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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

ENERGY AND MINERALS  
DIVISION

B-202060

FEBRUARY 25, 1981

The Honorable John J. Duncan  
House of Representatives



114467

Dear Mr. Duncan:

Subject: Cost Impacts of Reorganizations at the Tennessee Valley Authority (EMD-81-54)

You requested that we review the operating costs of some organizational units within the Tennessee Valley Authority (TVA) and determine whether reorganizations are resulting in higher administrative costs and higher electric power rates. To respond to your request, we reviewed organizational changes made by TVA in fiscal years 1979 and 1980 and

- identified and selectively evaluated increases in administrative and general expenses and other operating costs for the Office of the General Manager, the Office of the General Counsel, and the Office of Community Development for fiscal years 1979 and 1980;
- assessed the effect of increases on power production costs.

TVA made several significant organizational changes in fiscal years 1979 and 1980, including a change in February 1979 from 16 to 9 major offices. The following table shows that administrative and general expenses, as well as the overall operating costs of the three offices tested, also increased in fiscal years 1979 and 1980. Although some of the increases can be related to organizational changes, our tests indicate that they are primarily attributable to higher personnel and related costs resulting from workload growth and from new and expanded functions and programs.

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	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>
	----- (000 omitted) -----		
Administrative and general expenses	\$18,542	\$23,754	\$33,725
Office of the General Manager	5,545	7,735	12,995
Office of the General Counsel	4,326	5,316	8,322
Office of Community Development	6,713	13,839	18,562

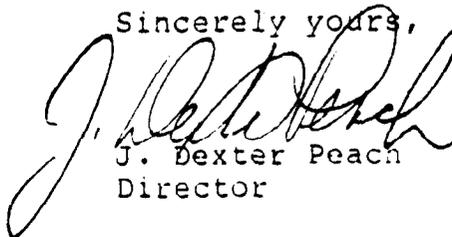
We also found that administrative and general expenses, as well as overall operating costs of the three offices tested, have a negligible effect on power production costs because of their relative insignificance in comparison with other production costs. The following table shows, for example, that administrative and general expenses represented only about 0.34 percent of power production costs in fiscal year 1978, about 0.43 percent in fiscal year 1979, and about 0.45 percent in fiscal year 1980.

	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u> <u>(estimated)</u>
	----- (000,000 omitted) -----		
Fuel and imports	\$1,035	\$1,109	\$1,317
Operation and maintenance	505	485	475
Other operating expenses	198	235	299
Interest	487	659	881
Treasury payments	82	89	98
Administrative and general expenses	<u>8</u>	<u>11</u>	<u>14</u>
Total production costs	<u>\$2,315</u>	<u>\$2,588</u>	<u>\$3,084</u>

Additional administrative and general expenses of about \$8 million in fiscal year 1978, \$11 million in fiscal year 1979, and \$17 million in fiscal year 1980 were capitalized for allocation to production costs in future periods.

Our findings are summarized in more detail in the enclosures to this letter. We will be glad to discuss any additional requirements you may have.

Sincerely yours,



J. Dexter Peach  
Director

Enclosures - 3

ORGANIZATIONAL CHANGES

TVA changed its organizational structure from 16 to 9 separate offices in February 1979. Generally, the consolidation was accomplished as follows, but there were some significant interoffice and intraoffice transfers of functions and programs.

Old organizations

Board of Directors  
 Office of the General Manager  
 Division of Law  
 Office of Agriculture and  
 Chemical Development  
 Office of Power  
 Office of Engineering Design  
 and Construction  
 Division of Finance  
 Division of Personnel  
 Division of Property and  
 Services  
 Division of Purchasing  
 Division of Medical Services  
 Division of Environmental Planning  
 Division of Forestry, Fisheries,  
 and Wildlife Development  
 Division of Water Management  
 Office of Tributary Area  
 Development  
 Division of Navigation Development  
 and Regional Studies

New organizations

Board of Directors  
 Office of the General  
 Manager  
 Office of the General  
 Counsel  
 Office of Agriculture and  
 Chemical Development  
 Office of Power  
 Office of Engineering  
 Design and Construction  
 Office of Management  
 Services  
 Office of Natural Re-  
 sources  
 Office of Community  
 Development

The stated objectives of the reorganization were to

- establish a more realistic grouping of related program activities in terms of current and foreseeable program needs and emphases,
- eliminate all overlaps and duplications of functions which resulted in organizational inefficiencies, and

- reduce the number of managers and organizational elements reporting to the General Manager.

The effect of the reorganization in February 1979 varied from office to office. The Division of Law, for example, was unchanged except for its redesignation as the Office of the General Counsel. Its responsibilities and functions were also unchanged by subsequent organizational changes in FYs 1979 and 1980. Conversely, significant changes were more associated with the Office of the General Manager and the Office of Community Development. These changes are summarized below.

#### OFFICE OF THE GENERAL MANAGER

The reorganization in February 1979 added positions for (1) a Deputy General Manager; (2) a special assistant to the General Manager for organizational, administrative, and other matters; and (3) three program coordinators to facilitate program coordination and internal communications. In addition, the power financing officer was transferred to the Office of Power and the mitigation impact assistance was transferred to the Office of Community Development.

Later in 1979, the Nuclear Safety Review Staff was transferred from the Office of Management Services and positions were added for seven district administrators (Alabama, Mississippi, Kentucky, Southeastern, Western, Central, and Appalachian). District administrators are responsible for coordinating field operations and assuring cohesion and mutual support in attaining TVA's goals and in serving the public.

#### OFFICE OF COMMUNITY DEVELOPMENT

As indicated by the table on the previous page, the Office of Community Development was created from the previous Office of Tributary Area Development and the Division of Navigation Development and Regional Studies. In addition to creation of the manager's office, the following changes were made.

The Office of Tributary Area Development was redesignated the Division of Community Services and the following functions were added:

- Flood plain management.
- Community health services (transferred from the Division of Medical Services).
- Mitigation impact assistance (transferred from the Office of the General Manager).
- Entrepreneurial responsibility for solid waste management, including the entrepreneurial and community

relations features of solid waste (transferred from the Division of Environmental Planning).

The Division of Navigation Development and Regional Studies was initially redesignated the Division of Economic Development but was subsequently redesignated the Division of Commerce. Other changes included the

- transfer of manpower and education functions and the construction labor market demand system project from the Division of Personnel and
- transfer of navigation engineering functions to the Office of Natural Resources.

EFFECT OF ADMINISTRATIVE AND GENERAL  
EXPENSES ON POWER PRODUCTION COSTS

TVA defines administrative and general expenses as those expenses of central administrative offices and management services divisions which cannot be attributed to particular phases of the TVA program and which are relatively difficult to trace to specific accounts, projects, and programs benefiting from the services performed.

The following table shows TVA's administrative and general expenses by contributing office. The expenses increased by \$5,211,681, or 28.1 percent, from FY 1978 to FY 1979; by \$9,970,632, or 42 percent, from FY 1979 to FY 1980; and by \$15,182,313, or 81.9 percent, from FY 1978 to FY 1980.

	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>
Board of Directors	\$ 354,733	\$ 446,544	\$ 593,179
Office of the General Manager	4,826,990	7,296,965	11,728,311
Office of the General Counsel	3,689,585	4,123,121	5,895,673
Office of Management Services	9,550,914	11,751,751	15,282,267
Bad debts, audits, etc.	<u>120,129</u>	<u>135,651</u>	<u>225,234</u>
<b>Total expenses</b>	<b><u>\$18,542,351</u></b>	<b><u>\$23,754,032</u></b>	<b><u>\$33,724,664</u></b>

In FY 1978 and 1979, TVA allocated administrative and general expenses of about \$15,445,000 and \$21,850,000, respectively, to the power program. The estimated allocation for FY 1980 is about \$31,726,000. The breakdown of the allocations by capital and current expenses is as follows:

	<u>Allocations</u>		
	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>
	----- (000 omitted) -----		
Capital expenses	\$ 7,615	\$11,188	\$17,328
Current expenses	<u>7,830</u>	<u>10,662</u>	<u>14,398</u>
<b>Total</b>	<b><u>\$15,445</u></b>	<b><u>\$21,850</u></b>	<b><u>\$31,726</u></b>

As demonstrated by the following table, current administrative and general expenses for FYs 1978, 1979, and 1980 are only 0.34 percent, 0.43 percent, and 0.45 percent, respectively, of total power production costs.

<u>Expenses</u>	<u>Production costs</u>		
	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>
	----- (000 omitted) -----		
Fuel and import	\$1,035	\$1,109	\$1,317
Operation and maintenance	505	485	475
Interest	487	659	881
Treasury payments	82	89	98
Administrative and general	8	11	14
Other	<u>198</u>	<u>235</u>	<u>299</u>
Total	<u>\$2,319</u>	<u>\$2,588</u>	<u>\$3,084</u>

The increases in administrative and general expenses include increases in expenses such as personnel compensation and benefits; transportation of people; rent, communications and utilities; printing and reproduction; supplies and materials; and general office services. Personnel compensation and benefits, for example, represent \$8,724,949, or 57.5 percent, of the total increase of \$15,182,313 from FY 1978 to FY 1980.

Our review of operating expenses for the Office of the General Manager and the Office of the General Counsel indicates that the increases in administrative and general expenses are primarily attributable to workload growth and to new and expanded functions and programs. The results of our review are summarized below.

#### OFFICE OF THE GENERAL MANAGER

Operating expenses for the Office of the General Manager were as follows for FYs 1978, 1979, and 1980.

	<u>Expenditures</u>		
	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>
General Manager's Office	\$ 598,475	\$1,135,432	\$ 2,180,802
District Offices	-	-	748,460
Washington Office	260,361	381,644	664,299
Equal Opportunity Office	884,870	1,394,152	1,627,313
Information Office	2,235,638	3,281,216	4,868,504
Planning and Budget Office	847,646	1,104,521	1,559,760
Nuclear Safety Review Staff	-	-	675,716
Fertilizer and Agriculture Development	373,685	344,333	404,921
Other	<u>344,519</u>	<u>93,899</u>	<u>265,007</u>
Total	<u>\$5,545,194</u>	<u>\$7,735,197</u>	<u>\$12,994,782</u>

The expenses increased by \$2,190,003, or 39.5 percent, from FY 1978 to FY 1979; by \$5,259,585, or 68 percent, from FY 1979 to FY 1980; and by \$7,449,588, or 134.3 percent, from FY 1978 to FY 1980. Personnel compensation and benefits represented \$4,628,342, or 62.1 percent, of the total increase from FY 1978 to FY 1980.

TVA attributes the increases in operational expenses for the Office of the General Manager primarily to the following increases in personnel. A TVA official said that the personnel increases were made to improve the Office's effectiveness, efficiency, and budgeting controls.

	<u>Number of employees</u>		
	<u>FY 1978</u>	<u>FY 1980</u>	<u>Increase</u>
General Manager's Staff	29	63	34
Washington Office	7	14	7
Equal Opportunity Office	46	62	16
Information Office	70	121	51
Planning and Budget Office	23	43	20
Nuclear Safety Review Staff	<u>0</u>	<u>18</u>	<u>18</u>
<b>Total</b>	<u><u>175</u></u>	<u><u>321</u></u>	<u><u>146</u></u>

#### General Manager's staff

Additions to the General Manager's staff included assistants for (1) maintaining liaison with State governors, legislators, and agencies; (2) directing and coordinating programs, policies, and decisions; (3) providing advice on organization and administration policy matters; and (4) directing and coordinating the work of the Office. Administrators were also added for the Kentucky, Mississippi, Alabama, Central, Southeastern, Western, and Appalachian Districts. The administrators are responsible for

- keeping communications open between TVA and Federal, State, county, and municipal governments and private cooperative groups;
- assessing local needs and fostering the responsiveness of TVA policies and programs, including recommendations on the development of new program initiatives;
- assuring that cooperative agencies and groups have an opportunity to participate in formulating plans and projects;
- assisting program managers in assuring that TVA's policies and programs are understood by those served;

- chairing meetings to facilitate the coordination of field operations and communications;
- overseeing administrative arrangements for district work and support operations to encourage economy and efficiency;
- reviewing and reporting on the effectiveness of TVA's programs and personnel; and
- ensuring that TVA is represented on committees and work groups in the district.

#### Washington Office

A TVA official said that personnel increases for the Washington Office were due primarily to increased activity with congressmen and congressional committees.

#### Equal Opportunity Office

The Office Director said that the personnel increases were due to (1) significant increases in the number of discrimination complaints filed by employees; (2) greater involvement by the Office in developing affirmative action plans for other offices, and reviews to insure compliance with the plans; and (3) actions by the Office to insure that TVA's contracts and contractors comply with equal opportunity rules and regulations.

As an example, the Director supplied information showing that the number of complaints filed increased from 63 in FY 1978 to 188 in FY 1980 and that the number of complaints closed increased from 29 to 83.

#### Information Office

TVA attributes the personnel increases for this Office to consolidation and centralization of information functions and increased workloads in media relations, citizen actions, and the technical library.

#### Planning and Budget Office

TVA attributes the personnel increases for this Office to the following actions and conditions.

- The manager's staff was increased by (1) an assistant to the manager, (2) a deputy manager responsible for coordinating the efforts of the newly created (a) Financial Analysis and Cost Management Staff and (b) Accounting Policy and Procedures Staff, and (3) three clerk-typists.

- The Financial Analysis and Cost Management Staff, four people, was established in FY 1980 to direct development and operation of a financial analysis and cost management system.
- The Accounting Policy and Procedures Staff, three people, was established in FY 1980 to develop a new accounting system.
- A Chief Economist's Staff, two people, was created in FY 1980 to coordinate economic functions and direct the preparation of economic forecasts and special studies.
- The Planning Staff was augmented with about five people on rotational assignment from other activities to assist in preparing economic forecasts and conducting special studies.

#### Nuclear Safety Review Staff

The Nuclear Safety Review Staff was added in FY 1980. The Staff is concerned with the design, construction, operation, and support of nuclear plants and has the authority to monitor, review, and audit TVA's nuclear activities. The Staff's purpose is to advise on nuclear safety policy, and to advise and assist on decisions affecting the safety of nuclear plants.

#### OFFICE OF THE GENERAL COUNSEL

Operating expenses for the Office of the General Counsel were as follows for FYs 1978, 1979, and 1980.

	<u>Operating expenses</u>		
	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>
Legal services, central administration and management services	\$3,689,585	\$4,123,121	\$5,895,674
Nuclear fuel litigation	296,785	24,194	12,689
International uranium cartel litigation	142,677	1,038,199	2,341,811
Construction condemnations and other	<u>196,976</u>	<u>130,329</u>	<u>71,587</u>
Total	<u>\$4,326,023</u>	<u>\$5,315,843</u>	<u>\$8,321,761</u>

The expenses increased by \$989,820, or 22.9 percent, from FY 1978 to FY 1979; by \$3,005,918, or 56.5 percent, from FY 1979 to FY 1980; and by \$3,995,738, or 92.4 percent, from FY 1978 to FY 1980.

Information supplied by TVA attributes the increases in expenses primarily to personnel increases resulting from workload growth. For example, the number of people assigned to the Office increased by 42, from 123 to 165, from FY 1978 to 1980. In addition, \$2,102,364, or 52.6 percent, of the increase from FY 1978 to FY 1980 was for personnel compensation and benefits and much of the rest was for associated expenses such as travel and transportation, supplies and materials, and rent, communications, and utilities. Some of the Office's workload growth is discussed below.

#### International uranium cartel litigation

Information supplied by TVA indicates that the investigation of the international uranium cartel litigation is the largest single area in which the Office workload increased.

The investigation involves antitrust actions filed by TVA in FY 1978 against 10 foreign and 3 domestic uranium suppliers and marketing agents. The foreign defendants belong to multinational corporations and are based in Canada, France, United Kingdom, South Africa, and West Germany. The antitrust action has been consolidated with a similar action filed by a private corporation against 29 defendants. One defendant has filed a countersuit.

Basically, TVA believes that conspiratorial activities of the cartel have increased uranium costs. The Office has assigned nine attorneys to the case and has

- produced over 1 million pages of documents for defendants in response to discovery motions;
- inspected over 10 million pages of documents, of which over 2.2 million were received for processing;
- attended depositions which produced about 1,200 volumes of transcripts and exhibits;
- filed or received about 40,000 pages of pleadings and briefs;
- received 100 volumes of depositions and 77 volumes of trial manuscripts on 1 of 5 related cases monitored in different courts and almost 2,000 pages of information on 1 of the other 4 cases;
- attended document productions in the United States, Canada, and West Germany;

--completed a 6-week evidentiary hearing on one phase of the litigation; and

--developed a computer system to index and retrieve documents involved in the litigation.

General litigations  
and condemnations

The following table shows the increase in general litigations and condemnations between FY 1978 and FY 1980.

	<u>FY 1978</u>	<u>FY 1980</u>
General litigation cases	83	101
Condemnation cases	78	129
Briefs filed	158	225
Pending contract disputes	7	12
Claims against TVA	93	222
Claims by TVA	54	105

Pending cases involve damages for personal injury, labor and personnel matters, civil rights, bankruptcy, libel and slander, and land disputes.

Other increases

The Office has also experienced increases in other areas of its workload. Some of these are as follows:

--The number of adverse personnel actions reviewed increased from about 6 a month in FY 1978 to about 20 a month in FY 1980.

--The number of personnel misconduct investigations increased from 27 in FY 1978 to at least 95 in FY 1980.

--The number of opinions, agreements, and other documents prepared in connection with procurement activities increased from about 1,100 in FY 1978 to about 2,000 in FY 1980.

OFFICE OF COMMUNITY DEVELOPMENT

Operating expenses for the Office of Community Development, which are funded with appropriated funds, were as follows for FYs 1978, 1979, and 1980.

	<u>Expenses</u>		
	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>
Office of the Manager	\$ -	\$ 256,419	\$ 4,037,846
Division of Community Services	3,650,795	8,865,493	9,972,286
Division of Commerce	<u>3,062,128</u>	<u>4,717,513</u>	<u>4,551,734</u>
Total	<u>\$6,712,923</u>	<u>\$13,839,425</u>	<u>\$18,561,866</u>

The expenses increased by \$7,126,502, or 106.2 percent, from FY 1978 to FY 1979, by \$4,722,441, or 34.1 percent, from FY 1979 to FY 1980; and by \$11,848,943, or 176.5 percent, from FY 1978 to FY 1980.

The following expenses of the Office were allocated to power projects as capital costs. No expenses were allocated directly to current power production costs.

FY 1978	\$1,884,924
FY 1979	6,355,000
FY 1980	7,246,000

The capitalized expenses will be charged to future power production costs by amortization methods.

INCREASES IN EXPENSES

Information supplied by TVA attributes the increases in operating expenses for the Office of Community Development primarily to personnel costs and other services associated with new and expanded programs. For example, personnel compensation and benefits increased by \$4,649,603 from FY 1978 to FY 1980 and the number of personnel increased by 36, from 216 to 252. The most significant program increases were as follows:

	<u>Expenses</u>
Dam and reservoir construction general expenses	\$1,575,143
Nuclear plant construction general coordination expense	4,284,505
Regional resources development	833,722
Loans	2,000,000
Employment planning and human resources development	851,555
Human services	764,050
Local economic development	1,541,053
Minority economic development	1,631,026

Dam and reservoir construction  
general expenses

Dam and reservoir construction general expenses increased by \$1,575,143, from \$74,372 to \$1,649,515, between FY 1978 and FY 1980. The expenses were primarily for flood control studies, land use studies, industrial development, and contracts associated with dams and reservoirs such as the Columbia, Tellico, Chilhowee, and Bear Creek. The largest single increase was \$528,415 for land use studies and industrial development associated with the Tellico project.

Nuclear plant construction  
general coordination expenses

Nuclear plant construction general coordination expenses increased by \$4,284,505, from \$692,567 to \$4,977,072, between FY 1978 and FY 1980. The primary purpose of the expenses, which implement commitments made by TVA in project environmental impact statements, is to help towns and areas alleviate the effects associated with construction of the Watts Bar, Bellefonte, Hartsville, Phipps Bend, Yellow Creek, and Sequoyah nuclear plants. The expenditures involved socioeconomic impact and environmental monitoring, sewage and public health mitigation, law enforcement, sewage collection and disposal, recreation, education, fire protection and control, emergency services, and State planning.

Regional resources development

Expenses for regional resources development were \$545,084 in FY 1979 and \$833,722 in FY 1980. There were no expenses in FY 1978. These expenses were for the purpose of helping communities improve health services and involved technical assistance, manpower recruitment, and health care systems.

Loans

TVA loaned the Resource Authority of Sumner County, Tennessee, \$2,000,000 in FY 1980 to assist in the construction of an \$8,000,000 power cogeneration facility which will use municipal solid waste as its fuel. The loan and interest will be repaid over a 15-year period beginning 3 years after the plant is operational.

Manpower planning and  
human resources development

Expenses for manpower planning and human resources development were \$756,277 in FY 1979 and \$851,555 in FY 1980. There were no expenses in 1978.

Manpower planning and human resources development involve efforts through educational institutions and manpower agencies to decrease unemployment and underemployment, alleviate shortages in the labor market, and help more people qualify for skilled jobs. The expenses were for projects such as energy task force, student training and employment, women training, child care, manpower assistance, education demonstrations, and employability and work experience.

Human services

Expenses for human services amounted to \$764,050 in FY 1980. There were no expenses in FY 1978 and FY 1979. The expenses were for projects such as regional arts, women's economic development, older Americans, and workshops for the handicapped.

Local economic development

Expenses for local economic development amounted to \$1,541,053 in FY 1980. There were no expenses in FY 1978 and FY 1979.

Local economic development is a program directed primarily toward attracting industry to the Valley for the purpose of increasing the income of Valley residents. The expenses in FY 1980 were for projects such as coordination of local efforts, engineering support, economic research, tourism development, and transportation analysis.

Minority economic development

Expenses for minority economic development increased by \$1,631,026, from \$105,548 to \$1,736,574, between FY 1978 and FY 1980.

This program was directed primarily at improving the quality and capability of minority businesses and minority employment opportunities. The expenditures were for home weatherization, a center for minority economic development, and technical and management assistance.

#### Office of the Manager

Expenses for the manager's office of the Office of Community Development increased from zero in FY 1978 to \$4,037,846 in FY 1980. The manager's office was created during the reorganization in February 1979.

The magnitude of expenses in FY 1980 is primarily attributable to (1) the assumption of programs previously managed by the Office's two divisions and (2) allocations of expenses incurred for the benefit of programs managed by the Office's divisions. The most significant examples are as follows:

Special opportunities cities and counties program	\$1,255,846
Regional planning	462,163
Nuclear plant construction general expenses	<u>872,774</u>
Total	<u>\$2,590,783</u>

#### Special opportunities cities and counties program

The objective of this program is to bring about a rapid improvement in the income of chronically low income residents of the Valley by focusing efforts on situations where local actions and TVA capital investments can have a significant effect. The program concentrates on areas where special efforts can stimulate employment and produce rapid measurable results.

This program was managed by the Division of Community Services before FY 1980.

#### Regional planning

The primary purpose of this program is to develop economic information for use by TVA programs and local agencies. The expenditures were for administration and economic analyses.

This work was done by the Division of Commerce before FY 1980.

Nuclear plant construction  
general expenses

These expenses represent expenses incurred by the manager's office which are applicable to efforts by the Division of Community Services and the Division of Commerce to help towns and areas alleviate the effects of rapid population growth resulting from nuclear plant construction. The expenses consist of office space, telephone service, and other overhead type expenses.