overhead staff functions for most of its management processes. However, the office will establish a management information system which tracks the plans, progress, and results of the efforts of the office. Automation services will be provided by the OIG Information Management Branch and by TVA's Management Systems Division.

#### K. REVIEWING LEGISLATION AND REGULATIONS

The IG plans to establish internal procedures to review and comment on legislative and regulatory proposals that could materially affect either how TVA conducts its business or the responsibilities of the IG. This review will focus on the early identification of proposals that would increase TVA's economy and efficiency; prevent, detect, or eliminate waste, fraud, and abuse; and assure the integrity and independence of the IG. It will also encompass TVA policy issues and TVA-wide directives that relate directly to OIG responsibilities.

The IG may present his views to Congress on legislative matters through the semiannual report or other means. The IG's comments will not be presented as TVA's views without the approval of the Board of Directors.

L. CONCLUSION

Public office carries with it a responsibility to apply public resources economically, efficiently, and effectively. The TVA IG plans to effectively carry that responsibility in a professional and independent manner.

Appendix I

No. 1357

Approved:

/s/ Herbert S. Sanger, Jr.  
General Counsel and Secretary

MINUTES OF MEETING  
OF  
THE BOARD OF DIRECTORS  
TENNESSEE VALLEY AUTHORITY  
OCTOBER 18, 1985

A meeting of the Board of Directors of the Tennessee Valley Authority was held in the offices of the Corporation, 400 West Summit Hill Drive, Knoxville, Tennessee, at 10:15 a.m. (EDT), Friday, October 18, 1985. This meeting was announced to the public on October 11, 1985 and was open to public observation.

Present were C. H. Dean, Jr., Director and Chairman; Richard M. Freeman, Director; John B. Waters, Director; W. F. Willis, General Manager; Herbert S. Sanger, Jr., General Counsel; and Richard M. Gutekunst, an Assistant Secretary.

Chairman Dean presided. During the meeting the public was invited to, and did, comment on and ask questions about items on the agenda.

Chairman Dean stated that the meeting was duly called, and notice to each Director duly delivered, pursuant to the procedure governing meetings of the Board (Minute Entry 860-22, approved November 30, 1961). A quorum being present, it was ordered that the notice be copied into and made part of the minutes of the meeting. It reads as follows:

To : Board of Directors  
 From : W. F. Willis, General Manager, E12B16 C-K  
 Date : October 15, 1985  
 Subject: NOTICE OF BOARD OF DIRECTORS' MEETING

Consecutive No.: 1357

Called by: Directors C. H. Dean, Jr.,  
 Richard M. Freeman, and  
 John B. Waters

Time: 10:15 a.m. (EDT), Friday,  
 October 18, 1985

Place: TVA West Tower Auditorium  
 400 West Summit Hill Drive  
 Knoxville, Tennessee

Purpose: For consideration of the Corporation's business, including items on the regular agenda.

/s/ W. F. Willis  
 \_\_\_\_\_  
 W. F. Willis

C. H. Dean, Jr.  
 Richard M. Freeman  
 John B. Waters

\* \* \*

## NEW BUSINESS

## PURCHASE AWARD

1357-1. Term Coal for Cumberland Steam Plant

At the request of the staff, the Board tabled for further study until Tuesday, October 22, 1985, an award of a proposed contract for term coal for the Cumberland Steam Plant.

\* \* \*

## PERSONNEL ITEM

1357-2. Establishment of an Office of Inspector General and Retention of a Nuclear Consultant

The Board adopted the following resolution:

RESOLVED, That the Board of Directors (Director Richard M. Freeman abstaining) hereby approves the Plan for the Creation, Structure, Authority, and Function of the Office of Inspector General, Tennessee Valley Authority, as submitted by the General Manager to the Board, a copy of which plan and voting statement of each Board member are filed collectively with the records of the Board as Exhibit 10-18-85a;

RESOLVED further, That the Board hereby approves the retention of an expert in nuclear matters for consultation and instructs the General Manager to prepare a list of candidates for this position.

\* \* \*

The meeting was adjourned at 11 a.m.

/s/ Richard M. gutekunst

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Richard M. Gutekunst  
Assistant Secretary

PROPOSED PLAN FOR THE CREATION, STRUCTURE, AUTHORITY AND FUNCTION  
OF THE OFFICE OF INSPECTOR GENERAL,  
TENNESSEE VALLEY AUTHORITY

This is a plan to establish an Office of Inspector General, headed by TVA's Inspector General and charged with fully and currently reporting to the TVA Board of Directors and Congress on the overall efficiency, effectiveness, and economy of all TVA programs and operations; on TVA efforts to prevent and detect waste, fraud, and abuse; and on investigations of employee concerns.

I. Office of the Inspector General

- A. Not later than December 1, 1985 there shall be created within TVA an Office of Inspector General.
- B. The Office of Inspector General will be an independent organization separate from all existing offices and reporting directly to the TVA Board. See attached organization chart.
- C. The Office shall have a separate, independent budget from that of other TVA organizations.

II. Inspector General

- A. The Inspector General shall be the head of the Office of Inspector General and shall be appointed for a term of not less than 3 years.
- B. Like TVA's other principal office managers, the Inspector General shall be a grade M-12.



- C. The Inspector General shall be under the general supervision of the TVA Board and shall not report to nor be under the supervision of any other TVA officer.
- D. The Inspector General may be removed only by the TVA Board which will report its reasons for doing so to Congress.

### III. Functions

The Inspector General shall:

- A. Conduct inquiries and make determinations relating to all TVA programs and operations.
- B. Provide leadership and coordination and recommend policies for activities designed to prevent and detect fraud, waste, and abuse.
- C. Keep the TVA Board and Congress fully and currently informed about problems and deficiencies in TVA programs and operations and on progress on corrective action.
- D. Report to the Board on investigations of employee concerns.
- E. Maintain relations with Federal and other law enforcement agencies, the General Accounting Office, and other agency Inspector Generals. In furtherance of the Board's existing policy, the Inspector General shall report to the appropriate law enforcement agency any information developed which the Inspector General concludes may evidence a violation of law.
- F. Operate a telephone hot line and other means to receive allegations and information from all sources.

- G. See that employees who raise issues with the Inspector General are kept informed of the consideration given their issues, of the Inspector General's conclusions on them, and any corrective action taken by TVA.

#### IV. Authority

The Board will invest the Inspector General and the Inspector General's designees with the following authority:

- A. To have access to all TVA records, reports, materials, facilities, assets, and meetings.
- B. To make any investigation, inspection, or report deemed necessary or desirable by the Inspector General.
- C. To have direct prompt access to the TVA Board.
- D. To request information as may be necessary from other Federal agencies and to seek information from other sources through all means available to TVA.
- E. To contract for experts under personal services contracts.

#### V. Reports

- A. Semiannually (and immediately where there exist particularly serious or flagrant problems, abuses, deficiencies, or nuclear safety issues), the Inspector General reports to the TVA Board on significant problems or deficiencies disclosed by the activities of the Office of Inspector General; recommended corrective actions; financial, nuclear safety and other audits

and reviews completed; and other related matters as the Inspector General determines.

- B. The Board will transmit each report of the Inspector General to Congress together with any comments the Board deems appropriate.

VI. Source Confidentiality

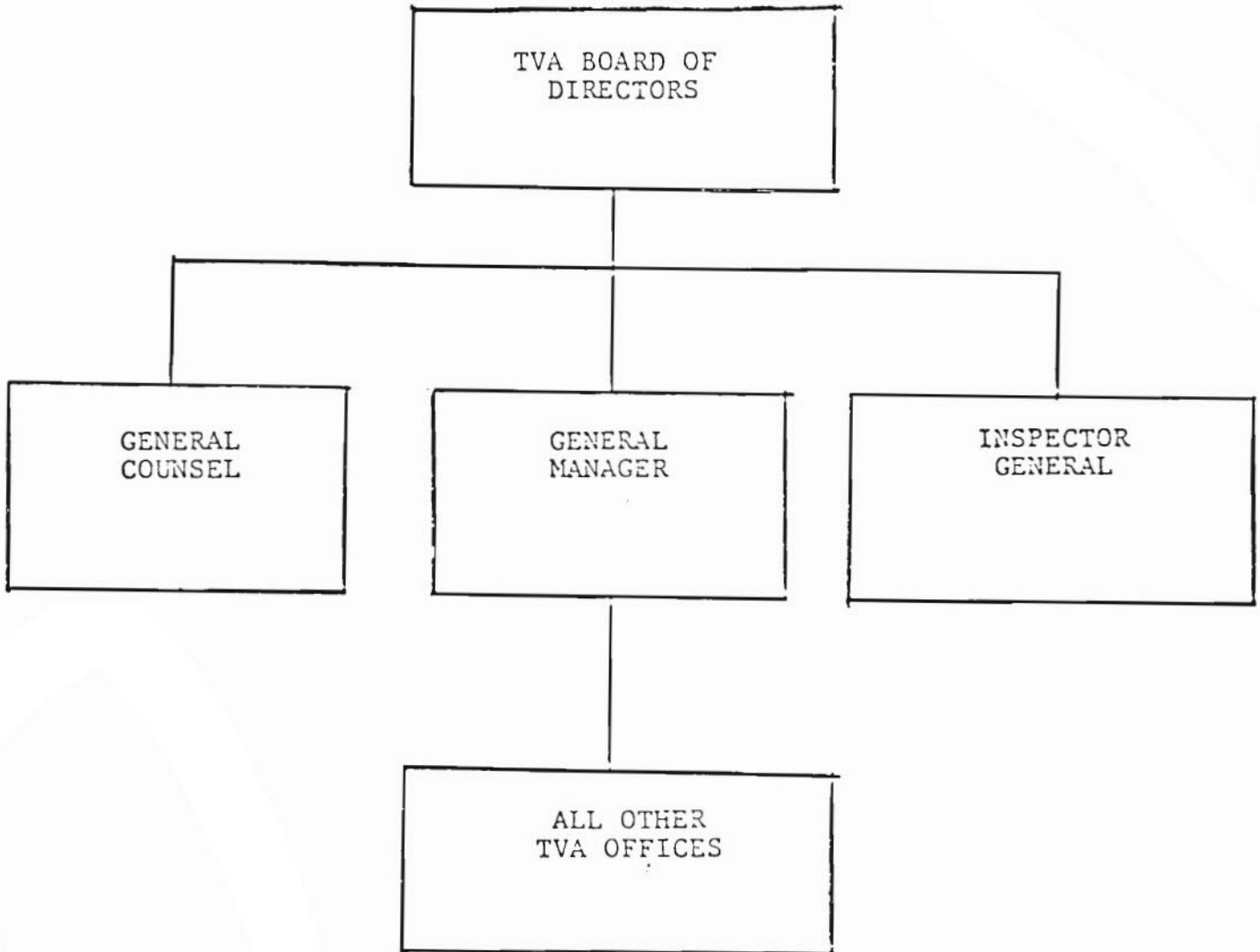
- A. The Board intends for the Inspector General to be able to receive in confidence allegations about any aspect of TVA.
- B. Promptly upon the establishment of the Office of the Inspector General, the Inspector General shall determine and announce the precise terms and conditions upon which source confidentiality shall be extended.
- C. Information from an anonymous or undisclosed confidential source will not be considered as evidence for any purpose in a TVA determination on the conduct or performance of any individual employee.

VII. Similarity to Other Agency Inspector Generals

To the maximum extent possible in carrying out the Board's intent in establishing the Office, the Inspector General carries out duties and exercises authority such as that provided under the Inspector General Act of 1978, 5 U.S.C. Appendix 3, as amended.

October 17, 1985

SUMMARY ORGANIZATION OF  
TENNESSEE VALLEY AUTHORITY



STATEMENT OF RICHARD M. FREEMAN

AT BOARD MEETING

OCTOBER 18, 1985

My views on the Inspector General for a business-type organization, such as TVA, are well known. I will not repeat them here. In the present context, the proposals apparently are made as a response to TVA's current nuclear problems. Unfortunately, an inspector general's office cannot help TVA address those problems. I cannot vote for the creation of the office.

I appreciate that many of TVA's friends in Congress, and specifically Senators Sasser and Gore, urge the Board to establish the position in order better to deal with TVA's nuclear problems. In deference to TVA's friends in the Congress I will not vote against creating the proposed Inspector General's Office. Thus, I must abstain.

I do pledge to my colleagues and TVA's friends in Congress that I will cooperate fully in trying to make the new office work for the good of the agency, our employees, our ratepayers, the Nation's taxpayers and the Tennessee Valley constituents we serve.

I do favor the suggestion that TVA have, for a period of two years, a nuclear consultant with the kind of credentials needed to help us deal with our nuclear problems.

STATEMENT OF  
CHARLES H. DEAN, JR., CHAIRMAN  
TENNESSEE VALLEY AUTHORITY

In the 52-year history of TVA, no one has ever seriously cast a shadow on the honesty or integrity of a TVA Board member or TVA executive. On the other hand, there has been considerable public unrest as power rates have continued to rise over the years, and certain nuclear operations problems have been highly publicized. There has also been employee unrest due at least in part to a large number of layoffs as major construction programs were stopped.

Even though the TVA management has never been involved in a major scandal, it's judgment is often questioned, which is certainly in the American tradition. Most recently, in Congressional hearings, the Board was condemned for not getting enough good information from the rank and file employees, who are the backbone of the agency.

The contract with Quality Technology Corporation at our Watts Bar Nuclear Plant was a very visible effort to open lines of communication and give our employees someone to talk to about real or perceived problems in our nuclear program. The overwhelming response to the QTC program is a clear indication that we need to develop more permanent systems for receiving and investigating employee concerns. It appears that the formation of an Office of Inspector General within the agency, which would report to the Board and to the Congress, would offer such a permanent vehicle.

In spite of our employee communication problems it should be emphasized that there has been no responsible criticism of our Office of Audit and Evaluation. It is a model that all federal agencies could follow to their great advantage. The same can be said for those who handle TVA's corporate books. They are carefully audited by the watchful eye of Coopers and Lybrand, and are always in good order.

In summary, our problems are more with people than with numbers. In order to serve the public interest, we apparently need a group within TVA that can process certain types of information and report it directly to the Board and to Congress. It is apparent that members of Congress have the same feeling. Mr. Flipppo has introduced H.R. 3464 in the House of Representatives, and 14 other congressmen from the TVA area have signed this bill. A companion bill has been introduced in the Senate, S. 1755, by Senators Denton and Cochran, both from Valley states. In the meantime, Senators Sasser and Gore, and others, have recommended that the TVA Board take steps to create an Inspector General which will report to the Board and the Congress. I concur with that recommendation and the proposed plan presented to the Board by the General Manager this morning. It has also been recommended that the Board retain an expert in nuclear matters for consultation. I favor this recommendation, and would like for the General Manager to prepare a list of candidates for this position.

C. H. Dean, Jr.  
Chairman

REMARKS BY JOHN B. WATERS, DIRECTOR  
TENNESSEE VALLEY AUTHORITY  
TVA BOARD MEETING  
OCTOBER 18, 1985 KNOXVILLE, TENNESSEE

TODAY, WITH THE PROPOSALS BEFORE US TO ESTABLISH TVA'S FIRST INSPECTOR GENERAL AND AN INDEPENDENT NUCLEAR CONSULTANT, WE HAVE A REAL OPPORTUNITY TO HELP RESTORE PUBLIC CONFIDENCE AND REAFFIRM OUR COMMITMENT TO BUILDING AND OPERATING THE SAFEST AND MOST EFFICIENT POWER SYSTEM IN AMERICA.

THE ADVICE AND SUGGESTIONS OF MEMBERS OF THE VALLEY CONGRESSIONAL DELEGATION AND THE PUBLIC OBVIOUSLY HAVE BEEN INSTRUMENTAL IN THE BOARD'S CONSIDERATION OF THESE PROPOSALS. WE ALL HOPE THAT THE APPOINTMENT OF AN INSPECTOR GENERAL WILL ENABLE TVA TO BECOME EVEN MORE EFFICIENT, AND WILL ENHANCE THIS AGENCY'S ABILITY TO SAVE MONEY AS WE CONTINUE TO OPERATE THE POWER SYSTEM FOR THE BENEFIT OF THE RATEPAYER.

A HIGHLY QUALIFIED INSPECTOR GENERAL WHO OCCUPIES A POSITION OF INDEPENDENCE, POWER, AND PRESTIGE WITHIN THIS ORGANIZATION SHOULD HELP TO PROMOTE THE EFFICIENCY AND INCREASE THE EFFECTIVENESS OF ALL TVA ACTIVITIES. THE INSPECTOR GENERAL WILL NOT BE ENCUMBERED WITH ADMINISTERING PROGRAMS, BUT WILL BE FREE TO FOLLOW THE FACTS OF ANY INVESTIGATION WHEREVER THEY LEAD AND TO REPORT DIRECTLY TO THIS BOARD AND TO THE CONGRESS.



IF THE INSPECTOR GENERAL PERFORMS IN SUCH A MANNER, THE RESULTING EFFICIENCIES WILL COMPLEMENT TVA'S CONTINUING SUCCESS IN KEEPING ELECTRIC RATES AMONG THE LOWEST IN THE NATION AND ASSURING AN ABUNDANT SUPPLY OF ELECTRIC POWER FOR RESIDENTIAL AND INDUSTRIAL CUSTOMERS.

I ALSO BELIEVE THAT THE APPOINTMENT OF A NUCLEAR CONSULTANT AS AN ADVISER TO THE BOARD REPRESENTS A POSITIVE STEP. A NATIONALLY RECOGNIZED EXPERT IN THE FIELD FROM OUTSIDE TVA SHOULD BE ABLE TO PROVIDE VALUABLE INDEPENDENT EVALUATIONS OF OUR PROBLEMS AND OUR PROGRESS TOWARD REACHING SOLUTIONS.

BEYOND THE PRACTICAL, OPERATIONAL ADVANTAGES IN AUTHORIZING THESE APPOINTMENTS--AND I THINK THERE ARE MANY--THERE'S ANOTHER EXTREMELY IMPORTANT REASON FOR TAKING SUCH ACTION. ONE OF THE LESSONS I RECALL MOST VIVIDLY FROM LAW SCHOOL IS THAT THE PUBLIC MUST ALWAYS HAVE THE PERCEPTION THAT JUSTICE IS BEING DONE. IT IS NOT ENOUGH TO HAVE JUSTICE PREVAIL. PEOPLE MUST ALSO PERCEIVE THAT JUSTICE IS BEING DONE--OR, IN THE CASE OF A PUBLIC AGENCY, THAT THE PUBLIC TRUST IS BEING UPHELD.

I FULLY BELIEVE THAT TVA CANNOT EFFECTIVELY CARRY OUT ITS MISSION UNLESS IT HAS THE CONFIDENCE OF THE PEOPLE AND THE CONGRESS OF THE UNITED STATES. TODAY'S ACTIONS REPRESENT NECESSARY STEPS TOWARD REBUILDING THAT CONFIDENCE, BUT THE APPOINTMENTS OF AN INSPECTOR GENERAL AND A NUCLEAR CONSULTANT WILL NOT AUTOMATICALLY SOLVE ALL OUR PROBLEMS.

IN COOPERATING WITH AND RECEIVING THE RECOMMENDATIONS OF THE PERSONS WHO WILL OCCUPY THESE POSTS, ALL OF US ASSOCIATED WITH TVA MUST CONTINUE TO BE STRAIGHTFORWARD WITH THE PUBLIC AND EACH OTHER, ADMIT ANY MISTAKES THAT ARE FOUND, AND MAKE OUR PLANS FOR IMPROVEMENT CLEAR.

IT DOESN'T MAKE ANY DIFFERENCE WHAT'S IN THE JOB DESCRIPTION OF THE INSPECTOR GENERAL IF WE ON THE BOARD DON'T BACK UP THOSE WORDS WITH OUR OWN SUPPORT. OUR COMMITMENT MUST MATCH THE REALITY OF OUR OWN PERFORMANCE.

AS LONG AS I AM A MEMBER OF THIS BOARD, I PLEDGE THAT WHOEVER IS SELECTED AS INSPECTOR GENERAL WILL HAVE MY FULL SUPPORT IN GAINING THE NECESSARY BUDGET, THE NECESSARY STAFFING, THE NECESSARY INDEPENDENCE, AND THE NECESSARY ACCESS TO MAKE A POSITIVE DIFFERENCE IN THIS AGENCY.

I CALL ON MY COLLEAGUES TO JOIN IN ASSURING SUCH SUPPORT THROUGHOUT THE INSPECTOR GENERAL'S TERM, AND IN WORKING TO REMOVE ANY BARRIERS THAT WOULD HAMPER THE WORK OF THAT OFFICE. WE CAN AND SHOULD PROVIDE ALL REASONABLE RESOURCES FOR THE INSPECTOR GENERAL TO CONDUCT THE MOST THOROUGH AND INDEPENDENT INVESTIGATIONS POSSIBLE INTO ANY ASPECT OF THIS AGENCY THAT REQUIRES SUCH ATTENTION.

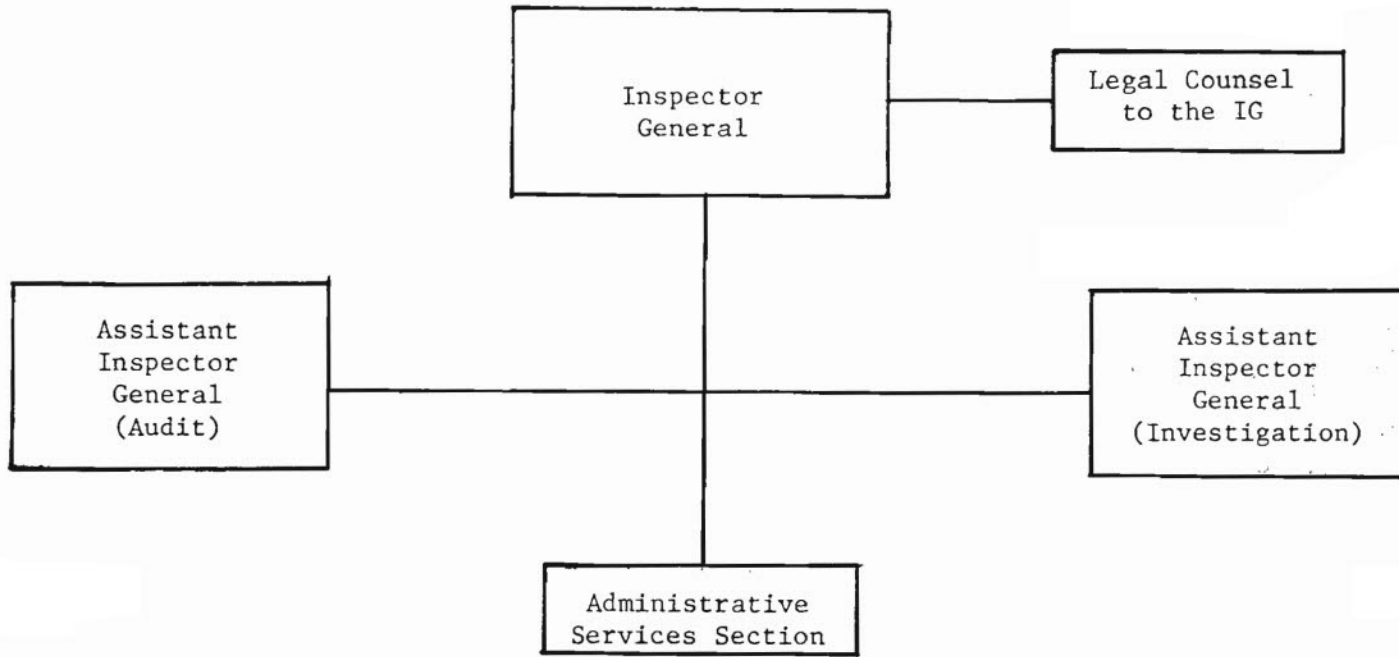
AND WE SHOULD BE TOUGH TASKMASTERS AS WELL, DEMANDING ACTION AND RESULTS, AND PLACING THOSE DEMANDS ON OURSELVES AS WELL AS OTHERS. IT'S HOW WE CARRY OUT OUR OWN DUTIES AS BOARD MEMBERS AND WHAT WE REQUIRE OF OTHERS THAT WILL MAKE A DIFFERENCE IN TVA AND HOW IT OPERATES IN THE FUTURE. AND, TODAY, WE ARE TELLING TVA AND THE PEOPLE OF THE REGION THAT OUR REQUIREMENTS WILL BE HIGH.

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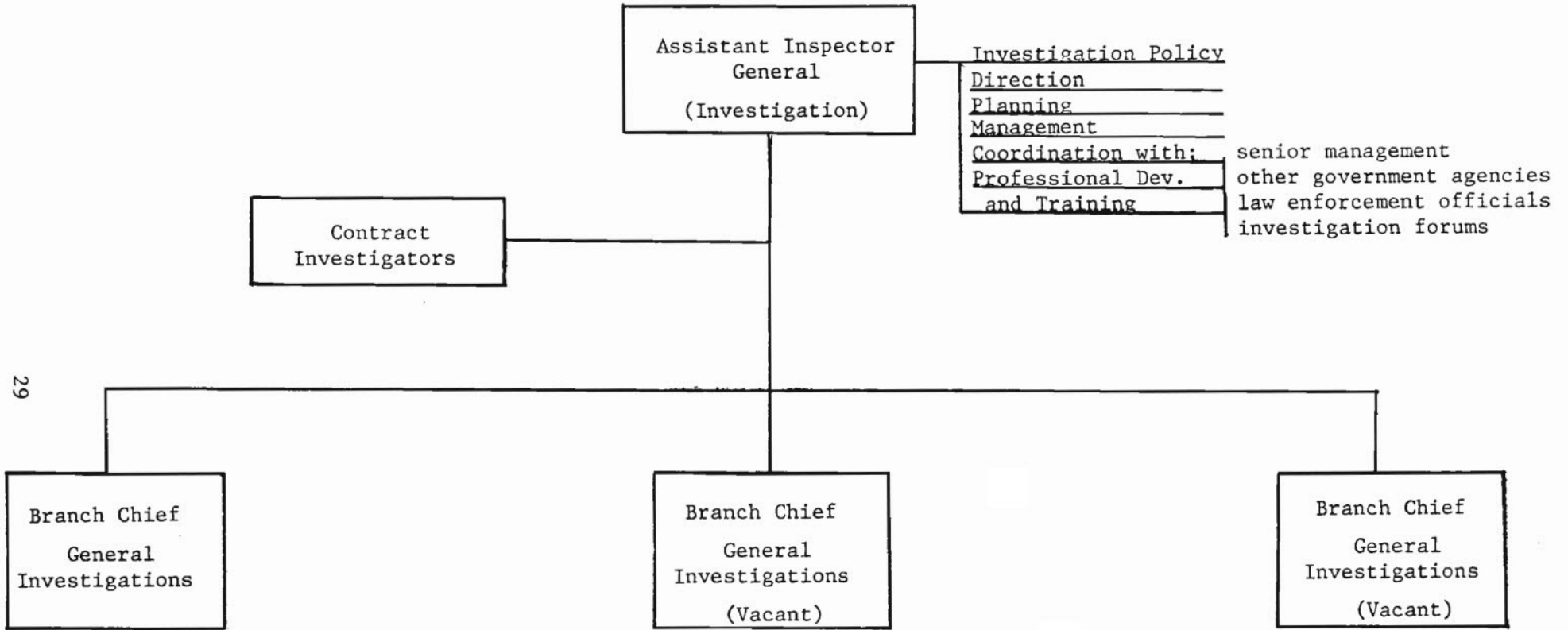
OFFICE OF THE INSPECTOR GENERAL

TENNESSEE VALLEY AUTHORITY



TVA - OFFICE OF THE INSPECTOR GENERAL

DIVISION OF INVESTIGATION



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INVESTIGATION OF:

Discrimination  
Extortion  
Sabotage  
Safety Concerns  
Employee Concerns  
Public Concerns  
Waste  
Fraud  
Theft  
Misuse

Favoritism  
Misconduct  
Falsification  
Conflict of Interest  
Harrassment  
Embezzlement  
Workmen's Compensation  
Claims Against TVA  
Personnel Matters  
OIG - Applications & Employment

ALL BRANCHES

Conduct and supervise investigations of all classifications by:

- Receiving/analyzing/developing allegations;
- Analyzing available data;
- Preparing investigative plans;
- Conducting investigations;
- Analyzing/organizing/reviewing/evaluating gathered data;
- Writing/submitting final reports;
- Completing post investigative duties;
- Providing investigative assistance to auditors;
- Managing human resources to ensure:
  - Equal opportunity employment,
  - Professional, legal and technical development,
  - Qualified investigation groups;
- Complying with Professional Quality Standards for Investigations for Federal offices of Inspector General;
- Reporting immediately to the Assistant Inspector General (Investigations) on the detection of matters involving:
  - irregularities, or
  - employee integrity, safety, or security

TVA - OFFICE OF THE INSPECTOR GENERAL

DIVISION OF AUDIT

Assistant Inspector  
General (Audit)

Audit Policy

Direction

Planning

Management

Coordination with:

Professional Dev.

senior management  
other government agencies  
audit forums  
law enforcement officials

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Resources  
Management  
Branch

Contract  
Management  
Branch

Information  
Management  
Branch

General  
Management  
Branch

Audit of:

- Financial Systems and Reports
- Human Resource Systems
- Internal Controls
- Finance
- Assets, Liabilities, Equity
- Etc.

Audit of:

- Contracts
- Claims
- Power Distributors
- Fuel Suppliers
- Trust Funds
- Etc.

Audit of:

- Information Resource Management
- Hardware
- Software
- Office Automation
- Security
- Computer Assisted Audit Techniques
- Etc.

Audit of:

- Planning Systems
- Project Management
- Rate Systems
- Nuclear Materials Management
- Organization Patterns
- Program Operations
- Etc.

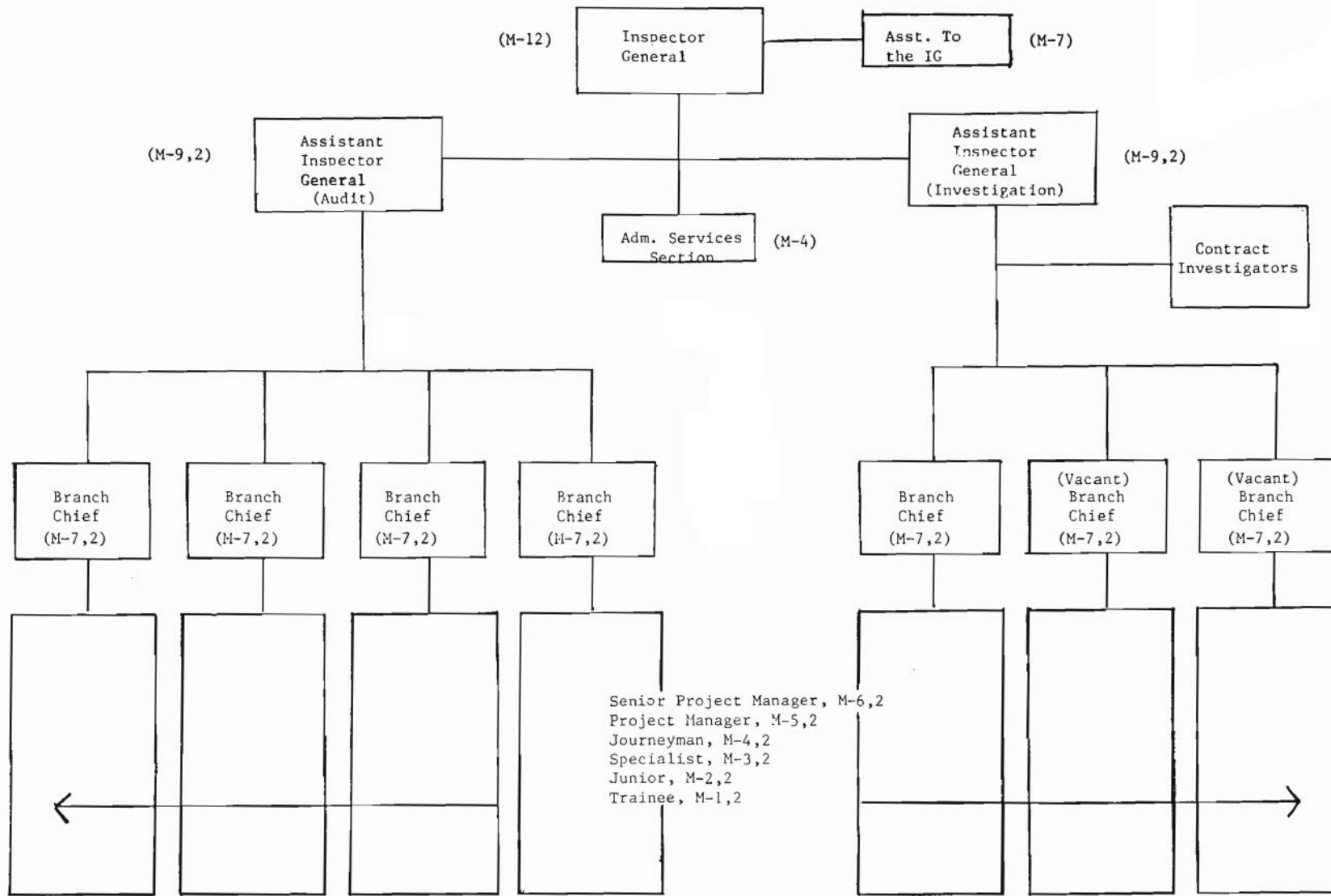
## All Branches

- Perform and supervise audits of various scopes, i.e.,:
  - financial audits,
  - compliance audits,
  - fraud audits,
  - special request audits,
  - efficiency and economy audits,
  - program or process effectiveness audits,
  - inspections, and
  - risk analysis.
- Produce audit guides, surveys, work programs, workpapers, reports, and presentations.
- Provide technical assistance or support to investigations.
- Assure audit quality through:
  - review of other audit branches,
  - quality review of audits, and
  - quality review of CPA contractor services.
- Manage audit contracts.
- Manage human resources to ensure:
  - equal opportunity employment,
  - professional and technical development, and
  - qualified audit teams.
- Lead or support other audit branches on division-level projects requiring multidiscipline teams.
- Comply (1) with the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, and (2) with Quality Standards for Federal Offices of Inspector General.
- Report immediately to the Assistant Inspector General (Audit) on the detection of matters involving:
  - irregularities, or
  - employee integrity, safety, or security.

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Appendix IV

SUMMARY OF AUDIT REPORTS AND LETTERS

ISSUED AND IN PROGRESS

JANUARY 15 THROUGH APRIL 15, 1986

	<u>Audit Reports</u>		<u>Audit Letters</u>	
	<u>Internal</u>	<u>Contract</u>	<u>Internal</u>	<u>Contract</u>
Issued	3	6	5	9
In Progress: Reports Drafted	4	4	3	3
Fieldword in progress	3	10	1	-

REPORTS AND AUDIT LETTERS ISSUED

JANUARY 15 THROUGH APRIL 15, 1986

Internal Audit Reports

<u>Report Number</u>	<u>Report Title</u>	<u>Issue Date</u>
86-2	Review of Contract 71C62-54114-2 With Babcock & Wilcox Company for the Nuclear Steam Supply System at the Bellefonte Nuclear Site	1/24/86
86-4	Audit of Purchase Requisitions, Bids, Contract Awards, and Organizational Procurement Procedures	2/10/86
86-7	Central Accounting Branch, Payroll Section, for the Period April 1, 1985, Through November 30, 1985	3/25/86

Internal Audit Letters

<u>Letter Number</u>	<u>Subject</u>	<u>Issue Date</u>
86-001*	Review of Overpayments on Avis Rent-A-Car System, Inc., Contract 84K06-663747	1/24/86
86-008*	Possible Conflict of Interest in the Office of Natural Resources and Economic Development	3/06/86
86-012*	Review of Allegations Concerning the Office of Construction, Watts Bar Site, and the Use of Grinder Wheel Guards	3/25/86
86-013*	Review of Allegation at the Agricultural Research Farm, Office of Agricultural and Chemical Development	4/02/86
86-014*	Allegation of Misuse of Funds by the Division of Management Systems	4/09/86

\*Administratively Confidential

REPORTS AND AUDIT LETTERS ISSUED

JANUARY 15 THROUGH APRIL 15, 1986

External Audit Reports

<u>Report Number</u>	<u>Report Title</u>	<u>Issue Date</u>
86-1	Duke Power Company, Contract TV-65607A--Phase III Design Engineering Services for a Proposed 160-MW Atmospheric Fluidized Bed Combustion Demonstration Plant	1/14/86
86-3	Bear Creek Development Authority, Contract TV-30552A	2/03/86
86-5	Long Pit Mining Company, Contract 71P-98-E4	3/11/86
86-6	Outland Expeditions, Contracts TV-63796A and TV-65564A	3/24/86
86-8	Regency Electronics, Inc., Contract 83PJ6-938457-1	4/10/86
86-9*	Blount Brothers Corporation, Contract 81K51-826976-- Review of Subcontractor's Claim for Delay Costs on the Chattanooga Office Complex, H. H. Robertson Company	4/14/86

External Audit Letters

<u>Letter Number</u>	<u>Subject</u>	<u>Issue Date</u>
86-002*	S&R Video Consultants--Review of Contracts 84PL2-940785 and 85PL2-963447	2/06/86
86-003*	Bartlett Nuclear, Inc., Contract TV-60868A-- Review of Payroll Records	2/14/86
86-004*	Analysis of the First 10 Vendors- Expanded Scope Audit of Camp Breckinridge Mines, Contract 69P-87-T1- Peabody Coal Company	2/25/86
86-005*	Gas Hills Project, American Nuclear Corporation, Contract TV-61457A	2/28/86

\*Administratively Confidential

REPORTS AND AUDIT LETTERS ISSUED

JANUARY 15 THROUGH APRIL 15, 1986

External Audit Letters

<u>Letter Number</u>	<u>Subject</u>	<u>Issue Date</u>
86-006*	Review of Financial Condition--Midnight Sun Coal Company, Inc., Contract 82P-65-T1; BFC Coal Company, Inc., Contract 83P-65-T2; and Baizetown Mining, Inc., Contract 82P-65-T3	3/03/86
86-007	Advance Ross Electronics Corporation, Contract 79K72-823875--Gas Ducts and Hoppers for Electrostatic Precipitators, Cumberland Fossil Plant--Review of Backcharges	3/03/86
86-009*	Aerojet Energy Conversion Company, Contract 81K68-827379--Review of Termination Claim	3/06/86
86-010	W. J. Woolley Company, Contract TV-62810A, and VABCOR, Inc., Contract TV-66201A	3/11/86
86-011*	Silver King Mines, Inc., Edgement Project, Contract 78P66-148566--Allegations Concerning Vehicle Mileage and Gasoline Consumption	3/12/86

\*Administratively Confidential

## SUMMARY OF FINDINGS

### Cost Avoidance On Contract Termination Claim

An audit of contractor records which supported a termination-for-convenience claim against TVA resulted in a reduction of about \$1.1 million in the amount TVA paid to settle the claim.

### Need For Accountability For Certain Procurement Forms

Some operating organizations had no controls over the use of accountable forms for requesting vendor deliveries under indefinite quantity term contracts. In other organizations records did not adequately track the assignment, use, or destruction of such forms. These deficiencies may permit unauthorized procurements.

### Integrity Controls Need Improvement For Persons With Universal Access To The Payroll System

Integrity controls in the areas of program and data security are inadequate to provide independent monitoring of the work of persons who have universal access to TVA's automated payroll system. Existing security software provides controls over programmer access to stored information, but there is no second level of security to ensure that personnel with universal access cannot make unauthorized changes in the system. The Comptroller has requested a change in the security software package to resolve this situation.

### Reduced Claim For Damages By Contractor

An equipment supplier claimed it incurred damage of about \$640,000 by not receiving two anticipated orders from TVA. The orders were allegedly anticipated based on a conversation between the contractor and a TVA purchasing agent. An audit of the contractor's records and methods for calculating the charges resulted in reducing the claim by almost \$435,000. The auditor's disallowances included adjustments for completed units on hand and overstated overhead and profits.

Appendix V

CLASSIFICATIONS

OF

COMPLAINTS

1. Discrimination - Age
2. Discrimination - Race
3. Discrimination - Sex
4. Discrimination - Employee Activities - Energy Reorganization Act
5. Extortion
6. Sabotage - Non-nuclear Facilities
7. Sabotage - Nuclear Facilities
8. Safety Concerns
9. Employee Concerns - Management and/or Operations
10. Employee Concerns - Nonspecific
11. Public Concerns
12. Waste - Inefficiencies
13. Fraud
14. Theft - Government
15. Theft - Nongovernment Property
16. Vehicle Misuse - Speeding
17. Vehicle Misuse - Unofficial Passengers
18. Vehicle Misuse - Unofficial Use

CLASSIFICATIONS

OF

COMPLAINTS

19. Vehicle Misuse - Wreck-Accident
20. Vehicle Misuse - Recklessness
21. Vehicle Misuse - Miscellaneous
22. Misuse of Government Property - Telephones
23. Misuse of Government Property - Computer
24. Misuse of Government Property - Mail System
25. Misuse of Government Property - Miscellaneous
26. Favoritism - Contractors
27. Favoritism - Energy Advisors
28. Favoritism - TVA Employees
29. Contract Related Misconduct (CRM) - Kickbacks
30. Contract Related Misconduct (CRM) - Improper Bids or Negotiations  
Procedures
31. Contract Related Misconduct (CRM) - Failures to Follow Bid Procedures
32. Contract Related Misconduct (CRM) - Gifts From Contractors
33. Contract Related Misconduct (CRM) - Miscellaneous
34. Falsification of Records - Sick Leave
35. Falsification of Records - Annual Leave
36. Falsification of Records - Time Cards/Time Sheets
37. Falsification of Records - Field Purchase Orders
38. Falsification of Records - Employment Records



CLASSIFICATIONS

OF

COMPLAINTS

39. Falsification of Records - Travel
40. Falsification of Records - Miscellaneous
41. Conflict of Interest - Public Office
42. Conflict of Interest - Outside Employment
43. Harrassment - Sexual
44. Harrassment - Other
45. Employee Misconduct - Alcohol
46. Employee Misconduct - Drugs
47. Employee Misconduct - Bad Debts
48. Employee Misconduct - Gambling
49. Embezzlement
50. Workman's Compensation - Disputes
51. Workman's Compensation - Fraud
52. Claims From Outside Organizations Against TVA
53. OIG - Applications and Employment Investigations
54. Personnel Matters - Promotion/Demotion Disputes
55. Personnel Matters - Employee Evaluation Disputes
56. Personnel Matters - Compensation/Benefits Disputes
57. Personnel Matters - Labor Disputes
58. Personnel Matters - Reduction In Force
59. Personnel Matters - Morale
60. Personnel Matters - Employment

CLASSIFICATIONS

OF

COMPLAINTS

61. Personnel Matters - Misuse of TVA Time
62. Personnel Matters - Nepotism
63. Personnel Matters - Reprisal
64. Personnel Matters - Miscellaneous
65. Personnel Matters - Working Conditions

SUMMARY OF CASES BY CLASSIFICATION

April 21, 1986

<u>Classification</u>	<u>Number of Cases</u>	<u>Percentage</u>
Personnel Matters	47	21
Employee Concerns	31	14
Falsification of Records	22	10
Public Concerns	18	8
Harrassment	16	7
Waste	11	5
Discrimination	10	4
Fraud	9	4
Contract-Related Misconduct	8	4
Theft of Government Property	5	2
Other Classifications	<u>48</u>	<u>21</u>
Total	<u>225</u>	<u>100</u>

GEOGRAPHIC DISTRIBUTION OF CASES

April 21, 1986

<u>Geographic Area</u>	<u>Number of Cases</u>	<u>Percentage</u>
Knoxville/TVA-Wide	67	30
Alabama	52	23
Chattanooga/Sequoyah	38	17
Watts Bar	24	11
Nashville/West	18	8
Kentucky	9	4
Other	<u>17</u>	<u>7</u>
Total	<u>225</u>	<u>100</u>

Appendix VI

May 1, 1986

POLICY ON CONFIDENTIAL INFORMATION: TVA OFFICE OF THE INSPECTOR GENERAL

1. The Office of the Inspector General (OIG) conducts audits, investigations, and other inquiries relating to the prevention, identification, or elimination of waste, fraud, abuse, misconduct, and mismanagement and inefficiencies in TVA programs and operations. In connection with any authorized function, the OIG may receive, in confidence, information from a TVA employee or other individual ("employee") regarding a possible violation of:
  - a. a Federal or State criminal law or other statutory requirement;
  - b. a regulation or other requirement established by a Federal agency or other entity with administrative, regulatory, or investigatory authority over TVA; and
  - c. a TVA policy, procedure, or practice that has been approved by appropriate TVA management or which is otherwise set forth in the TVA administrative release system.
  
2. In connection with any information of the type described in paragraph 1 above ("confidential information"), the OIG will:
  - a. not disclose, to individuals outside the OIG, the identity of the employee who provided the confidential information or any other information which could clearly be expected to result in the unauthorized disclosure of the employee's identity;

- b. take reasonable precautions to assure that OIG reports, records, and other documents which indicate the identity of an employee who provided confidential information are appropriately safeguarded; and
  - c. take reasonable precautions to assure that information regarding the identity of an employee who provided confidential information is disseminated to only those OIG employees who have a "need to know" such information.
3. While the identity of an employee who provided confidential information will not, without the employee's prior written consent, be disclosed to TVA officers and employees who are not OIG employees, the OIG may disclose to any person confidential information provided by the employee. The disclosure of such information may occur in the course of any OIG audit, investigation, or other inquiry or activity.
4. The assurance of confidentiality set forth in paragraphs 2 and 3 of this policy statement does not apply to:
- a. any employee who, at any time, waives in writing any such assurance of confidentiality;

- b. any information disclosed in accordance with (1) a decree, order, or other directive issued by a judicial, administrative, investigatory, or regulatory authority with jurisdiction over TVA, or (2) the requirements of a Federal law, regulation, order, or other directive which requires the release or disclosure of such information, including disclosures in accordance with TVA's policy - obligation to report evidence of crimes to law enforcement officials;
  
- c. any instance in which the Inspector General personally determines that (1) the disclosure of the identity of the employee is unavoidable in the course of the investigation, or (2) there is good cause for such disclosure;
  
- d. any information disclosed in connection with the consideration of or action on corrective, preventative, or disciplinary measures undertaken by TVA or other authorized entity;
  
- e. any information obtained after the employee is informed that no assurance of confidentiality will apply;
  
- f. any information provided by an employee who later discloses his or her identity as a source of confidential information or who takes any action that may reasonably be expected to disclose the fact that the employee provided such information to the OIG; or
  
- g. any information that is provided anonymously.

5. Preventing the unauthorized disclosure of the identity of employees who provide information in confidence is a significant OIG responsibility. The Inspector General and OIG employees will take reasonable precautions to prevent such unauthorized disclosures from occurring. The OIG will investigate and, in appropriate cases, recommend that disciplinary action be taken in connection with any TVA employee who intentionally and without authority compromises (or attempts to do so) any assurance of confidentiality that is established under this policy, including any actions designed to obtain, without authorization, the identity of an employee who has provided information in confidence to the OIG. In addition, the Inspector General will recommend that disciplinary penalties, up to and including termination, be imposed on any TVA employee who is found to have taken an action in reprisal against another employee on account of the employee's disclosing information to the OIG.
  
6. Any questions regarding the interpretation of this policy statement or its scope and coverage shall be resolved by the Inspector General whose decision shall be final and not subject to review. In addition, the Inspector General may amend this policy statement from time to time as he determines is necessary to carry out the responsibilities of his office, which amendments shall be effective from the date this policy was first approved by the TVA Board of Directors.
  
7. Notwithstanding any other provision of this policy statement, the Tennessee Valley Authority or any of its officers, employees, or agents shall not be liable for any loss or harm in connection with the disclosure of any confidential information or other information.



