United States General Accounting Office

GAO

Report to the Chairman, Committee on Governmental Affairs, U.S. Senate

September 1999

TENNESSEE VALLEY AUTHORITY

Facts Surrounding Allegations Raised Against the Chairman and the IG





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United States General Accounting Office
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Office of Special Investigations

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September 15, 1999

The Honorable Fred Thompson
Chairman, Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

The Tennessee Valley Authority (TVA), a wholly owned government corporation, is responsible for developing and conserving the natural resources of the Tennessee River Valley and supplying power throughout a seven-state area, presently through 159 distributors, or customers. TVA is governed by a three-member Board of Directors appointed by the President and confirmed by the Senate for a 9-year term. Chairman Craven Crowell is currently the sole member of the Board because Director Johnny H. Hayes resigned on February 1, 1999, and Director William Kennoy's term expired on May 18, 1999.

The current Inspector General (IG), George Prosser, began his tenure in April 1994. As 1 of 33 statutory offices initially established by Congress under the Inspector General Act Amendments of 1988,[1] he was appointed by TVA's Board of Directors. The act gives the agency head, in this case the TVA Board, general supervisory authority over the IG but provides that the agency head cannot interfere with the audit and investigative functions of the Office of Inspector General (OIG). The 1988 amendments also provide that only federal audit entities, including GAO and other IGs, may perform a review to determine whether an IG has internal quality controls and is complying with audit standards established by the Comptroller General as required by section 4(b)(1)(A) of the Inspector General Act of 1978.[2]

On May 26, 1999, the TVA IG issued a report (otherwise known as a 7-day letter) to the TVA Board of Directors and the Congress pursuant to

[1] Pub. L. No. 100-504, 102 Stat. 2515 (1988).

[2] Pub. L. No. 95-452, 92 Stat. 1101 (1978).

section 5(d) of the Inspector General Act.[3] In that report, the IG alleged that the Board Chairman, the sole Board member, had "harassed him" and attempted to impede the independence of the OIG. Shortly thereafter, the Chairman of TVA, on advice of the Office of Management and Budget (OMB) and in accordance with Executive Order No. 12933, referred two matters to the Integrity Committee of the Executive Council on Integrity and Efficiency (ECIE)[4] relating to questionable credit card charges by the IG[5] and concerns about the management of the OIG. On June 2, 1999, you requested that we assist the Committee in investigating the IG's allegation against the Chairman and the Chairman's allegation regarding the IG's credit card usage.

Results in Brief

With regard to the IG's allegation against the Chairman, we found that it was based on the disagreement between the IG and the Chairman over the Chairman's authority to both direct a broad management review of the OIG and contract with a nonfederal entity to conduct the review. The Chairman's actions as discussed below could be viewed as an attempt to undermine the independence of the IG.

Not knowing that a peer review of the OIG had been conducted only months previously, the Chairman decided to initiate a management review of the OIG based in part on two anonymous allegations. These allegations concerned the lack of performance appraisals and merit increases in the OIG and an OIG manager's abuse of time and attendance policies. When the Chairman discussed the review with the IG, the IG initially agreed to it; and

[3] Section 5(d) requires IGs to report immediately to the head of their respective establishments whenever they become aware of particularly serious or flagrant problems, abuses, or deficiencies regarding the establishment's administration of programs or activities. Within 7 days of receipt of the report, the head of the establishment is required to send the report to the appropriate congressional committees or subcommittees along with a report containing appropriate comments. (Inspector General Act of 1978, as amended, 5 U.S.C. App. 3, § 5(d) (1994))

[4] ECIE consists of statutory IGs appointed by the heads of designated federal entities. As a result of Executive Order No. 12805, which was signed in 1992, ECIE became a member of the President's Council on Integrity and Efficiency (PCIE). PCIE is an interagency council that is charged with promoting integrity and effectiveness in federal programs. The PCIE is chaired by the Deputy Director for Management at the Office of Management and Budget.

[5] As a member of TVA's senior management, the IG was authorized to use a TVA Visa Gold Card for hospitality expenses including, but not limited to, meals, refreshments, and entertainment. TVA pays for these expenses.

TVA contracted with a nonfederal entity to conduct the review. However, when the IG was presented with an OIG legal counsel opinion and after discussions with other IGs and members of Congress, he became concerned about the appropriateness of such a review and informed the Chairman of his reversal of opinion. The Chairman later decided to use another OIG to conduct the review and believed that the IG would accept such an arrangement. The Chairman was unaware that this offer was not communicated to the IG as he had directed. However, before it was determined that the IG had not been informed about the Chairman's decision, TVA's Chief Administrative Officer (CAO) initiated a separate review of the IG's use of his TVA credit card during his 5-year tenure (1994-1999). To our knowledge, the proposed management review of the OIG has been suspended.

As a result of his separate conversations with the Chairman and the CAO, the IG felt that the Chairman was threatening the OIG's ability to conduct investigations and wanted to remove him from office. One reason the IG provided for feeling threatened was his May 25, 1999, conversation with the CAO regarding the Chairman's reaction to the May 14, 1999, acquittal of TVA's former Chief Operating Officer on criminal charges. Thus, the IG sent the 7-day letter to the Chairman.To counter his belief that the IG would release the 7-day letter to the press, the Chairman released to the press his recent letter to a member of Congress. In that letter, the Chairman alleged that the IG had abused his use of the TVA-issued credit card. Subsequently, the Chairman referred the following allegations to the ECIE for its consideration: the previously mentioned OIG mismanagement, the IG's lack of independence, and the IG's misuse of his TVA credit card. This referral was based on the two anonymous allegations and a cursory review of the IG's credit card charges. However, the OIG had reviewed the management issues that the Chairman referred to the ECIE and had taken action on them prior to the referral. Details of the initial TVA allegations along with additional allegations were leaked or released to the media. Then on August 20, 1999, the Chairman placed the IG on paid leave pending resolution of the allegations referred to the ECIE.

When the Chairman initiated his attempt for a management review of the OIG, all three Board positions were occupied. However, he began his most aggressive actions when his staff completed the analysis of the IG's credit card usage. By that time, the two other Board members had vacated their positions. The Chairman's actions included the release of unsubstantiated allegations to the media and the referral to ECIE.

With regard to the Chairman's allegations concerning the IG's lack of independence, the IG recognized that his closeness to TVA management and his attendance at TVA social functions could have led observers to construe that his independence had been compromised. However, he had investigated allegations involving all three directors, including an audit of a $30-million, irrevocable trust created and controlled by the Chairman and funded by TVA. This audit resulted in the revocation of the trust and the funds' return to TVA. Further, the audit assisted a criminal investigation by the Federal Bureau of Investigation (FBI) on this matter, which the Department of Justice declined to prosecute. In addition, we found no evidence of TVA credit card misuse by the IG for the period we analyzed in depth (Jan. 1998 through mid-May 1999). On the issue of whether the expenditures were in accord with applicable TVA policy, we determined that all of the questioned charges—including charges for hotels, restaurants, golf and liquor—had been incurred as a result of activities undertaken at Director Hayes' direction and conformed to TVA's policies.

Allegations That the Chairman Impeded the IG's Independence

Two OIG Personnel Complaints Triggered Broad-Based Management Review

On November 19, 1998, the Chairman received an anonymous allegation that the OIG had not given performance appraisals and merit increases to support staff. After receiving the allegation, the Chairman asked the General Counsel to determine whether the allegation had merit and whether the Board could award a contract for an independent review of the OIG. The General Counsel informed the Chairman that his office had recently received an anonymous allegation that an OIG branch manager had abused the OIG's time and attendance policies. He added that the allegation had been referred to the OIG because it was a management issue. When the Chairman learned of the second allegation, he requested the General Counsel to advise the Board how to handle these allegations.

By memorandum dated December 3, 1998, the General Counsel responded, advising the Chairman that the Board should not refer the anonymous allegations to the ECIE because they raised management issues rather than the type of "wrongdoing" set forth in Executive Order No. 12933 that warranted referral. However, he opined that the Board could seek an

outside review by a contractor to determine whether the OIG was functioning properly. The General Counsel added that the Board had hired an outside contractor to review the OIG in 1993[6] during William Hinshaw's tenure as IG.

By memorandum dated December 7, 1998, the Chairman notified the Board about the two anonymous allegations he had received involving the OIG. The Chairman advised the Board that he planned to ask the CAO, a previous TVA IG, to recommend an outside firm to independently evaluate the OIG because it had been 5years since the last review. When the other Board members did not respond to the memorandum, the Chairman concluded that they had concurred with his belief that a review of the OIG was necessary.[7]

According to the Chairman, two factors led him to believe that a review of the OIG was warranted: (1) the General Counsel had advised him that the allegation regarding the OIG's failure to provide performance appraisals was "troubling" and (2) the OIG had not been reviewed in 5 years. The CAO and General Counsel told us that the allegations against the OIG had triggered the Chairman's interest in a review of the OIG. According to the CAO, other underlying reasons might have existed. For example, the Chairman had stated that the IG spent too much time socializing with Directors Hayes and Kennoy.

On December 11, 1998, the Chairman sent his December 7 memorandum to the IG. However, the OIG had previously reviewed and acted upon the first anonymous complaint, received from the Office of General Counsel, concerning the alleged abuse of time and attendance. The OIG's action included informing all OIG staff of time and attendance policies and counseling the individual employee named in the allegation. Upon receipt of the memorandum containing the second allegation concerning

[6] The Chairman requested, and the Board approved, the 199 3review of the OIG. Dempsey and Associates and TVA were the contracting parties. Under the contract, the contractor agreed to review the OIG's resources, procedures, training, and operations. The contract did not contain any provisions regarding the Board's oversight of the review.

[7] Former Director Hayes told us that he did not raise any concerns about the review because the Chairman and the CAO had informed him that it was a routine management review aimed at helping the OIG run better. He explained that he did not respond to the memorandum because he anticipated that the Board would discuss the issue before signing the contract. Former Director Kennoy did not explain why he had not responded to the memorandum.

performance appraisals and merit increases for support staff, the OIG reviewed each OIG employee's file to determine if performance reviews for the previous 4 years were included. This review determined that a few employees did not have all their service reviews, and the IG worked with the respective managers to obtain the missing reviews. Further, the OIG updated its human resources computer system to reflect current performance review information.

After the IG's receipt of the December 7 memorandum, the Chairman and the IG met to discuss the proposed management review. The Chairman told the IG that he had tasked the CAO to recommend an outside auditor. The IG advised the Chairman that it would be inappropriate for PriceWaterhouseCoopers to conduct the review since the firm audits TVA's financial statement, which the OIG then reviews. In addition, the IG told the Chairman that the CAO, as a former TVA IG, should not prepare the list of potential contractors from which the IG would select. The Chairman agreed with the IG that PriceWaterhouseCoopers should not conduct the review but disagreed that the CAO should not take part in identifying potential contractors.

According to the IG, he did not raise any concerns at the meeting about the review of the OIG because he knew that an outside entity had conducted the 1993 review of the OIG. He explained, however, that when he met with the Chairman, he did not know that the OIG's legal counsel had advised the previous IG that the Board lacked the authority to contract for the 1993 review of the OIG. The IG added that he has always had a good relationship with all Board members and noted that the Board never interfered with any audit or investigation he had initiated. He stated that his office had investigated a number of senior TVA officials, including all three Board members, and issued reports that were critical of TVA's administration. For example, he audited a $30-million, irrevocable trust that the Chairman had created and controlled.[8] This trust was funded by TVA. The results of the OIG audit assisted in the FBI's criminal investigation, which the Department of Justice declined to prosecute; the revoking of the trust; and the funds' return to TVA.

On March 3, 1999, the CAO notified the IG that he had identified PriceWaterhouseCoopers and Verner Liipfert, Bernhardt, McPherson &

[8] This audit resulted from a GAO referral to the TVA OIG of an allegation that the GAO FraudNet had received.

Hand (Verner Liipfert) as the two potential contractors. Because of his previous objection to PriceWaterhouseCoopers as the contracting party, the IG's only option was Verner Liipfert.

IG Raised Concerns About Management Review

On March 20, 1999,[9] the IG reviewed a copy of a 1993 memorandum from the OIG legal counsel to the then IG. In the memorandum, the legal counsel questioned whether the Inspector General Act, as amended, allowed nonfederal entities to perform reviews of OIGs.[10] The OIG legal counsel told us that he provided the memorandum to the IG as soon as he remembered that he had provided advice concerning the propriety of the 1993 proposed review. On March 22, 1999, the IG met with a TVA Assistant General Counsel and advised her that he had concerns about the legality of the review based on the 1993 memorandum.

The next day, March 23, 1999, representatives from Verner Liipfert and its subcontractor Deloitte & Touche signed a contract with TVA to review the OIG. The IG had no input into any aspect of the review, including its scope, and did not know that the contract was being signed. Prior to the award of the contract, the CAO provided copies of the two anonymous allegations to the contractor, which it was to consider during the management review. Under the contract, Verner Liipfert agreed to perform a broad-based review of the audit, investigation, and inspection activities of the OIG and to prepare a report of its findings for the Chairman. Verner Liipfert's responsibilities included, among other things, reviewing (1) OIG practices and procedures, including manuals, memoranda, and correspondence; (2) fiscal management procedures, with a selective analysis of budgets and expenditures; (3) structure and organization, including the tracking of ongoing projects and follow-up after the completion of an audit or

[9] Also on Mar. 20, 1999, TVA issued a press release announcing that the Board had ordered a review of the OIG and stating that nothing in particular had prompted the review. According to the press release, the review would look at performance efficiency and monitor the IG's operations. The IG reportedly had no objection to the review.

[10] 5 U.S.C. App. 3, § 4(b)(2).

investigation; (4) training programs; and (5) management goals, strategies, and procedures.[11]

After the contract was signed, the Chairman asked the IG to meet with him and the contractor. At the meeting, the IG informed the Chairman that he had specific concerns that the review by a nonfederal entity might violate the Inspector General Act. The IG told us that the Chairman was very upset and "chewed him out" for questioning the Board's authority to hire a contractor to perform the review. As a result of the IG's objection, the contractor told the Chairman and the IG that it would not start the review until it received notice that the issue concerning the review's legality had been resolved. Subsequently, the Chairman called the IG to inform him that the General Counsel would research the matter further.

Negotiations Concerning Contract Were Unsuccessful

On March 26, 1999, the OIG legal counsel informed the General Counsel that the IG would accept Verner Liipfert as the entity to perform the review if the IG, rather than the Board, was the contracting party. The OIG legal counsel added that a representative of the President's Council on Integrity and Efficiency (PCIE) at OMB had told the IG that this arrangement was permissible.

On April 30, 1999, the General Counsel sent a memorandum to the Chairman outlining the options available to the Board for a management review of the OIG. According to the memorandum, the issue was discussed with representatives from GAO,[12] OMB, Department of Justice, and Office of Government Ethics. The General Counsel told the Chairman that the most desirable course would be for the Board to reach an agreement with the IG as to the review's necessity, the party to perform it, and the scope of the review. However, the General Counsel recommended that the contract include specific provisions pertaining to the flow of information to and from the Board and Verner Liipfert.

[11] In addition to these tasks, the contractor was required to determine the extent to which the OIG supported TVA's goal of being "customer-driven, employee-sensitive, environmentally responsible and growth-oriented"; examine the existing procedures for measuring performance and productivity; and examine criteria for allocating resources and establishing priorities.

[12] On Mar. 25, 1999, TVA's Office of General Counsel contacted GAO's Director of Audit Oversight and Liaison, who was responsible for GAO work on IG matters, to discuss various options available to the Board for a review of the TVA OIG.

The Chairman agreed that the IG should be the contracting party as long as the Chairman could request the contractor to review specific matters identified during the review. At the Chairman's request, on May 5, 1999, the General Counsel provided an outline of his proposed contract modifications to the IG. In the document, the General Counsel proposed that the OIG be the contracting party. He also proposed requiring Verner Liipfert to (1) hold entrance and exit conferences with, and to provide weekly reports to, the IG and the Chairman; (2) review and fully address in the final report matters that the IG or the Chairman requested; and (3) provide copies of the final report to the IG and the Chairman.

The IG reviewed the General Counsel's proposals and obtained advice from the OIG legal counsel. On May 6, 1999, the OIG legal counsel sent the IG's counter proposals to the TVA Office of General Counsel. While the IG agreed that his office should be the contracting party, he wanted to limit the Board's involvement in the review and/or oversight of the contractor. Specifically, the IG proposed modifying the contract to state that the IG would keep the Board apprised of the status of the review and would provide a copy of the final report to the Board for its dissemination. The IG told us that although he opposed adding language to the contract regarding the Chairman's role, he agreed to allow the Chairman to have unrestricted access to the contractor.

The Chairman, however, did not agree that this later proposal should be left to an oral understanding, believing instead that the written contract should require the contractor to review the matters that he identified. The General Counsel informed the IG of this on the same day that he received the IG's proposals.

The next day, the IG told the General Counsel that he was withdrawing his offer that the OIG be the contracting party. He explained that members of Congress and the IG community had expressed strong objections to proceeding with any review that the Chairman could direct. The IG suggested that the General Counsel request an opinion from OMB regarding the Chairman's authority to oversee the contractor's actions during a review of the OIG. However, no such request was made.[13]

[13] Although there was no document terminating the Mar .23, 1999, contract with Verner Liipfert, officials of both TVA and Verner Liipfert informed us that it had been terminated.

According to the IG, he concluded that the review was inappropriate in part because TVA had used an OIG management review to remove William Hinshaw, the previous IG. Both Mr. Hinshaw and former Director Kennoy told us that the purpose of the prior OIG review was to remove Mr. Hinshaw as IG. However, because Mr. Hinshaw subsequently resigned from TVA, the review was discontinued before the contractor issued a final written report to the Board.

Chairman Opted to Request Federal Entity's Review of the OIG

On May 5 or 6, 1999, after negotiations between the Chairman and the IG had reached an impasse over whether the Chairman could share oversight of the review with the IG, the Chairman requested advice from the U.S. Attorney for the Eastern District of Tennessee on how to proceed. According to the Chairman, the U.S. Attorney recommended that TVA identify three other federal IGs and let the IG select one to conduct the review. The Chairman accepted this advice, instructed the CAO to prepare the list, and asked the General Counsel to tell the IG about the new proposal.

On the morning of May 14, before the list was completed, the IG called the Chairman to advise him that a federal district court jury had acquitted Joe Dickey, TVA's former Chief Operating Officer, of all criminal charges.[14] The Chairman admitted to us that he had harshly criticized the IG and the OIG during the conversation because of the acquittal. The Chairman explained that he was upset because the OIG had spent approximately 2 years investigating Mr. Dickey and he believed that the acquittal might expose TVA and the IG to a civil lawsuit. During the conversation, the Chairman told the IG that he should now cooperate with the management review. The IG did not respond to this comment.

At the time, the Chairman assumed that the IG knew about his decision to allow an IG to review the TVA OIG. However, the General Counsel had not told the IG about the Chairman's decision. To our knowledge, the management review of the OIG has been suspended.

[14] During an OIG audit of TVA contracts that started in Sept. 1996, issues were raised concerning a contract awarded by Mr. Dickey, TVA's Chief Operating Officer. These issues were referred to OIG Investigations in Jan. 1997. Mr. Dickey resigned from TVA on Aug. 14, 1998, and was indicted on Sept. 15, 1998. This indictment was superceded on Nov. 4, 1998. The trial ended in an acquittal of all charges on May 14, 1999.

TVA Initiated Review of IG's Credit Card Use

On the afternoon on May 14, 1999, after hearing the conversation between the Chairman and IG regarding the Dickey case, the CAO directed two senior members of his staff to obtain copies of all of the IG's TVA credit card statements from 1994 to 1999 (the entire time the IG had served as IG) and analyze them. Based on this analysis, one staff member prepared a memorandum for the CAO on May 27, 1999, questioning the propriety of the IG's golf, restaurant, and liquor charges since, in the employee's view, the IG had no obvious business reason to be so heavily involved in such activities. The staff member who prepared the memorandum admitted he had conducted only "a very brief preliminary review of charges" on the IG's credit card statements and recommended that a further detailed review be performed before any final determination was made.

According to the CAO, he requested the review because he considered the IG's use of his TVA credit card for golf fees to be inappropriate. In his view, these actions compromised the IG's independence as the IG was socializing with distributors and with managers whom he was charged with monitoring. The CAO further stated that he first learned about the IG's golf expenses when TVA was preparing a response to a Januar y13, 1999, request from the *Knoxville News Sentinel* for the Board members' 1998 calendar year travel, entertainment, and golf charges. He said that while the Chairman was reviewing the charges that were made by the Board members, 12 TVA executives were identified who frequently traveled, played golf, and socialized with former Director Hayes. Information regarding the 12 employees' 1998 golf credit card charges, that included the IG, was compiled on March 16, 1999, with no further action taken.

The IG learned about the review of his credit card usage in a meeting with the CAO on May 25, 1999. Based on the May 14 meeting with the Chairman, the IG asked the CAO for the meeting to discuss his options regarding his future at TVA. According to the IG, the CAO suggested that he retire and take a severance package, because the Chairman would spend every day of the next 3 years "screwing" with him. As an example of this, the CAO told the IG that TVA had reviewed his credit card statements and found he had improperly charged golf expenses. According to the IG, the CAO informed him that the Chairman had referred his golf charges to the U.S. Attorney for the Eastern District of Tennessee.[15] The IG also said that the CAO

[15] The IG subsequently contacted the U.S. Attorney, who denied knowing about a referral involving the IG's credit card use. We attempted to talk with the U.S. Attorney about this matter, but the Department of Justice declined our request for an interview.

mentioned the Chairman's conversation with the U.S. Attorney regarding the identification of three IGs to conduct the review and the IG's selection of one to conduct the review. However, the IG did not interpret this as an offer for him to select an IG to conduct the review.

The CAO described the conversation somewhat differently. According to the CAO, he told the IG that the Chairman had 3 more years until his term expired, he knew that the relationship between the Chairman and IG was not good, and it was not going to improve. The CAO stated that they discussed two options: the IG could retire or stay and fight the management review. He added that the IG raised the subject of whether a severance package was available. The CAO admitted telling the IG that his credit card charges had been reviewed but denied telling the IG that the matter had been referred to the U.S. Attorney. The CAO also stated that, for informational purposes only and not as an offer to the IG, he had told the IG that the Chairman had spoken with the U.S. Attorney regarding the use of another IG to conduct the management review.

After his May 25, 1999, meeting with the CAO, the IG called a congressional member of the Tennessee Valley Authority Congressional Caucus, to inform him that the Chairman wanted the IG to retire. The IG and the Chairman told us that another member of Congress had called them shortly after the IG's conversation with the caucus member. According to the Chairman, the second member informed him that the IG had asserted at an IG conference in April that the proposed review of the OIG was an impediment to the IG's independence. The Chairman also told us that the second member had advised him that he should not proceed with the review of the OIG and that he planned to discuss the matter with GAO.

The Chairman told us that he viewed this conversation with a member of Congress as a threat, so he instructed the General Counsel to prepare a "defensive" letter responding to the member's call. The letter was sent to the member on May 26. In the letter, the General Counsel provided background information concerning TVA's proposed review of the OIG, starting with a discussion concerning the Chairman's receipt of the anonymous management complaint. The General Counsel explained that he had initially advised the Chairman that the Board had the authority to hire an outside contractor to review the OIG but subsequently suggested that the Chairman seek a mutually satisfactory agreement with the IG in which the IG would have contracted for the review. He noted that during this period, the Chairman had received information from an independent source that the IG had abused his TVA credit card "to pay for charges at

golf courses, the purchase of liquor and excessive restaurant charges." We determined that these allegations had not come from an independent source but instead were the result of a preliminary review of the IG's credit card statements by the CAO's office.

On the afternoon of May 26, 1999, the IG sent the Chairman a 7-day letter claiming that the Chairman was interfering with the operations of the OIG and engaging in harassment. As evidence of this, the IG pointed to the proposed independent review of the OIG. He also noted his discussion with the Chairman regarding the Dickey acquittal and opined that the Chairman essentially had threatened him not to investigate any more cases involving senior TVA officials. Further, he felt that the Chairman intended to hold the threat of an outside review over his head if he did so. The IG also provided details about the May 25 conversation with the CAO, in which the CAO had told him the Chairman was reviewing his travel expenses.

On June 2, 1999, the Chairman sent you a letter responding to the IG's 7-day letter. The Chairman asserted that he had acted in a manner that was sensitive to the status of the IG but did not respond on a point-by-point basis to the IG's allegations.

TVA and IG Used Media to Publicize Their Opposing Allegations

According to the Chairman, on May 26, 1999, he ordered that the TVA letter to the Representative be released to the press because he knew that the IG's 7-day letter would be released to the public within the next 7 days. After the letter to the Representative was released, a reporter with the *Knoxville News Sentinel* interviewed the IG about the allegations concerning his abuse of the TVA credit card. During the interview, the IG described the issues he raised in his 7-day letter, including a description of the May 14 and 25 conversations with the Chairman and CAO, respectively.

On May 27, 1999, the CAO issued a statement to the media denying the IG's allegations. In part, the CAO said,

"TVA takes the position there is no justification for the Inspector General to be spending his time during the work day socializing and playing golf with managers whose operations he is charged with monitoring as TVA's independent watchdog. In our view, the Inspector General should be independent of management and avoid even the appearance of any actions that might be deemed inappropriate and would result in an OIG investigation."

On May 28, 1999, the news media received information contained in the May 27 memorandum prepared for the CAO, which analyzed the IG's credit card charges. This memorandum alleged that the IG had incurred $15,150 in

potentially questionable charges from a casino/hotel, resorts, golf course fees, liquor purchases, and restaurants. The memorandum failed to disclose that these particular charges had been incurred over an approximately 5-year period (1994-1999).[16] TVA officials have denied providing this information to the media.

TVA Referred Issues Involving IG to ECIE

After receiving a facsimile copy of the newspaper article entitled "Prosser: TVA wants me out of there," an OMB official spoke to the TVA General Counsel about the allegations raised in the article. The OMB official indicated that the issues between the IG and TVA should not be fought in the newspapers. She added that if TVA had serious concerns about the IG's actions, the matter should be referred to the PCIE Integrity Committee.

As a result of OMB's advice, by letter dated June 1, 1999, the Chairman referred the matter concerning the IG's questionable credit card charges to ECIE's Chairman. In the referral, the TVA Chairman requested a review of the IG's credit card charges including questionable country club, hotel/casino, golf, liquor, and other charges. The Chairman also provided information about the two anonymous OIG personnel complaints.

On June 7, 1999, the ECIE Chairman forwarded the matter to the Chairman of PCIE's Integrity Committee. On June 25, the CAO's office provided documents to the Integrity Committee regarding the IG's alleged misconduct. Included was the May 27, 1999, "Preliminary Credit Card Review" with attached schedules. Based on the unsubstantiated information provided by the TVA Chairman, the Integrity Committee forwarded the matter to the Department of Justice. The FBI is currently reviewing the matter.

On August 20, 1999, after being informed that the FBI was investigating allegations against the IG, the Chairman placed the IG on paid leave.

Press Release and Media Leaks Occurred After Referral to ECIE

On June 2, 1999, TVA released to the press (1) the letter to the Chairman of the ECIE requesting the investigation of credit card charges by the IG and (2) the two anonymous complaints raising management issues within the OIG.

[16] This disclosure was made in the May 20, 1999, draft of this memorandum from the senior manager to his supervisor, the CAO.

On July 23, 1999, TVA announced in a press release that it had revised its policy on the employees' use of agency credit cards for business travel and entertainment. The announcement stated that additional controls would be placed on TVA's hospitality policy and that the number of TVA credit cards would be decreased. The announcement added that the Chairman was requiring the OIG to develop a similar entertainment policy for the OIG for the Chairman's approval. The Chairman stated in the release that these changes were prompted by allegations that the IG had more than $10,000 in charges on his credit card for meals, liquor, golf, and other entertainment.

On August 17, 1999, two documents were leaked to the media. One was a June 24, 1999, memorandum identifying a number of new allegations against the IG. The other was a July 21, 1999, letter from the Chairman to GAO in which the Chairman opined that it would appear inappropriate for an inspector general to spend significant time or resources on customer relations. TVA denied releasing both documents to the media.

The allegations that the June 24 memorandum contained included, among others, that the IG had participated in sports betting while at work, was absent from his office frequently because he was socializing and playing golf, and had failed to investigate a matter involving a TVA executive because of their close relationship. We reviewed several of the allegations in the memorandum and found them generally to be without merit. For example, we found that the IG had investigated allegations against all three Board members, including the official alluded to, and against friends of this official.

Chairman and IG Did Not Receive Crucial Information

During our investigation, we determined that in two instances the Chairman and the IG had failed to receive crucial information that might have impacted on the resolution of the management-review issue. The Chairman based his decision for a management review in part on the belief that the OIG had not been reviewed in 5 years. We determined that during this 5-year period, the OIG had had two peer reviews. The last peer review was completed on August 21, 1998. It concluded that the TVA OIG had a system of quality controls that provided with reasonable assurance for the OIG's conformance with professional standards in the conduct of its audits. According to the Chairman, he was not aware that a peer review had been completed in August; and if he had known, it would have affected his decision to order a management review of the OIG. He added that he most likely would have postponed the review. The IG told us that he never thought to inform the Chairman about the peer review.

According to the IG, he was never offered the option of selecting from three other OIGs to conduct this review. Further, he would not have objected to such a review because, in his opinion, any IG conducting the review would have remained independent and would not have allowed the Chairman to have oversight of the review. However, this information was not conveyed to the Chairman; and the disagreements between the IG and the Chairman escalated significantly. After the Chairman criticized the IG about the Dickey case, TVA initiated an extensive review of the IG's credit card expenses; and the IG concluded that the Chairman wanted to get rid of him.

The Chairman alone initiated the process for a management review of the OIG. When the Chairman received the analysis of the IG's credit card usage for the IG's entire tenure, he began his most agressive actions against the IG. This occurred after Directors Hayes and Kennoy had left TVA. The Chairman's actions against the IG included the release of unsubstantiated allegations to the media and the referral of unsubstantiated allegations to the ECIE. These actions could be viewed as an attempt to undermine the IG's independence.

Chairman's Allegations Concerning IG's Credit Card Expenses

Based on its "brief preliminary review" of the IG's credit card statements, TVA questioned a total of $15,150 in charges for the years 1994 through 1999. (See table 1.) We reviewed in depth the IG's most recent charges—$14,197—from January 1, 1998, to May 12, 1999. As to these, we did not find that the IG had violated any TVA travel policy or rule. However, as the IG himself recognized, his actions could have created the appearance that his independence had been compromised. Based on this analysis, we determined that a further analysis of credit card charges for the period 1994 through 1997 was not warranted. In addition, for comparison purposes, we requested TVA to compile credit card expenses for calendar year 1998 for the three Board members and the senior executives that report directly to the Board. This comparison indicated that the IG's credit card expenses were consistent with those of other TVA executives. See appendix I for this comparison.

IG's Travel Activities Were for Business Purposes or "Customer Relations"

As the head of a major office at TVA, the IG often traveled in connection with his position. For example, he traveled to attend meetings in his capacity as an ECIE representative on a PCIE committee. In other instances, he attended TVA Board meetings or met with congressional members and staff to present OIG reports. These activities clearly do not

raise questions as to the purpose of the travel and were reimbursable as long as the expenses fell within the guidelines set out in TVA's travel policies.[17]

The IG also incurred expenses as a result of activities that involved "customer relations." The IG was a member of TVA's Business Council and, as did the other Council members, participated in the customer outreach activities. These activities were done at the specific behest of former Director Hayes, who was most concerned with TVA's maintaining or increasing its market share for electric power. Director Hayes also emphasized that it would be beneficial for the IG to take part in recreational events, such as golf outings that were ancillary to various meetings, that TVA planned as part of its program of customer relations. Moreover, he specifically encouraged the IG to bill the charges to TVA. The IG had initially paid for his own golf and charged the cost to TVA only when Director Hayes told him that such charges were consistent with TVA's policy regarding allowable expenses for hospitality.

The Chairman was aware of the IG's involvement in the customer relations program and told us that he considered this activity completely appropriate for the IG as long as his activity had been coordinated with Director Hayes. Director Kennoy also told us that it was appropriate for the IG to engage in customer relations.

The IG's involvement in the customer relations program was coordinated with Director Hayes. The IG never reached out to any distributors but attended functions only when requested by the Customer Relations and Marketing Group, which had responsibility for administering the customer relations program. Essentially, the IG attended various meetings with distributors at which the IG would discuss the IG Act, his background, and the role of the OIG at TVA. The IG also assisted certain customers in dealing with problems that were similar to those encountered by an IG. For

[17] TVA travel policy required that TVA pay for travel expenses incident to business purposes for such things as transportation, lodging, meals, and other approved expenses in accordance with TVA guidelines and the Federal Travel Regulations, which are applicable to most civilian employees of the federal government. In this regard, TVA reimbursed business travelers for such items as meals, local transportation, lodging, laundry/dry cleaning, parking, phone expenses, and other incidentals. The reimbursement for meals, lodging, and laundry/dry cleaning was limited to 150 percent of the locality rate set by the General Services Administration (GSA) for civilian employees of the federal government in a travel status. However, since 1997, in special and unusual circumstances the maximum reimbursement can be up to 300 percent of the locality rate set by GSA.

example, the IG assisted one company in setting up an ethics program and another company in setting up an improved financial control system. He felt that all of these activities were beneficial to his office.

In performing his customer relations function, the IG sometimes paid the bill for other TVA employees, Board members, and customers. In some instances, the IG paid the bill when another TVA official could also have paid it. In other situations, the IG was the only TVA person present who could have paid the bill.

As part of its business practices, TVA had hospitality guidelines, which provided that hospitality was available to official visitors, candidates for employment, guests, and employees as a part of its business activities when it was determined to be in TVA's best interest. The guidelines further provided the following:

"Hospitality services provided for and paid for by TVA may include but are not limited to:
– Meals.
– Refreshments.
– Banquet or food services.
– Room and equipment rental associated with hospitality.
– Lodging, meal and travel expenses for visitors and guests.
– Entertainment.
– Flowers and decorations for events (as determined by the TVA organization).
– Recognition awards.
– Gifts."

OIG had written policies indicating that the OIG followed TVA policy except for some modifications based on the OIG's unique role under laws and regulations. Nothing in these laws and regulations precluded the IG from engaging in hospitality functions and incurring the type expenses provided for in the hospitality policy. Indeed, the OIG policy specifically indicated that, in accordance with TVA policy, OIG employees may pay hospitality expenses for non-OIG individuals for a business purpose, such as to improve relations with individuals that TVA worked with on a regular basis.

The IG did acknowledge that his close relationship with members of the Board and his participation in TVA-sponsored social events could have created the appearance that his independence had been compromised. He continued, however, that he had participated at the Directors' behest. He felt that participating in these activities enabled him to maintain a good working relationship with the Board. He concluded that his participation did not impede his independence.

Contested Charges for 1998-1999 Were Appropriate

Table 1 details the TVA-questioned expenditures by category and the cost incurred for each year from 1994 through mid-May 1999.

Table 1: IG's Questioned Charges Based on TVA's Preliminary Review

Category of expenditure	1994	1995	1996	1997	1998	1999[a]	Total
Hotel/casino	$0	$0	$68	$68	$247	$147	**$530**
Golf resorts	489	480	218	629	2,384	180	**$4,380**
Liquor	0	0	0	0	303	0	**$303**
Nonlocal restaurant charges	493	254	1,793	1,548	1,669	162	**$5,919**
Local restaurant charges	225	621	0	1,139	1,013	385	**$3,383**
Other questionable charges	0	95	32	328	0	180	**$635**
Total	**$1,207**	**$1,450**	**$2,111**	**$3,712**	**$5,616**	**$1,054**	**$15,150**

[a]We examined 1999 charges made through May 12.

Source: May 27, 1999, TVA memorandum to the CAO, entitled "Preliminary Credit Card Review – George Prosser."

We reviewed the charges in each category for 1998 and 1999. Based on the TVA travel and hospitality policies, we found that none of these charges violated TVA policies regarding the incurring of expenses for business and hospitality purposes. Specifically, we found the following as to these charges.

Hotel/Casino

TVA alleged that the IG had incurred hotel and casino expenses in Philadelphia, Mississippi, on three occasions in 1998 and 1999, totaling $394. In 1998, the IG went to Philadelphia twice: in February, for a TVA Board meeting followed by other business meetings and in October, for an OIG presentation that he made in Philadelphia and a contiguous city. The expenses charged for these trips were for lodging. In 1999, the IG went to Philadelphia for a Joint OIG/TVA presentation made at Mississippi State University. On this trip, the IG charged the room expenses for himself and the Chief Financial Officer, who also made a presentation. These expenses were all appropriate.

Golf Resorts

On seven occasions in 1998 and once in 1999, the IG played golf following either an official TVA meeting, such as the monthly meeting of the TVA Board, or an OIG presentation involving customer relations. His expenses for these golf activities during this period totaled $892 and ranged from $45

to $276. In several instances, the IG paid the golf fees for TVA customers, as he did when he incurred the $276 expense. The IG's golf expenses were consistent with the TVA hospitality policy.[18]

The IG also charged $1,672 at the Power Play Golf Tournament, a major event sponsored by TVA and its customers to raise scholarship money. This amount covered the IG's lodging and golf fees. In addition, some of this amount covered the expenses of another OIG employee who attended in order to ensure the accountability of the funds raised at the event. This employee did not have a TVA credit card, and the IG charged all the employee's expenses. The IG also paid certain expenses for customers. As a senior official at TVA, the IG's payment of these expenses was consistent with the TVA's hospitality policy. Indeed, other TVA executives incurred charges on their TVA credit cards for golf fees and lodging similar to those of the IG.

Liquor

On one occasion, the IG purchased liquor, which cost about $303, as an accommodation for Director Hayes who was going to make the purchase so that alcohol would be available at an official TVA dinner in a "dry" county. At the time, Director Hayes had a family emergency, which prompted the IG to make the purchase. Clearly Director Hayes could have purchased this liquor under the TVA hospitality policy, and we found no policy or rule that would prohibit the IG from substituting for a Director.

Nonlocal Restaurant Charges

During 1998 and 1999, the IG allegedly charged a total of $1,831 at restaurants on 15 different occasions. These charges ranged from $35 to $163, except for one of $500. In every instance, the IG was on official business including meetings involving audits, with confidential informants and members of Congress, or attendance at official TVA functions. In certain instances, the IG paid for meals for others. For example, the $500 charge occurred in Washington, D.C., when the IG charged the cost of a meal served at a business meeting he attended with members of the Congressional Committee having oversight of TVA. All of these expenses were consistent with TVA travel policy and rules.

Local Restaurant Charges

Some expenses that were not incident to travel were called into issue. For the period we reviewed, these expenses totaled $1,398 and covered meals

[18]In one instance, the IG paid the golf fees for Director Hayes. Since Director Hayes was clearly authorized to charge TVA for this expense and the IG was authorized to make such payments when in the best interest of TVA, we find the IG's action unobjectionable.

that the IG purchased in the Knoxville area on 17 occasions. The costs of the meals ranged from $10 to $156, except for one that was $582. In most instances, the IG conducted a business meeting during lunch and paid for all participants. For example, he met with the Special Agent in Charge of the FBI's Knoxville Field Office on at least three occasions in 1998 on matters of mutual concern and paid for the meals. He also held business lunches with confidential informants and paid for these. Three charges during 1998 were related to a meeting that the IG had with representatives from the OIG of the National Archives and Records Administration. TVA policy permitted the IG to charge these meals while he was engaged in official business. Lastly, a $582 charge was for an employee appreciation luncheon, which was covered under the TVA hospitality policy.

Other Questionable Charges

TVA also raised questions about miscellaneous charges the IG had incurred. Four of these arose in the 1998 and 1999 time period we reviewed. One was a charge of $43 the IG had made for a personal item; he had immediately reimbursed TVA even though he was not asked to do so. A second charge involved $732 airline tickets that the IG never used. We were informed that this was due to an administrative error that eventually resulted in TVA's account being credited for the amount. A third charge consisted of $118 for flowers for an official TVA event. In this instance, a Director had asked the IG to order the flowers for customer appreciation. The fourth charge, for $19, was for publications for the OIG. The purchase of flowers was covered under the TVA hospitality policy. We determined that the publications purchase was needed for the work of the OIG.

Scope and Methodology

We conducted our investigation from June 9, 1999, through September 7, 1999. We interviewed TVA officials involving both TVA's attempt to retain a nonfederal entity to conduct a management review of the OIG and the analysis of the IG's TVA credit card usage. We also interviewed current and former OIG officials regarding the OIG performance review issue and the IG's use of the TVA credit card. Further, we contacted individuals from OMB, FBI, Verner Liipfert, and the U.S. Attorney's Office for the Eastern District of Tennessee regarding their conversations with TVA officials. The Department of Justice denied our request to interview the U.S. Attorney for the Eastern District of Tennessee.

We analyzed records related to both the management review and charges that the IG made using a TVA credit card. These records included internal memoranda, notes, contract files, audit reports, and policy manuals

regarding OIG travel and hospitality expenses. We also reviewed quality standards for IGs. In addition, we reviewed the IG's calendars for 1994 through 1999 and invoices for charges to the TVA credit card for 1996 through 1999. Receipts for 1994 and 1995 were no longer available. Further, we reviewed a detailed analysis of the IG's travel, by trip, for calendar year 1998 and the first 5 months of 1999. The IG also provided written explanations for expenses he had incurred during 1998 and 1999 and for all charges for golf resorts for the period 1994 through May 1999.

As agreed with your office, unless you release its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies of this report to the Honorable Craven Crowell, Chairman, Tennessee Valley Authority; George Prosser, Inspector General, Tennessee Valley Authority; and interested congressional committees. We will also make copies available to others upon request. If you have questions concerning this report, please contact me or Donald Fulwider at (202) 512-6722. John Ryan was a key contributor to this case.

Sincerely yours,

Robert P. Murphy
for

Robert H. Hast
Acting Assistant Comptroller General
for Special Investigations

1998 Credit Card Charges by TVA Board, IG, and Senior Executives

Table 2: 1998 Domestic Charges by TVA Officials

Official[a]	Hotel[b]	Meals[b]	Transport[c]	TVA plane	Other business expense	Personal vehicle use	Golf	Liquor	Other[d]	Subtotal
Chairman Crowell	$11,309	$3,848	$15,398	$56,294	$0	$491	$0	$0	$1,042	$88,382
Director Kennoy	4,341	1,271	7,468	52,860	0	707	0	0	1,661	$68,308
Director Hayes	6,134	1,270	8,326	27,042	0	105	90	0	844	$43,811
IG Prosser	4,453	2,758	5,381	0	0	1,342	1,174	303	74	$15,485
Chief Financial Officer	11,685	4,471	1,089	0	1,304	0	120	0	0	$18,669
Chief Operating Officer	3,659	79	447	0	1,025	0	120	0	0	$5,330
CAO	3,079	874	549	0	3,994	0	120	0	0	$8,616

[a]TVA's General Counsel charged no domestic expenses during 1998.

[b]This category does not include direct bills to TVA. It includes only the amount charged on the VISA Gold Card.

[c]"Transport" includes commercial flights, travel service, car rentals, taxis, gasoline, and parking.

[d]"Other" includes conference fees, telephone calls, tips, and facsimiles.

Table 3: 1998 International Charges by TVA Officials

Official[a]	Hotel[b]	Meals[b]	Transport[c]	Other business expense	Other[d]	Subtotal	Total 1998 charges
Chairman Crowell	$2,284	$484	$14,678	$0	$8	$17,454	**$105,836**
Director Kennoy	585	151	1,740	0	12	2,488	**$70,796**
Director Hayes	0	0	0	0	0	0	**$43,811**
IG Prosser	0	0	0	0	0	0	**$15,485**
Chief Financial Officer	1,806	27	0	24	0	1,857	**$20,526**
Chief Operating Officer	0	0	0	724	0	724	**$6,054**
CAO	0	0	0	0	0	0	**$8,616**

[a]TVAs General Counsel charged no international expenses during 1998.

[b]This category does not include direct bills to TVA. It includes only the amount charged on the VISA Gold Card.

[c]"Transport" includes commercial flights, travel service, car rentals, taxis, gasoline, and parking.

[d]"Other" includes conference fees, telephone calls, tips, and facsimiles.

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