

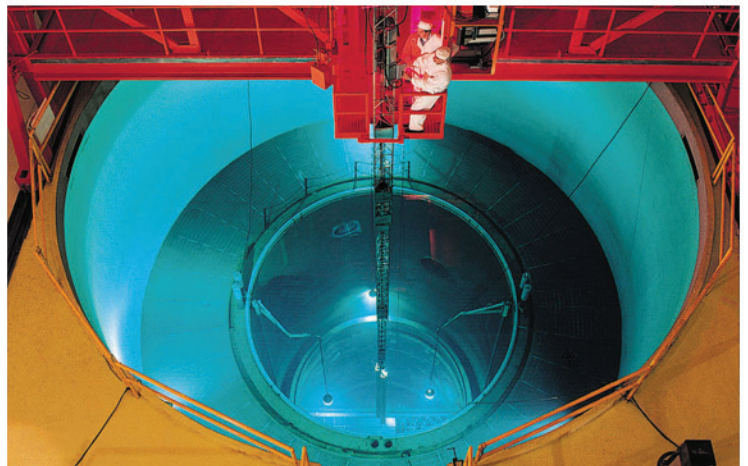


United States Nuclear Regulatory Commission

*Protecting People and the Environment*

# Semiannual Report to Congress

April 1, 2008 – September 30, 2008



## **OIG VISION**

“We are agents of positive change striving for continuous improvement in our agency’s management and program operations.”

## **NRC-OIG MISSION**

NRC-OIG’s mission is to (1) independently and objectively conduct and supervise audits and investigations relating to NRC’s programs and operations; (2) prevent and detect fraud, waste, and abuse, and (3) promote economy, efficiency, and effectiveness in NRC’s programs and operations.

Cover photos (clockwise): Limerick Generating Station near Philadelphia, PA; dry cask storage cannister being transported; nuclear reactor vessel; researcher handling radioactive material.

# A MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to present this Semiannual Report to Congress on the activities and accomplishments of the Nuclear Regulatory Commission (NRC) Office of the Inspector General (OIG) from April 1, 2008, to September 30, 2008.

Our work reflects the legislative mandate of the Inspector General Act, which is to identify and prevent fraud, waste, and abuse through the conduct of audits and investigations relating to NRC programs and operations. The audits and investigations highlighted in this report demonstrate our commitment to ensuring integrity and efficiency in NRC's programs and operations.



During this semiannual reporting period, we issued 11 program audit reports and analyzed 2 contract audit reports. As a result of this work, OIG made a number of recommendations to improve the effective and efficient operation of NRC's safety, security, and corporate management programs. OIG also opened 17 investigations, and completed 31 cases. Eight of the open cases were referred to the Department of Justice, and 25 allegations were referred to NRC management for action.

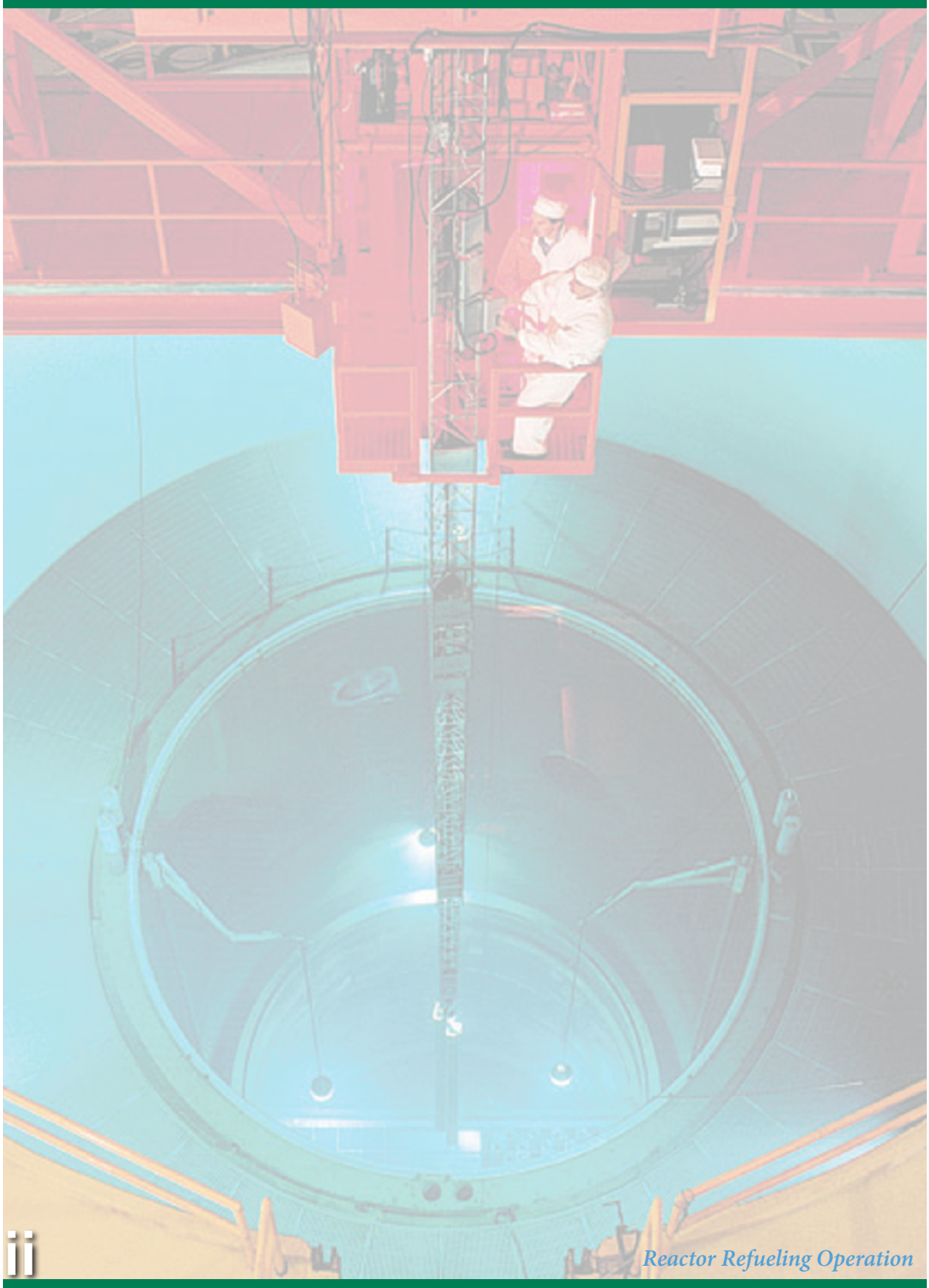
My office is dedicated to maintaining the highest possible standards of professionalism and quality in its audits and investigations. I would like to acknowledge our auditors, investigators, and support staff for their superior work and commitment to the mission of our office.

Finally, the success of the NRC OIG would not be possible without the collaborative work between my staff and agency managers to address OIG findings and implement the recommendations made by my office. I wish to thank them for their dedication and support, and I look forward to their continued cooperation as we work together to ensure the integrity of agency operations.

A handwritten signature in black ink that reads "Hubert T. Bell". The signature is written in a cursive, flowing style.

Hubert T. Bell  
Inspector General







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*The following two sections highlight selected audits and investigations completed during this reporting period. More detailed summaries appear in subsequent sections of this report.*

## **AUDITS**

- NRC receives Freedom Support Act funds from the U.S. Agency for International Development (USAID) to support provisions of nuclear regulatory safety and security assistance to the regulatory authorities of Armenia, Georgia, Kazakhstan, Russia, and Ukraine. These funds support activities that include strengthening regulatory oversight of the startup, operation, shutdown, and decommissioning of Soviet-designed nuclear power plants; the safe and secure use of radioactive materials; and accounting for and protection of nuclear materials. The audit objectives were to determine the adequacy of management controls over the use of USAID funds and if corrective actions from a previous audit were implemented.
- NRC's policy is to provide training that improves employees' organizational performance in achieving the agency's mission and goals. The Office of Human Resources is responsible for planning and implementing agencywide training and develops policies and programs designed to establish, maintain, and enhance regulatory, technical, professional, and leadership skills. The objective of this evaluation was to determine the effectiveness of the agency's training and development program to meet current and future needs.
- NRC's enforcement jurisdiction is drawn from the Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974, as amended. In recognition that violations occur in a variety of activities and have varying levels of significance, the Commission set out to create an enforcement framework with graduated sanctions to reflect this diversity. Violations are identified through inspections and investigations. All violations are subject to civil enforcement action and may also be subject to criminal prosecution. The objectives of this audit were to determine how NRC assesses the significance of violations and the level of enforcement action to be taken.
- The Federal Information Security Management Act outlines information security management requirements for agencies, including the requirement for an annual review and annual independent assessment by agency inspectors general. The annual assessments provide agencies with the information



needed to determine the effectiveness of overall security programs and to develop strategies and best practices for improving information security.

- Laptops used at NRC are either (1) connected to the NRC local area network (LAN) or (2) used as standalone systems. Some of the laptops are used to process safeguards and/or classified information. These are considered “listed systems.” Laptops connected to the NRC LAN are protected by the LAN’s security controls. The audit objectives were to evaluate the effectiveness of NRC’s security policies for laptop computers.

## INVESTIGATIONS

- OIG completed an investigation into claims by an NRC applicant who had submitted a request for a design certification for a new boiling water reactor. The applicant alleged that during an NRC audit of the applicant’s software quality assurance program, an NRC audit contractor attempted to solicit work from the applicant.
- OIG completed two separate investigations involving NRC material licensees that falsely certified themselves as small business entities to receive reduced material license fees.
- OIG completed an investigation into concerns raised regarding the extent of the NRC staff review of license renewal applications. These concerns were raised by an OIG audit report<sup>1</sup> issued in September 2007. The OIG audit report identified cases where review documents prepared by NRC contained nearly word-for-word repetition of renewal application text without attribution to the applicant.
- OIG completed an Event Inquiry in response to concerns that NRC staff mishandled a security related allegation pertaining to inattentive security officers at Peach Bottom Atomic Power Station.
- OIG conducted an investigation into concerns that NRC staff may have assisted or redirected a composite adversary force during a force-on-force security training exercise at Sequoyah Nuclear Power Plant in a manner that affected the outcome of the exercise.

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<sup>1</sup> *Audit of NRC’s License Renewal Program*, OIG-07-A-15, September 6, 2007



# ORGANIZATION AND ACTIVITIES

## NRC'S MISSION

NRC was formed in 1975, in accordance with the Energy Reorganization Act of 1974, to regulate the various commercial and institutional uses of nuclear materials. The agency succeeded the Atomic Energy Commission, which previously had responsibility for both developing and regulating nuclear activities.

NRC's mission is to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, promote the common defense and security, and protect the environment. NRC's regulatory mission covers three main areas:



- **Reactors** - Commercial reactors that generate electric power and research and test reactors used for research, testing, and training.
- **Materials** - Uses of nuclear materials in medical, industrial, and academic settings and facilities that produce nuclear fuel.
- **Waste** - Transportation, storage, and disposal of nuclear materials and waste, and decommissioning of nuclear facilities from service.

Under its responsibility to protect public health and safety, NRC has three principal regulatory functions: (1) establish standards and regulations, (2) issue licenses for nuclear facilities and users of nuclear materials, and (3) inspect facilities and users of nuclear materials to ensure compliance with the requirements. These regulatory functions relate both to nuclear power plants and other uses of nuclear materials – like nuclear medicine programs at hospitals, academic activities at educational institutions, research, and such industrial applications as gauges and testing equipment.

The NRC maintains a current Web site and a public document room in Rockville, Maryland (NRC headquarters), and holds public hearings, public meetings in local areas and at NRC offices, and discussions with individuals and organizations.



## OIG MISSION AND STRATEGIES

### Inspector General History

In the 1970s, Government scandals, oil shortages, and stories of corruption covered by newspapers, television, and radio stations took a toll on the American public's faith in its Government. The U.S. Congress knew it had to take action to restore the public's trust. It had to increase oversight of Federal programs and operations. It had to create a mechanism to evaluate the effectiveness of Government programs. And, it had to provide an independent voice for economy, efficiency, and effectiveness within the Federal Government that would earn and maintain the trust of the American people.

In response, President Jimmy Carter in 1978 signed into law the landmark legislation known as the Inspector General Act (IG Act). The IG Act created independent Inspectors General (IG), who would protect the integrity of Government; improve program efficiency and effectiveness; prevent and detect fraud, waste, and abuse in Federal agencies; and keep agency heads, Congress, and the American people fully and currently informed of the findings of IG work.

Today, the IG concept is a proven success. The IGs continue to deliver significant benefits to our Nation. Thanks to IG audits and inspections, billions of dollars have been returned to the Federal Government or have been better spent based on recommendations identified through those audits and inspections. IG investigations have also contributed to the prosecution of thousands of wrongdoers. In addition, the IG concept of good governance, accountability, and monetary recoveries encourages foreign governments to seek our advice, with the goal of replicating the basic IG principles in their own governments.

### OIG Mission

NRC's OIG was established as a statutory entity on April 15, 1989, in accordance with the 1988 amendment to the *IG Act*. NRC OIG's mission is to (1) independently and objectively conduct and supervise audits and investigations relating to NRC programs and operations; (2) prevent and detect fraud, waste, and abuse; and (3) promote economy, efficiency, and effectiveness in NRC programs and operations.



OIG is committed to ensuring the integrity of NRC programs and operations. Developing an effective planning strategy is a critical aspect of accomplishing this commitment. Such planning ensures that audit and investigative resources are used effectively. To that end, OIG developed a Strategic Plan that includes the major challenges and critical risk areas facing NRC.

The plan identifies the priorities of OIG and establishes a shared set of expectations regarding the goals OIG expects to achieve and the strategies that will be employed to do so. OIG's Strategic Plan features three goals which generally align with NRC's mission and goals:

1. Strengthen NRC's efforts to protect public health and **safety** and the environment.
2. Enhance NRC's efforts to increase **security** in response to an evolving threat environment.
3. Increase the economy, efficiency, and effectiveness with which NRC manages and exercises stewardship over its resources.

### **Audit Program**

The OIG Audit Program covers the management and financial operations; economy or efficiency with which an organization, program, or function is managed; and program results achieved. For this program, auditors assess the degree to which an organization complies with laws, regulations, and internal policies in carrying out programs, and they test program effectiveness as well as the accuracy and reliability of financial statements. The overall objective of an audit is to identify ways to enhance agency operations and promote greater economy and efficiency. Audits comprise four phases:

- **Survey phase** - An initial phase of the audit process is used to gather information, without detailed verification, on the agency's organization, programs, activities, and functions. An assessment of vulnerable areas determines whether further review is needed.
- **Verification phase** - Detailed information is obtained to verify findings and support conclusions and recommendations.





- **Reporting phase** - The auditors present the information, findings, conclusions, and recommendations that are supported by the evidence gathered during the survey and verification phases. Exit conferences are held with management officials to obtain their views on issues in the draft audit report. Comments from the exit conferences are presented in the published audit report, as appropriate. Formal written comments are included in their entirety as an appendix in the published audit report.
- **Resolution phase** - Positive change results from the resolution process in which management takes action to improve operations based on the recommendations in the published audit report. Management actions are monitored until final action is taken on all recommendations. When management and OIG cannot agree on the actions needed to correct a problem identified in an audit report, the issue can be taken to the Chairman for resolution.

Each September, OIG issues an Annual Plan that summarizes the audits planned for the coming Fiscal Year (FY). Unanticipated high priority issues may arise that generate audits not listed in the Annual Plan. OIG audit staff continually monitor specific issues areas to strengthen OIG's internal coordination and overall planning process. Under the OIG Issue Area Monitor (IAM) program, staff designated as IAMs are assigned responsibility for keeping abreast of major agency programs and activities. The broad IAM areas address nuclear reactors, nuclear materials, nuclear waste, international programs, security, information management, and financial management and administrative programs.

### Investigative Program

OIG's responsibility for detecting and preventing fraud, waste, and abuse within NRC includes investigating possible violations of criminal statutes relating to NRC programs and activities, investigating misconduct by NRC employees, interfacing with the Department of Justice on OIG-related criminal matters, and coordinating investigations and other OIG initiatives with Federal, State, and local investigative agencies and other OIGs. Investigations may be initiated as a result of allegations or referrals from private citizens; licensee employees; NRC employees; Congress; other Federal, State, and local law enforcement agencies; OIG audits; the OIG Hotline; and IG initiatives directed at areas bearing a high potential for fraud, waste, and abuse.



Because NRC's mission is to protect the health and safety of the public, one of the Investigation unit's main focus and use of resources is investigations of alleged conduct by NRC staff that could adversely impact the agency's handling of matters related to health and safety. These investigations may include allegations of:

- Misconduct by high ranking NRC officials and other NRC officials, such as managers and inspectors, whose positions directly impact public health and safety.
- Failure by NRC management to ensure that health and safety matters are appropriately addressed.
- Failure by NRC to appropriately transact nuclear regulation publicly and candidly and to openly seek and consider the public's input during the regulatory process.
- Conflict of interest by NRC employees with NRC contractors and licensees involving such matters as promises of future employment for favorable or inappropriate treatment and the acceptance of gratuities.
- Fraud in the NRC procurement program involving contractors violating Government contracting laws and rules.

OIG has also implemented a series of proactive initiatives designed to identify specific high-risk areas that are most vulnerable to fraud, waste, and abuse. A primary focus is electronic-related fraud in the business environment. OIG is committed to improving the security of this constantly changing electronic business environment by investigating unauthorized intrusions and computer-related fraud, and by conducting computer forensic examinations. Other proactive initiatives focus on determining instances of procurement fraud, theft of property, Government credit card abuse, and fraud in Federal programs.

## **OIG GENERAL COUNSEL ACTIVITIES**

### **Regulatory Review**

Pursuant to the Inspector General Act, 5 U.S.C. App. 3, Section 4(a)(2), OIG reviews existing and proposed legislation, regulations, policy, and implementing



Management Directives (MD), and makes recommendations to the agency concerning their impact on the economy and efficiency of agency programs and operations.

It is important to emphasize that OIG comments in regulatory review are an objective analysis of the language of proposed agency statutes, directives, regulations, and policies to identify vulnerabilities potentially resulting from these agency documents. Regulatory review is intended to provide assistance and guidance to the agency prior to the concurrence process to avoid formal implementation of potentially flawed documents. OIG does not concur or object to the agency actions reflected in the regulatory documents, but rather offers comments and requests responsive action within specified time frames.

From April 1, 2008, through September 30, 2008, OIG reviewed more than 265 agency documents, including approximately 150 Commission papers (SECYs) and Staff Requirements Memoranda and 115 Federal Register Notices, regulatory actions, and statutes.

To effectively track the agency's response to regulatory review comments, OIG requests written replies to its comments within 90 days, with either a substantive reply or status of issues raised.

During this reporting period, the following significant comment was provided to the agency and is summarized below.

Draft Management Directive and Handbook 6.4, *Generic Issues Program*, was initiated to implement changes to that program incorporating principles reflected in SECY-07-0022, *Status Report on Proposed Improvements to the Generic Issues Program*. The changes focused on ensuring timeliness of issue resolution, clarifying roles and responsibilities, increasing stakeholder participation, and establishing clear interfaces between the Generic Issues Program (GIP) and other program office processes and activities, and assuring that only issues that cannot be handled by other regulatory offices and programs are addressed under the GIP. OIG found that the directive and handbook adequately addressed the major issues related to this topic. The areas identified for additional clarification included further definitions and direction as to whether generic issues may be submitted confidentially. OIG provided additional guidance regarding the adequacy of the metrics





or procedures to be employed for monitoring the ultimate resolution of underlying generic issues to avoid recurrence of the issues after regulatory action has been taken.

In addition, two draft directives, MD 7.1 and MD 7.2, reviewed during this period were issued by the agency General Counsel to comply with the *Comprehensive Five Year Plan to Update References*, clarify certain legal standards and procedures within them, and reformat the documents in accordance with agency standardized templates.

MD 7.1, *Tort Claims Against the United States*, is intended to establish agency procedures for acting on tort claims filed against the United States under the Federal Tort Claims Act. These generally include suits for damage or losses caused by the negligent or wrongful act or omission of any NRC employee while acting within the scope of his/her office or employment. The updated draft document provided comprehensive direction on the major issues related to this topic. The OIG comments suggested inclusion of guidance related to referral to the Inspector General in cases where IG investigation would be appropriate and addition of the IG Act as a reference in the document.

MD 7.2, *Claims for Personal Property Loss or Damage*, is a guide intended to establish procedures to cover the settlement and payment of claims for loss or damage to personal property of employees incident to their services with NRC, under specified statutes. OIG suggested inclusion of OIG jurisdiction and the IG Act as a reference within the document, and information on the referral of claims to the appropriate prosecuting authority. OIG's comments added more specific direction regarding authority to make determinations of fraud and consequences of fraudulent claims.

Finally, the agency provided responsive comments to an earlier issued comment and followed up with formal discussions on one commentary.

## **OTHER ACTIVITIES**

### **Support of the IG Community in Training and Presentations**

The Attorney General guidelines for statutory law enforcement authority for IG community 1811 special agents require periodic training on specified legal issues. The Inspector General Academy, part of the Federal Law Enforcement Training



Center (FLETC), was tasked with formulating the syllabus for the training and identification of appropriate teaching staff. The NRC OIG General Counsel, Maryann Grodin, participated in a taskforce of attorneys from several IG offices that constructed a model 3-hour course and participated in training a cadre of attorney-trainers. The pilot class was completed successfully and this module is scheduled to be included in future refresher training for all IG agents.

The Council of Counsels to Inspectors General sponsors annual training for law students working as summer interns in IG offices in the Washington, DC, area. Ms. Grodin provided the 1-hour presentation on the *History and Concept of the Inspector General* for this year's interns.

Issues related to privacy in IG investigations were part of a 2-day program, the Federal Law Enforcement Legal Advisors Conference, sponsored by the Drug Enforcement Administration, the Federal Bureau of Investigation, and FLETC. Ms. Grodin served on a panel, along with Richard Reback, IG Counsel for the Department of Homeland Security, and Cedric Campbell, Assistant Counsel for the National Aeronautics and Space Administration IG. Ms. Grodin's presentation focused on statutes requiring and prohibiting disclosure of investigative information and discussed case law that illustrated the results of failure to comply with statutory and regulatory privacy requirements.

In addition, Ms. Grodin was invited to serve as a guest speaker for the annual Space and Warfare Command Inspector General Conference. During that 3-day meeting, she provided a presentation to more than 70 IG investigators, auditors, and attorneys from a variety of field offices and with varying experience levels. Her presentation covered three major areas, the IG concept and structure, privacy issues, and witness interview concerns. During her lecture, Ms. Grodin related both the statutory and regulatory authority and standards applicable to each of the topics, and illustrated each discussion area with examples from practice and evolving case law.



## OIG Senior Official Retires

George A. Mulley, Jr., Senior Level Assistant for Investigative Operations, retired from the NRC OIG after nearly 26 years with the office. Mr. Mulley was a vital asset to both the OIG and NRC from October 18, 1982, when he joined the NRC's Office of the Inspector and Auditor, the predecessor office to the OIG, until his retirement from OIG on August 30, 2008. During this time, Mr. Mulley held a series of leadership positions, demonstrating rigorous and steadfast commitment to NRC's public safety mission by conducting or overseeing investigations and issuing reports identifying significant issues concerning NRC's regulatory oversight of the Nation's nuclear industry.



*George A. Mulley, Jr.*

During his tenure, Mr. Mulley maintained the high regard of senior NRC managers for his understanding of technical and regulatory issues, and established an excellent rapport with the nuclear industry, intervenor groups, and Congressional staff members.

His commitment to excellence, tireless efforts, and dedication to duty will be missed.



# AUDITS

To help the agency improve its effectiveness and efficiency during this period, OIG completed 11 financial and performance audits or evaluations, 7 of which are summarized here, that resulted in numerous recommendations to NRC management. OIG also analyzed 2 contract audit reports.

## AUDIT SUMMARIES

### Audit of NRC's USAID-Funded Activities

#### OIG STRATEGIC GOAL: CORPORATE MANAGEMENT

NRC receives Freedom Support Act (FSA) funds from the USAID to support provisions of nuclear regulatory safety and security assistance to the regulatory authorities of Armenia, Georgia, Kazakhstan, Russia, and Ukraine. These funds support activities that include strengthening regulatory oversight of the startup,

operation, shutdown, and decommissioning of Soviet-designed nuclear power plants; the safe and secure use of radioactive materials; and accounting for and protection of nuclear materials.



*Map highlights former Soviet Union countries that receive FSA funds from NRC.*

approximately \$53,315,000 in FSA funding for assistance programs to improve near-term safety of Soviet designed reactors and enhance regulatory oversight of radioactive sources in Armenia, Georgia, Kazakhstan, Russia, and Ukraine. The audit objectives were to determine the adequacy of management controls over the use of USAID funds and if corrective actions from a previous audit were implemented.

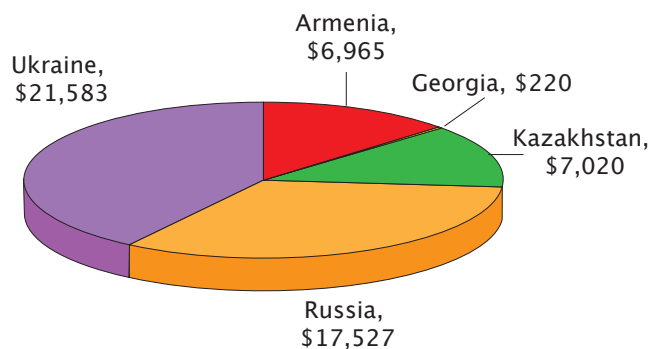


### **Audit Results:**

While the Memoranda of Agreement between USAID and NRC specify the dollar amounts allocated to each of five Former Soviet Union countries, the methodology used by NRC to pay individual contract invoices resulted in a miscategorization of approximately \$154,000 of FSA funds on the agency's official accounting records for the audit period. This condition is the result of inadequate contract provisions, noncompliance with agency policy, and undocumented and incorrect office procedures. Unless corrected, this payment practice could result in NRC overspending the FSA amounts allocated by USAID to specific countries.

U.S. Government Accountability Office and agency policies require that management provide timely review and approval of transactions. However, NRC did not process Department of Energy laboratory agreement transactions within the required timeframe because the agency is not following existing policy and lacks quality controls involving supervisory review. Without adherence to agency policy and quality controls regarding transaction processing, the potential for improper payments is increased. *(Addresses Management Challenge #7)*

**FSA SUPPORT TO NRC  
FISCAL YEARS 1992 THROUGH 2007 FUNDS**  
(Dollars in Thousands)



## **Evaluation of NRC's Training and Development Program**

### **OIG STRATEGIC GOAL: CORPORATE MANAGEMENT**

NRC's policy is to provide training that improves employees' organizational performance in achieving the agency's mission and goals. The Office of Human Resources (HR) is responsible for planning and implementing agencywide training and develops policies and programs designed to establish, maintain, and enhance regulatory, technical, professional, and leadership skills. Formal in-house training provided by HR includes all training developed and sponsored by the Professional Development Center in Bethesda, Maryland, and the Technical Training Center in Chattanooga, Tennessee. In addition, NRC uses external training programs to augment the training provided in-house.



The training program is challenged by a planned significant increase in staff. By 2009, the agency expects to increase the number of staff by 600.

The objective of this evaluation was to determine the effectiveness of the agency's training and development program to meet current and future needs.

***Evaluation Results:***

The evaluation team reviewed existing reports on the Training and Development Program and conducted qualitative research consisting of interviews with HR staff members, agency employees, managers, and executives. The evaluation disclosed that:

- Efforts to maintain training documents, track changes, and control current versions are not consistent across all HR branches. Inconsistent and incomplete content management practices and tools have hampered the ability to manage and control course content. The inability to consistently manage and control content impacts the ability to provide effective and relevant training and development programs.
- Regional offices have difficulties in scheduling new and current employees for training. Employees' inability to schedule training in a timely fashion has delayed the acquisition of skills needed to perform their jobs and meet qualification requirements.
- HR has limited ability to demonstrate the impact of its Training and Development Program on NRC's mission using current performance measures. Without effective performance metrics, HR is unable to demonstrate its contribution to NRC's mission and risks future support and funding.
- Current evaluation strategies are limited in their ability to demonstrate the effectiveness of training. Without a strategy that standardizes the training evaluation procedure and metrics, NRC cannot accurately measure and monitor its achievement of goals.
- HR's continued reliance on the traditional classroom as the primary delivery method for training is being strained by an increasing number of students as well as new training needs. HR has not developed an e-learning strategy or implementation plan to maximize the benefits of this investment and ensure





it is meeting the agency's most pressing training needs. HR staff is strained to meet all of the training needs in the traditional classroom with its current staff and facility resources, but additional funding to support e-learning initiatives may be difficult to obtain without a defined strategy and implementation plan.

- In order to move into other forms of training delivery, HR will need to enhance or supplement the skill sets of its staff. HR staff noted that there are limited skills and resources for the development and deployment of e-learning among the current staff. If NRC plans to implement more e-learning solutions, HR will need to find ways to close the e-learning skill gaps—either through training, hiring, or outsourcing. Attempting to develop effective e-learning programs without the necessary skills can lead to staff frustration and ineffective learning opportunities for employees. (*Addresses Management Challenge #8*)

## Audit of NRC's Premium Class Travel

### OIG STRATEGIC GOAL: CORPORATE MANAGEMENT

NRC is required to follow the Federal Travel Regulations (FTR) for all travel taken for Government business. The FTR, issued by the General Services Administration, implements statutory and Office of Management and Budget (OMB) requirements and policies for most Federal civilian employees and others authorized to travel at the Government's expense. OMB's policy related to travel is that taxpayers should not pay more than necessary to transport Government employees and officials. Consistent with this principle, the FTR states that, with limited exceptions, travelers must use coach class accommodations for both domestic and international travel.



The objectives of the audit were to determine if (1) travel costs associated with premium air travel (i.e., per diem) are properly authorized, justified, and documented and (2) premium air travel is properly authorized, justified, and documented.

#### ***Audit Results:***

NRC generally complied with FTR per diem requirements for trips involving premium travel during the time period reviewed. Additionally, during this time period, NRC made significant improvements in processing travel vouchers.



However, despite Federal and agency policies requiring that premium air travel be used only when warranted, approximately 50 percent of the premium air travel taken by NRC employees, between October 1, 2006, and March 31, 2008, was inappropriately authorized, justified, and/or documented. Additionally, NRC did not fully comply with OMB guidance with regard to the definition of a rest period. Further, NRC's premium travel approval process for the Chairman's travel differs from other Federal commissions. These problems occurred because NRC premium air travel guidance is inconsistent, unclear, and misleading to employees. The absence of proper controls over the premium air travel program resulted in NRC overspending approximately \$104,000 on unjustified premium travel during the 18-month period. With improved controls over the process, NRC would have been able to put these funds to better use. (*Addresses Management Challenge #7*)

### **Audit of NRC's Enforcement Program**

#### **OIG STRATEGIC GOAL: SAFETY**

NRC's enforcement jurisdiction is drawn from the Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974, as amended. In recognition that violations occur in a variety of activities and have varying levels of significance, the Commission set out to create an enforcement framework with graduated sanctions to reflect this diversity. The Commission's first public statement of policy on enforcement (the first Enforcement Policy) was published in 1980. Although the policy statement has changed several times, two goals of the enforcement program remain unchanged: to emphasize the importance of compliance with regulatory requirements and to encourage prompt identification and prompt, comprehensive correction of violations. The enforcement program is also intended to meet the agency's performance goals.

Violations are identified through inspections and investigations. All violations are subject to civil enforcement action and may also be subject to criminal prosecution. After an apparent violation is identified, it is assessed in accordance with the Commission's Enforcement Policy. Because the policy statement is not a regulation, the Commission may deviate from the Enforcement Policy as appropriate under the circumstances of a particular case.

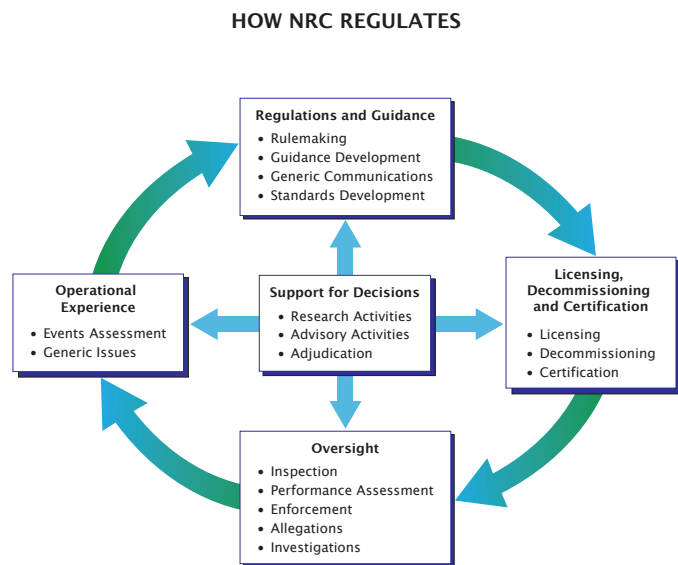


The audit objectives were to determine how NRC assesses the significance of violations and the level of enforcement action to be taken.

**Audit Results:**

Enforcement is a vital regulatory activity and NRC expects consistent agencywide implementation of its Enforcement Program. However, the agency’s four regional offices inconsistently implement the program in ways that can significantly impact the enforcement process. These differences occur because the agency has not issued clear and comprehensive guidance to facilitate program consistency. Regional inconsistencies in Enforcement Program implementation can leave agency enforcement decisions vulnerable to challenge, potentially compromising public confidence in NRC’s Enforcement Program.

Furthermore, although NRC staff need complete and reliable enforcement information for decisionmaking and reporting purposes, complete and reliable enforcement data is not readily available. Data availability and reliability issues exist because NRC has not (1) defined systematic data collection requirements regarding non-escalated enforcement activity for other than the reactor program or (2) instituted a quality assurance process over non-escalated enforcement data used for reporting purposes. Without complete and reliable information, enforcement decision-makers cannot ensure appropriate processing of enforcement issues, and staff may miss opportunities to identify precedents or trends that would be useful in guiding appropriate enforcement responses. Furthermore, the agency cannot ensure it is reporting accurately on Enforcement Program activity. (*Addresses Management Challenges #1 and #3*)





## Independent Evaluation of NRC's Implementation of the Federal Information Security Management Act for Fiscal Year 2008

### OIG STRATEGIC GOAL: SECURITY

The Federal Information Security Management Act (FISMA) was enacted on December 17, 2002. FISMA permanently reauthorized the framework laid out in the Government Information Security Reform Act, which expired in November 2002. FISMA outlines the information security management requirements for agencies, including the requirement for an annual review and annual independent assessment by agency inspectors general. In addition, FISMA includes new provisions such as the development of minimum standards for agency systems, aimed at further strengthening the security of Federal Government information and information systems. The annual assessments provide agencies with the information needed to determine the effectiveness of overall security programs and to develop strategies and best practices for improving information security.

The objectives of this evaluation were to evaluate (1) the adequacy of NRC's information security programs and practices for NRC major applications and general support systems of record for FY 2008, (2) the effectiveness of agency information security control techniques, and (3) the implementation of NRC's corrective action plan created as a result of the 2007 FISMA program review.

#### ***Evaluation Results:***

Over the past 6 years, NRC has made improvements to its information system security program and continues to make progress in implementing the recommendations resulting from previous FISMA evaluations. In order to meet FISMA requirements as they relate to information technology (IT) security, the Commission, on November 14, 2007, approved the establishment of the Computer Security Office. The new office reports to the Deputy Executive Director for Information Services/Chief Information Officer and is headed by the Chief Information Security Officer.

Two significant deficiencies, which were identified in the FY 2007 FISMA independent evaluation, were addressed in FY 2008.





In addition to making significant progress on the two significant deficiencies identified in FY 2007, the agency has accomplished the following since the FY 2007 FISMA independent evaluation:

- All major applications and general support systems have been categorized in accordance with Federal Information Processing Standards Publication 199, *Standards for Security Categorization of Federal Information and Information Systems*.
- The agency completed annual security control testing for all agency systems and for all contractor systems for which NRC has direct oversight.
- The agency completed or updated security plans for 14 of the agency's 28 operational systems and for all contractor systems for which NRC has direct oversight.
- The agency has made progress in implementing the provisions of OMB Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information (PII)*. For example, on September 19, 2007, NRC issued the *NRC Personally Identifiable Information Breach Policy and the NRC Plan to Eliminate the Unnecessary Collection and Use of Social Security Numbers*.

While the agency has made significant improvements in its information system security program and has made progress in implementing the recommendations resulting from previous FISMA evaluations, the independent evaluation identified four information system security program weaknesses.

- The NRC inventory does not identify interfaces between systems.
- The quality of the agency's plans of action and milestones needs improvement.
- Not all Windows XP and Vista systems have implemented Federal Desktop Core Configuration security settings.
- The agency lacks procedures for ensuring employees with significant IT security responsibilities receive security training. (*Addresses Management Challenge #2*)

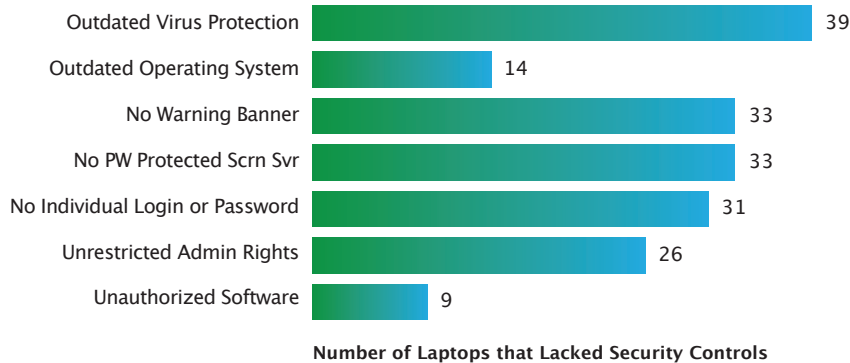


## Audit of NRC's Laptop Management

### OIG STRATEGIC GOAL: SECURITY

The NRC uses more than 1,550 laptop computers in its day-to-day operations. NRC owns, manages, and maintains approximately 85 percent of this laptop inventory, or approximately 1,300 laptops. The Office of Information Services (OIS), Infrastructure and Computer Operation Division (ICOD), is responsible for developing and implementing policies, standards, and configurations to maximize functionality, support, and security for laptops. Within ICOD, the Network Operations and Customer Services Branch is responsible for asset management of laptops. Although OIS has responsibility for issuing policies, standards, and configurations related to agency-owned laptops, individual offices are accountable for the immediate oversight of their assigned laptops, including management and maintenance.

#### LAPTOPS MISSING SECURITY CONTROLS (Sample = 49)



Laptops used at NRC are either (1) connected to the NRC LAN or (2) used as standalone systems. Some of the laptops are used to process safeguards and/or classified information. These are considered “listed systems.” Laptops connected to the NRC LAN are protected by the LAN’s security controls.

A 2005 OIG report noted that security controls for standalone personal computers

and laptops that are not used to process safeguards and/or classified information are not adequate. Laptops that are not used to process safeguards and/or classified information are not monitored for compliance with Executive Order 13103, *Computer Software Piracy*.

The audit objectives were to evaluate the effectiveness of NRC’s security policies for laptop computers.



### ***Audit Results:***

Required security controls over laptops were lacking in headquarters and each of two regional offices where OIG surveyed laptops during this audit. These controls were lacking because the agency has not established clear policies and procedures to implement and monitor security requirements, especially concerning virus protection and operating system updates for all agency-owned laptop computers. As a result, the agency's laptops are susceptible to viruses and unauthorized use. This could result in the inadvertent release of sensitive NRC information when laptops are connected to the Internet, or it could pose a threat to the secure operation of the agency's network and information when laptops are connected to the NRC LAN. (*Addresses Management Challenge #6*)

## **Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing the Nuclear Regulatory Commission**

### **OIG STRATEGIC GOAL: CORPORATE MANAGEMENT**

The *Reports Consolidation Act of 2000* requires the Inspector General of each Federal agency to summarize annually what he or she considers to be the most serious management and performance challenges facing the agency and to assess the agency's progress in addressing those challenges.

In accordance with the act, the NRC IG updated what he considers to be the most serious management and performance challenges facing NRC. The IG evaluated the overall work of the OIG, the OIG staff's general knowledge of agency operations, and other relevant information to develop and update his list of management and performance challenges. As part of the evaluation, OIG staff sought input from NRC's Chairman, Commissioners, and management on their views on what challenges the agency is facing and what efforts the agency has taken to address previously identified management and performance challenges.

### ***Assessment Results:***

The IG identified eight challenges that he considers the most serious management and performance challenges facing NRC. The challenges identified represent critical areas or difficult tasks that warrant high-level NRC management attention.



This year's list of challenges reflects several changes from last year's list.

- Prior challenge 2, *Appropriate handling of information*, was combined with prior challenge 7, *Communication with external stakeholders throughout NRC regulatory activities*. The consolidation of these challenges resulted in the following description for new challenge 2: *Managing information to balance security with openness and accountability*, which captures the need for both openness and protection of information.
- Prior challenge 3, *Development and implementation of a risk-informed and performance-based regulatory approach*, was revised to the current challenge 3 language: *Implementation of a risk-informed and performance-based regulatory approach*. This change reflects the relative maturity of NRC's risk-informed and performance-based regulatory programs and their advancement beyond developmental efforts to implementation activities.
- Prior challenge 4, *Ability to modify regulatory processes to meet a changing environment, specifically the potential for a nuclear renaissance*, was reworded to more precisely focus on licensing issues. Current challenge 4 now states, *Ability to modify regulatory processes to meet a changing environment, to include the licensing of new nuclear facilities*. Waste issues, formerly covered in challenge 4, are reflected in a new challenge 5, *Oversight of radiological waste*.
- Prior challenge 5, *Implementation of information technology*, was reworded to current challenge 6, *Implementation of information technology and information security measures* to emphasize the need to ensure that information technology resources use technological solutions for information security when appropriate.

The chart that follows provides an overview of the eight most serious management and performance challenges as of September 30, 2008.





**Most Serious Management and Performance Challenges  
Facing the Nuclear Regulatory Commission\*  
as of September 30, 2008  
(as identified by the Inspector General)**

<b>Challenge 1</b>	<i>Protection of nuclear material used for civilian purposes.</i>
<b>Challenge 2</b>	<i>Managing information to balance security with openness and accountability.</i>
<b>Challenge 3</b>	<i>Implementation of a risk-informed and performance-based regulatory approach.</i>
<b>Challenge 4</b>	<i>Ability to modify regulatory processes to meet a changing environment, to include the licensing of new nuclear facilities.</i>
<b>Challenge 5</b>	<i>Oversight of radiological waste.</i>
<b>Challenge 6</b>	<i>Implementation of information technology and information security measures.</i>
<b>Challenge 7</b>	<i>Administration of all aspects of financial management.</i>
<b>Challenge 8</b>	<i>Managing human capital.</i>

*\*The most serious management and performance challenges are not ranked in any order of importance.*

The eight challenges contained in this report are distinct, yet interdependent relative to the accomplishment of NRC’s mission. For example, the challenge of managing human capital affects all other management and performance challenges.

The agency’s continued progress in taking actions to address the challenges presented should facilitate successfully achieving the agency’s mission and goals.



## AUDITS IN PROGRESS

### Audit of NRC's Agreement State Program

#### OIG STRATEGIC GOAL: SAFETY

In accordance with Section 274 of the Atomic Energy Act, NRC relinquished to 35 States its authority to regulate certain byproduct material. The States must demonstrate that their regulatory programs are compatible with NRC's program and adequate to protect public health and safety. The 35 States, which have entered into an agreement assuming this regulatory authority from NRC, are called Agreement States.

NRC and the Agreement States are responsible for ensuring the adequate protection of public health and safety in the uses of Atomic Energy Act materials. Accordingly, NRC and Agreement State programs must possess the requisite supporting legislative authority, implementing organization structure and procedures, and financial and human resources to effectively administer a radiation control program that ensures adequate protection of public health and safety.

NRC's policy is to evaluate the NRC regional materials programs and Agreement State radiation control programs in an integrated manner, using common and non-common performance indicators, to ensure that public health and safety is adequately protected. As a result, NRC implemented the Integrated Materials Performance Evaluation Program (IMPEP) to evaluate the regional materials and Agreement State programs. Using IMPEP, under normal circumstances, NRC evaluates these programs every 4 years.

This audit will assess NRC's oversight of the adequacy and effectiveness of Agreement State programs. (*Addresses Management Challenge #4*)<sup>2</sup>

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<sup>2</sup> This and the management challenge references on the following pages are those identified for Fiscal Year 2008.



## Audit of the Committee to Review Generic Requirements' Role in Generic Backfit Reviews

### OIG STRATEGIC GOAL: SAFETY

The Committee to Review Generic Requirements (CRGR) was established to ensure that proposed generic backfits to be imposed on power reactors and/or selected nuclear materials facilities licensed by the NRC are appropriately justified based on backfit provisions of applicable NRC regulations and the Commission's backfit policy. As an advisory committee to NRC's Executive Director for Operations, the CRGR's primary responsibilities are to recommend either approval or disapproval of the staff proposals and to provide guidance and assistance to the NRC program offices to help them implement the Commission's backfit policy.

The CRGR provides an annual report to the Commission describing its previous year of activities and decisions regarding the various topics that came before the CRGR for review. As an additional responsibility, the CRGR is to review the NRC's administrative generic backfit controls to determine if the controls are sufficient and staff guidance is comprehensive and clear.

The objectives of this audit are to determine if CRGR reviews adds value for Executive Director for Operations decisionmaking purposes, and if the CRGR's function is still valid. (*Addresses Management Challenges #1 and #4*)

## Audit of National Source Tracking System Development

### OIG STRATEGIC GOAL: SECURITY

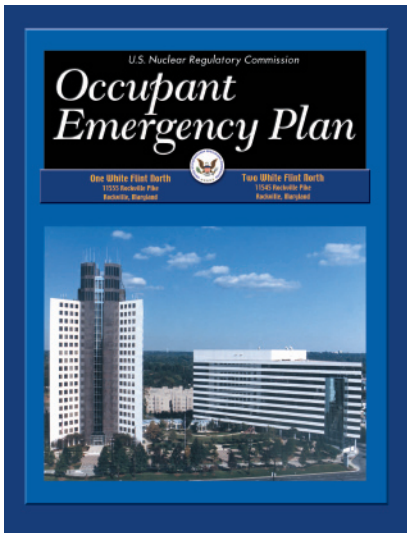
Pursuant to the Energy Policy Act of 2005, NRC is required to establish a mandatory tracking system for radiation sources in the United States. The act requires that the system be able to identify each radiation source by serial number or other unique identifier; report within 7 days of any change of possession of a radiation source; report within 24 hours of any loss of control of or accountability for a radiation source; and provide for reporting through a secure Internet connection.

Additionally, the system is designed to be a national, comprehensive resource that includes Category 1 and 2 sources held by NRC and Agreement State licensees and by the Department of Energy. As a result, the National Source Tracking



System is being developed for licensee reporting on sealed sources containing nuclear materials. The system will provide online tracking of individual sources throughout their lifecycle.

The audit objective is to assess the effectiveness of the system development effort and assess the delays being encountered. (*Addresses Management Challenge #1*)



## Audit of NRC's Occupant Emergency Program

### OIG STRATEGIC GOAL: SECURITY

Federal regulations require the development of an Occupant Emergency Plan (OEP) to reduce the possibility of personal injury and facility damage in the event of an emergency. OEPs describe the actions that occupants should take to ensure their safety if a fire or other emergency situation occurs. These plans reduce the threat to personnel, property, and other assets within the facility in the event of an incident inside or immediately surrounding a facility by providing facility-specific response procedures for occupants to follow.

The Department of Homeland Security published Federal Continuity Directive-1 outlining the requirements agencies must fulfill in developing emergency response plans. In addition, the U.S. General Services Administration *Occupant Emergency Program Guide* was prepared to assist agencies with their emergency planning.

The objective is to evaluate the extent to which NRC's OEP complies with Federal regulations. (*Addresses Management Challenge #6*)

## Audit of NRC's FY 2008 Financial Statements

### OIG STRATEGIC GOAL: CORPORATE MANAGEMENT

Under the Chief Financial Officers Act and the Government Management and Reform Act, OIG is required to audit the financial statements of the NRC. OIG is auditing NRC's financial statements in accordance with applicable auditing standards. The audit will express an opinion on the agency's financial statements,





evaluate internal controls, review compliance with applicable laws and regulations, review the performance measures for compliance with OMB guidance, and review the controls in NRC's computer systems that are significant to the financial statements. In addition, OIG will measure the agency's improvements by assessing corrective action taken on prior audit findings. (*Addresses Management Challenge #7*)

## Audit of NRC's Warehouse Operations

### OIG STRATEGIC GOAL: CORPORATE MANAGEMENT

NRC policy requires the effective and efficient management of property, including sufficient controls to deter or prevent loss through fraud, waste, or misuse. NRC maintains two warehouses in separate locations from headquarters. These warehouses receive, store, and deliver property, equipment, and supplies needed for NRC operations. The primary type of property stored in the warehouses is systems furniture, used to construct office workstations. In addition, warehouse staff play a key role in the abandonment of excess property. As of July 2008, the warehouses contained approximately 15,000 pieces of property with an acquisition cost of approximately \$4.2 million.

The audit objective is to determine whether NRC has established and implemented an effective system of internal controls for maintaining accountability and control of warehouse property. (*Addresses Management Challenge #7*)



# INVESTIGATIONS

*During this reporting period, OIG received 83 allegations, initiated 17 investigations, and closed 31 cases. In addition, the OIG made 25 referrals to NRC management and 8 to the Department of Justice.*

## INVESTIGATIVE CASE SUMMARIES

### NRC Contractor Soliciting Employment From Applicant During Audit Review

#### OIG STRATEGIC GOAL: CORPORATE MANAGEMENT

OIG completed an investigation into claims by an NRC applicant who had submitted a request for a design certification for a new boiling water reactor. The applicant alleged that during an NRC audit of the applicant's software quality assurance program, an NRC audit contractor attempted to solicit work from the applicant.

OIG learned that during a meeting between the NRC, the audit contractor, and applicant personnel, problems were identified with the applicant's software program and, as a result, the NRC audit contractor made critical comments about the applicant's program. The contractor provided the applicant personnel with his business cards and recommended that they consult with experts in the software modeling field to help with their software development. The applicant personnel felt these comments were derogatory and inappropriate because the NRC contractor was in a position to influence the NRC's opinion of the software program. Nevertheless, the applicant personnel acknowledged they were unsure whether these comments were in fact an attempt to solicit work. In addition, NRC staff who attended the meeting did not believe that the NRC contractor had attempted to solicit work from applicant personnel.

OIG determined that the NRC audit contractor was critical of the software program and that he provided the applicant personnel his business card and suggested they consult with experts in the software modeling field to help with their software development. However, OIG also determined that these industry experts referenced by the contractor are longstanding professors at major universities and that there was no connection between the NRC audit contractor and the industry experts he recommended to the applicant personnel during the audit. *(Addresses Management Challenge #1)*



## False Claims of Small Business Entity Status By NRC Licensees

### OIG STRATEGIC GOAL: CORPORATE MANAGEMENT

OIG completed two separate investigations involving NRC material licensees that submitted false claims of small business entity status. Licensees that certify themselves as small business entities are eligible to receive reduced material license fees.

NRC requires companies seeking small business entity status to complete NRC Form 526 as part of the qualification process. Form 526 states that companies with 35 to 500 employees or between \$350,000 and \$6,000,000 in annual revenue are eligible for a reduced material license fee of \$2,300; companies with fewer than 35 employees or annual revenue of less than \$350,000 are eligible for a reduced material license fee of \$500. NRC Form 526 also states that licensees that are subsidiaries of larger entities, including foreign entities, do not qualify as small business entities if the aggregate totals of the parent company are not within the guidelines of NRC Form 526.

OIG determined that one company applied and received small business entity status from the NRC for FY 2004 through FY 2007, which allowed the company to pay a reduced material license fee of \$2,300 during those years. However, the company was a subsidiary of a much larger company that employed more than 28,000 people, which made the company ineligible for the reduced fee. The company applied for the small business entity status based on the number of employees working for the subsidiary only. In addition, the company did not receive sufficient guidance from the NRC concerning its eligibility for small business entity status. The company reimbursed NRC \$21,700 for the unpaid portion of the full license fees.

OIG determined that another company was a subsidiary of an overseas company with revenue and number of employees that exceeded the guidelines used to certify small business entity status. The company certified its small business entity status for FY 2006 and FY 2007, which allowed the company to pay a reduced material license fee during those years even though, as a subsidiary, the company was ineligible for the reduced material license fee. However, during FY 2005, the company was eligible and received small business entity status. The company's status changed in early FY 2006 when it was acquired by a larger company. Furthermore, the company did not receive sufficient guidance from



the NRC concerning its eligibility for small business entity status. The company reimbursed NRC \$18,200 for the unpaid portion of the full license fee. (*Addresses Management Challenge #6*)

## NRC Staff Review of License Renewal Applications

### OIG STRATEGIC GOAL: SAFETY

OIG completed an investigation into concerns raised regarding the extent of the NRC staff review of license renewal applications. These concerns were raised by an OIG audit report<sup>3</sup> issued in September 2007. The OIG audit report identified cases where documents prepared by NRC contained nearly word-for-word repetition of a licensee's renewal application text without attribution to the applicant. The audit noted that this practice made it difficult for a reader to distinguish between information submitted by the applicant and information prepared by NRC to support its independent assessment and conclusion. The audit noted that this reporting technique could cast doubt as to exactly what NRC did to independently review an applicant's license renewal application.

To address the concerns raised by the audit, OIG investigated the NRC staff preparation of license renewal Safety Evaluation Reports (SER) for four nuclear plants. The OIG review included interviews and reviews of documents relevant to NRC's assessment of license renewal applications for the four nuclear plants. OIG's review focused on two Aging Management Programs (AMP) for each plant. AMPs demonstrate that the effects of aging will be adequately managed by the licensee so that the intended function(s) will be maintained consistent with the current licensing basis for the period of extended operation.

The NRC safety review process includes technical reviews performed in headquarters and onsite audits. Individual staff from Office of Nuclear Reactor Regulation (NRR) engineering divisions in headquarters conduct technical reviews of plant-specific AMPs and other unresolved or emergent issues. These individuals review specific sections of the renewal application based on their area of expertise. Teams from the Division of License Renewal, NRR, perform onsite audits of supporting documentation for AMPs. The results of these NRC staff reviews are documented in a SER.

<sup>3</sup> *Audit of NRC's License Renewal Program*, OIG-07-A-15, September 6, 2007





OIG determined that professional judgment was used to establish the extent of the staff's review of applicant documents and the number and nature of questions posed by NRC to the applicant staff. NRC reviewers prepared working papers, including checklists, during the audits that reflected the specific documents reviewed. The NRR audit team working papers included notes from these document reviews and additional information supplied by applicant staff. The reviewers used these working papers during and following the onsite audit to prepare their formal input for an audit report, which was used as input to the SER.

NRC work hour data reviewed by OIG indicated that significant numbers of hours were used by the NRC staff in the review of these four license renewal applications. The NRR audit reports prepared by NRR staff also listed a number of applicant documents that were reviewed during these license renewal reviews.

OIG determined that SERs are summary in nature as are the NRR audit reports. These audit reports contain the documented description of the NRC on site review of AMPs and provide support for the SERs. However, OIG learned that the staff does not preserve copies of all applicant documents reviewed during the onsite audits, and the staff does not preserve their own audit working papers as permanent records which made it difficult to verify specific details of the agency's onsite review activities. (*Addresses Management Challenges #3 and #4*)

## **NRC's Handling of Security Related Allegation**

### **OIG STRATEGIC GOAL: SECURITY**

OIG completed an Event Inquiry in response to concerns that NRC staff mishandled a security related allegation pertaining to inattentive security officers at the Peach Bottom Atomic Power Station (Peach Bottom). This inquiry was undertaken in response to information provided to OIG in a September 2007 letter from the Project on Government Oversight (POGO) describing a pattern of on-duty security officer fatigue and inattentiveness at Peach Bottom. Peach Bottom is owned by Exelon, which holds the NRC license for the plant. At the time of alleged inattentiveness by security officers, The Wackenhut Corporation provided the security services for the plant.

In support of its concern, POGO provided OIG a copy of an undated letter post-marked March 20, 2007, that had been given to POGO by a former security manager



for The Wackenhut Corporation. The March letter claimed that Peach Bottom security officers were fatigued from working excessive overtime or 12-hour shifts and would cover for each other so they could take naps of 10 minutes or more during shifts. The letter also indicated that (1) past efforts by NRC to identify personnel sleeping on duty had failed, (2) NRC and Exelon were aware that officers were sleeping while on duty, and (3) security officers feared Exelon management retaliation for raising safety concerns. This letter had been provided to the NRC resident inspector at Peach Bottom in March 2007, and at that time the concerns it relayed were evaluated under NRC's allegation management program by the NRC's Region I office, which provides regulatory oversight for Peach Bottom.

OIG learned that in handling this allegation, Region I opted to refer the concerns to Exelon in a April 30, 2007, letter for evaluation. Exelon's review, documented in a May 30, 2007, assessment report, did not substantiate the concerns. Region I concurred with Exelon's assessment and in August 2007 closed the Peach Bottom allegation file as unsubstantiated.

In September 2007, just prior to OIG's receipt of POGO's letter, the WCBS news station in New York provided a videotape to NRC Region I that depicted inattentive security officers on duty at Peach Bottom. The videotape was broadcast on national television and resulted in considerable congressional and public concern. NRC did not refer this allegation to Exelon for review, but instead convened a special NRC inspection team to review the concern, which was substantiated.

OIG determined that Region I was inconsistent in its assessment of the safety significance of the two allegations, made within 6 months of each other, conveying similar concerns about inattentive security officers at Peach Bottom. OIG also determined that in referring the Peach Bottom security concerns to Exelon, Region I staff did not follow NRC guidance that allegations against licensee management should not be referred. Two of the three concerns – officers feared retaliation from Exelon management for raising safety concerns and Exelon management was aware that officers were inattentive on duty but had not taken proper actions to address the inattentiveness – fall into this category.

OIG also determined that, in conjunction with referring the March 2007 concerns to Exelon for evaluation, Region I could have taken the following steps:



- Contacted the former Wackenhut security manager to obtain additional information because the Region I staff believed the alleged letter lacked specificity.
- Provided more detailed information to Exelon pertaining to the March 2007 security concerns. Specifically, in its April 30, 2007, letter to Exelon, Region I could have informed Exelon that security officers were coordinating with each other or waking each other up to respond to radio checks. They also could have conveyed the alleged suggestion to monitor the plant personnel staging areas.
- Provided the March 2007 concerns to the NRC resident inspectors assigned to Peach Bottom for increased monitoring of security officer activities.
- Tasked the Region I security inspectors to look into the matter during their scheduled security inspection conducted at Peach Bottom from April 30 to May 4, 2007.

Furthermore, OIG determined that NRC staff did not probe or attempt to verify the information provided by Exelon in its May 30, 2007, assessment report. (*Addresses Management Challenge #1*)

### **Improper Direction by NRC Staff During a Force-on-Force Exercise at Sequoyah**

#### **OIG STRATEGIC GOAL: SECURITY**

OIG conducted an investigation into concerns that NRC staff may have assisted or redirected a composite adversary force (CAF) during a force-on-force (FOF) security training exercise at Sequoyah Nuclear Power Plant (Sequoyah), which affected the outcome of the exercise. FOF exercises are used by NRC to evaluate security programs at nuclear power plants. During an FOF exercise, the CAF, which is a mock adversary force, is used to infiltrate a facility and then simulate damaging key safety systems and components that protect the nuclear power plant. The plant's security force, in turn, seeks to stop the CAF from damaging



*Force-on-force security training exercise.*



the plant's equipment. A controller is assigned to each CAF member to ensure that the exercise scenarios are conducted safely and that all players are following the rules of engagement.

OIG learned that an NRC staff member accompanied the CAF during the FOF exercise at Sequoyah from the time the CAF entered the plant's perimeter until the completion of the exercise. After CAF members reached the plant's auxiliary building, they breached the wrong door. According to the lead CAF controller, CAF members overheard a conversation he had with the NRC staff member regarding the fact that the wrong door had been breached, which allowed the CAF to use this information to successfully complete the mission.

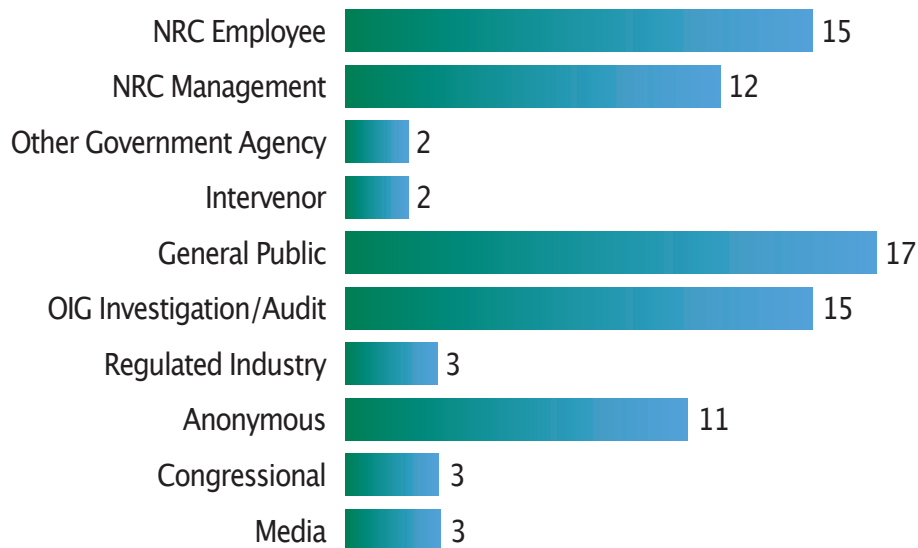
OIG determined that CAF members did not improperly receive any help or guidance from any NRC staff member. Further, the CAF members did not witness any gestures by any NRC staff member that would have unintentionally given them information to successfully complete the mission, nor did they overhear any conversation between any NRC staff member and the lead CAF controller. Rather, CAF members determined on their own that they had breached the wrong door and that their only other option was to breach the one remaining door within the room. (*Addresses Management Challenge #1*)



# STATISTICAL SUMMARY OF OIG ACCOMPLISHMENTS

## INVESTIGATIVE STATISTICS

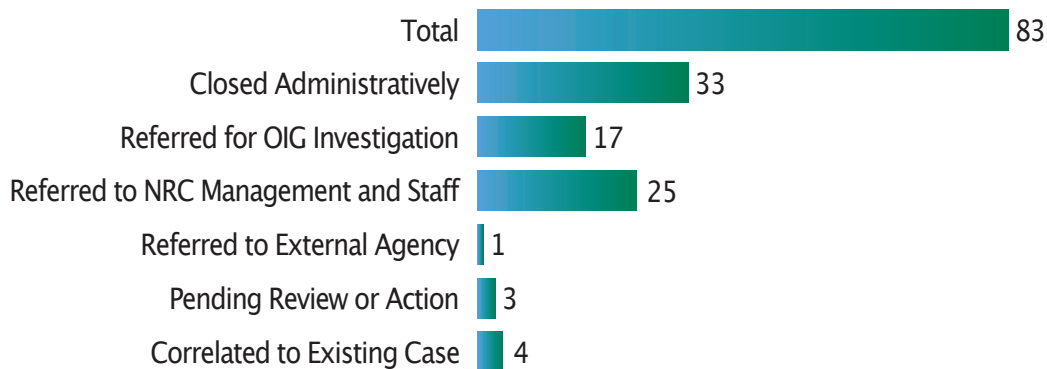
### Source of Allegations — April 1, 2008, through September 30, 2008



Allegations resulting from Hotline calls: 25

Total: 83

### Disposition of Allegations — April 1, 2008, through September 30, 2008





## Status of Investigations

DOJ Referrals .....	8
DOJ Pending (from a prior period) .....	1
DOJ Declinations .....	7
DOJ Accepted .....	1
NRC Administrative Actions:	
Terminations and Resignations .....	1
Suspensions and Demotions .....	2
Counseling .....	1
Recoveries .....	\$39,900

## Summary of Investigations

<i>Classification of Investigations</i>	<i>Carryover</i>	<i>Opened Cases</i>	<i>Closed Cases</i>	<i>Cases In Progress</i>
Conflict of Interest	1	0	0	1
Internal Fraud	1	0	1	0
External Fraud	6	1	3	4
False Statements	0	2	1	1
Misuse of Government Property	5	3	6	2
Employee Misconduct	3	6	2	7
Management Misconduct	3	1	3	1
Mishandling of Technical Allegations/ Miscellaneous	12	3	7	8
Proactive Initiatives	5	1	4	2
Project	10	0	3	7
Event Inquiries	2	0	1	1
<b>Total Investigations</b>	<b>48</b>	<b>17</b>	<b>31</b>	<b>34</b>



## AUDIT LISTINGS

### Internal Program Audit and Special Evaluation Reports

<i>Date</i>	<i>Title</i>	<i>Audit Number</i>
09/30/2008	Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing the Nuclear Regulatory Commission	OIG-08-A-20
09/30/2008	Audit of NRC's Laptop Management	OIG-08-A-19
09/30/2008	Independent Evaluation of NRC's Implementation of the Federal Information Security Management Act for Fiscal Year 2008	OIG-08-A-18
09/30/2008	Audit of NRC's Enforcement Program	OIG-08-A-17
09/15/2008	Audit of NRC's Premium Class Travel	OIG-08-A-16
09/09/2008	Memorandum Report: Audit of the Nuclear Regulatory Commission's Use of Reemployed Annuitants	OIG-08-A-15
07/18/2008	Audit of NRC's Control Over the Process for Eliminating Management Directives	OIG-08-A-14
07/16/2008	Evaluation of NRC's Training and Development Program	OIG-08-A-13
07/15/2008	Audit of the Nuclear Regulatory Commission's USAID-Funded Activities	OIG-08-A-12
06/17/2008	Audit of NRC's Accounting and Control Over Time and Labor Reporting	OIG-08-A-11
05/21/2008	Audit of NRC Continuity of Operations Plan	OIG-08-A-10



### Contract Audit Reports

<i>OIG Issue Date</i>	<i>Contractor/ Contract Number</i>	<i>Questioned Costs</i>	<i>Unsupported Costs</i>
06/25/08	Beckman and Associates NRC-03-03-037	0	0
06/25/08	Hummer Whole Health Management NRC-38-05-366	\$53,004	0



# AUDIT RESOLUTION ACTIVITIES

**TABLE I**

**OIG Reports Containing Questioned Costs<sup>4</sup>  
April 1, 2008, through September 30, 2008**

<i>Reports</i>	<i>Number of Reports</i>	<i>Questioned Costs (Dollars)</i>	<i>Unsupported Costs (Dollars)</i>
A. For which no management decision had been made by the commencement of the reporting period	0	0	0
B. Which were issued during the reporting period	1	\$53,004	0
Subtotal (A + B)	1	\$53,004	0
C. For which a management decision was made during the reporting period:			
(i) dollar value of disallowed costs	0	0	0
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision had been made by the end of the reporting period	1	\$53,004	0
E. For which no management decision was made within 6 months of issuance	0	0	0

<sup>4</sup>Questioned costs are costs that are questioned by the OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of the audit, such costs are not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.



**TABLE II**

**OIG Reports Issued with Recommendations That Funds Be Put to Better Use<sup>5</sup>**

<i>Reports</i>	<i>Number of Reports</i>	<i>Dollar Value of Funds</i>
A. For which no management decision had been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	1	\$104,000
C. For which a management decision was made during the reporting period:		
(i) dollar value of recommendations that were agreed to by management	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision had been made by the end of the reporting period	1	\$104,000
E. For which no management decision was made within 6 months of issuance	0	0

<sup>5</sup>A “recommendation that funds be put to better use” is a recommendation by the OIG that funds could be used more efficiently if NRC management took actions to implement and complete the recommendation, including: reductions in outlays; deobligation of funds from programs or operations; withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; costs not incurred by implementing recommended improvements related to the operations of NRC, a contractor, or a grantee; avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or any other savings which are specifically identified.



### TABLE III

#### Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed

<i>Date</i>	<i>Report Title</i>	<i>Number</i>
05/26/03	Audit of NRC's Regulatory Oversight of Special Nuclear Materials  <b>Recommendation 1:</b> Conduct periodic inspections to verify that material licensees comply with material control and accountability (MC&A) requirements, including, but not limited to, visual inspections of licensees' special nuclear material (SNM) inventories and validation of reported information.	OIG-03-A-15
03/16/06	Audit of the NRC's Byproduct Materials License Application and Review Process  <b>Recommendation 2:</b> Modify the license application and review process to mitigate the risks identified in the vulnerability assessment.	OIG-06-A-11
09/26/06	Evaluation of NRC's Use of Probabilistic Risk Assessment in Regulating the Commercial Nuclear Power Industry  <b>Recommendation 3:</b> Conduct a full verification and validation of SAPHIRE version 7.2 and GEM.	OIG-06-A-24

# ABBREVIATIONS AND ACRONYMS

AMP	Aging Management Programs
CAF	composite adversary force
CRGR	Committee to Review Generic Requirements
FISMA	Federal Information Security Management Act
FLETC	Federal Law Enforcement Training Center
FOF	force-on-force
FSA	Freedom Support Act
FTR	Federal Travel Regulations
FY	Fiscal Year
GIP	Generic Issues Program
HR	Office of Human Resources (NRC)
IAM	Issue Area Monitor
ICOD	Infrastructure and Computer Operating Division (NRC)
IG	Inspector General
IMPEP	Integrated Materials Performance Evaluation Program
IT	information technology
LAN	local area network
MD	Management Directive
NRC	U.S. Nuclear Regulatory Commission
NRR	Office of Nuclear Reactor Regulation (NRC)
OEP	Occupant Emergency Plan
OIS	Office of Information Services (NRC)
OIG	Office of the Inspector General (NRC)
OMB	Office of Management and Budget
POGO	Project on Government Oversight
SER	Safety Evaluation Reports
USAID	U.S. Agency for International Development





# REPORTING REQUIREMENTS

The Inspector General Act of 1978, as amended (1988), specifies reporting requirements for semiannual reports. This index cross-references those requirements to the applicable pages where they are fulfilled in this report.

CITATION	REPORTING REQUIREMENTS	PAGE
Section 4(a)(2)	Review of Legislation and Regulations .....	5-7
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies .....	10-21, 26-32
Section 5(a)(2)	Recommendations for Corrective Action .....	10-21
Section 5(a)(3)	Prior Significant Recommendations Not Yet Completed .....	39
Section 5(a)(4)	Matters Referred to Prosecutive Authorities .....	34
Section 5(a)(5)	Information or Assistance Refused .....	None
Section 5(a)(6)	Listing of Audit Reports .....	35
Section 5(a)(7)	Summary of Significant Reports .....	10-21, 26-32
Section 5(a)(8)	Audit Reports — Questioned Costs .....	37
Section 5(a)(9)	Audit Reports — Funds Put to Better Use .....	38
Section 5(a)(10)	Audit Reports Issued Before Commencement of the Reporting Period for Which No Management Decision Has Been Made .....	None
Section 5(a)(11)	Significant Revised Management Decisions .....	None
Section 5(a)(12)	Significant Management Decisions With Which OIG Disagreed .....	None



## **NRC OIG'S STRATEGIC GOALS**

1. Advance NRC's efforts to enhance safety and protect the environment.
2. Enhance NRC's efforts to increase security in response to the current threat environment.
3. Improve the economy, efficiency, and effectiveness of NRC corporate management.



## The NRC OIG Hotline

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