



# *Semiannual Report to Congress*



October 1, 2009-March 31, 2010

## **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 photo: Pilgrim Nuclear Power Station near Plymouth MA. (photo courtesy of Entergy Nuclear Generation Co.)

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# 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 October 1, 2009, to March 31, 2010.

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 fulfilling this mission. As the Nation embarks upon a renewed interest in nuclear power, my office will continue to work with NRC staff to promote efficiency and effectiveness in the administration of NRC programs.

During this reporting period, the NRC OIG continued its focus on critical agency operations to include quality assurance planning for new reactors, the physical security inspection program for Category I fuel cycle facilities, and the NRC lessons learned program. Working with the NRC to identify potential shortcomings early on will afford the agency the opportunity to take any necessary corrective action.

During this semiannual reporting period, we issued 11 program audit reports and analyzed one contract audit report. 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 19 investigations, and completed 17 cases. Eight of the open cases were referred to the Department of Justice, and 20 allegations were referred to NRC management for action.

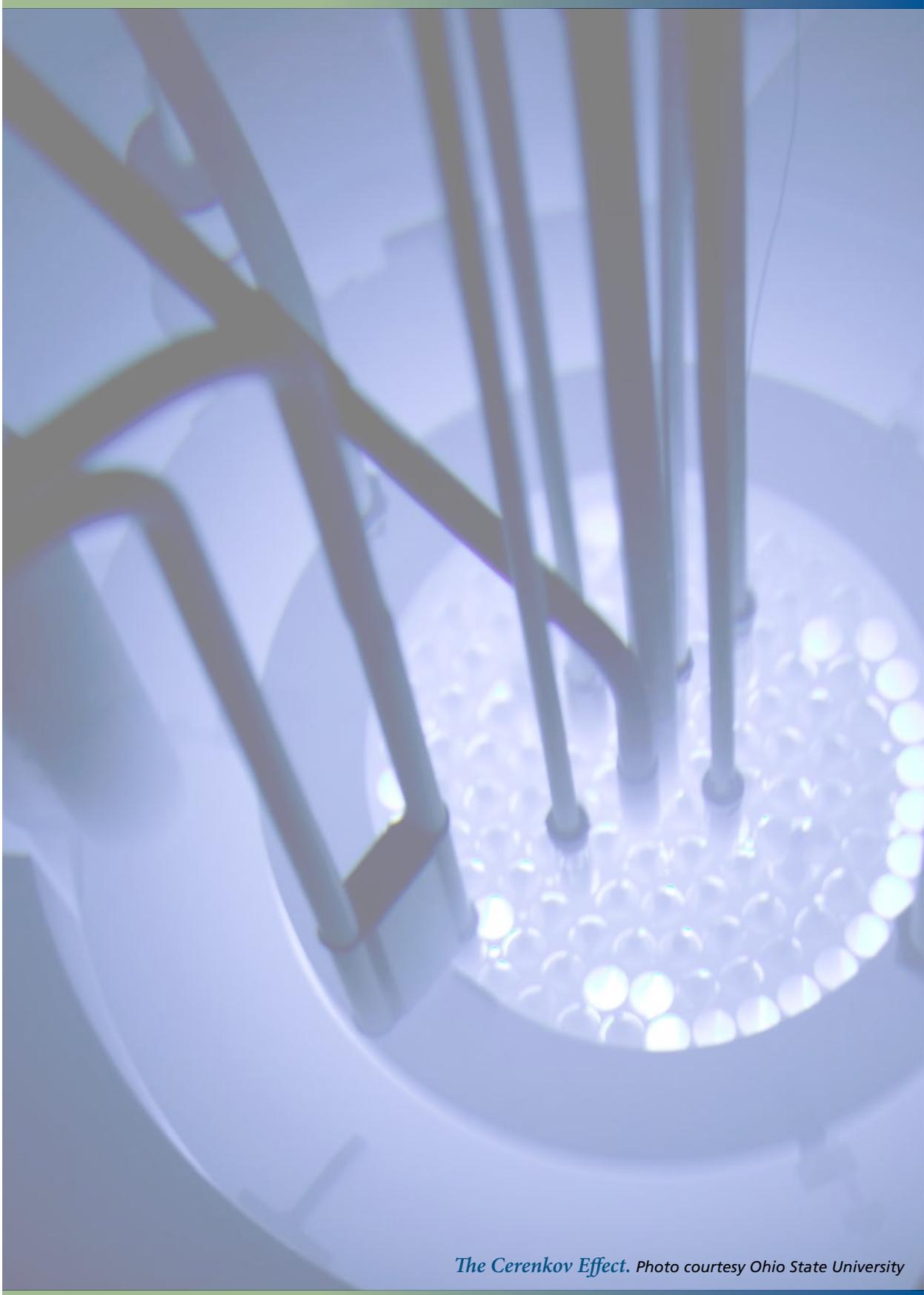
The NRC OIG remains committed to the integrity, efficiency, and effectiveness of NRC programs and operations, and our audits, investigations, and other activities highlighted in this report demonstrate this ongoing commitment. Those efforts were recently recognized with the granting of two Awards for Excellence by the Council of the Inspectors General on Integrity and Efficiency to an audit team and a senior special agent. I commend their noteworthy achievements in carrying out the mission of the Inspector General.

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, NRC OIG's success would not be possible without the collaborative efforts between my staff and agency managers to address OIG findings and to implement the corrective actions recommended by my office. I 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



*The Cerenkov Effect. Photo courtesy Ohio State University*

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*Pilgrim Nuclear Power Station, located near Plymouth Mass. Photo courtesy of Entergy Nuclear Generation Co.*

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# Highlights

*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

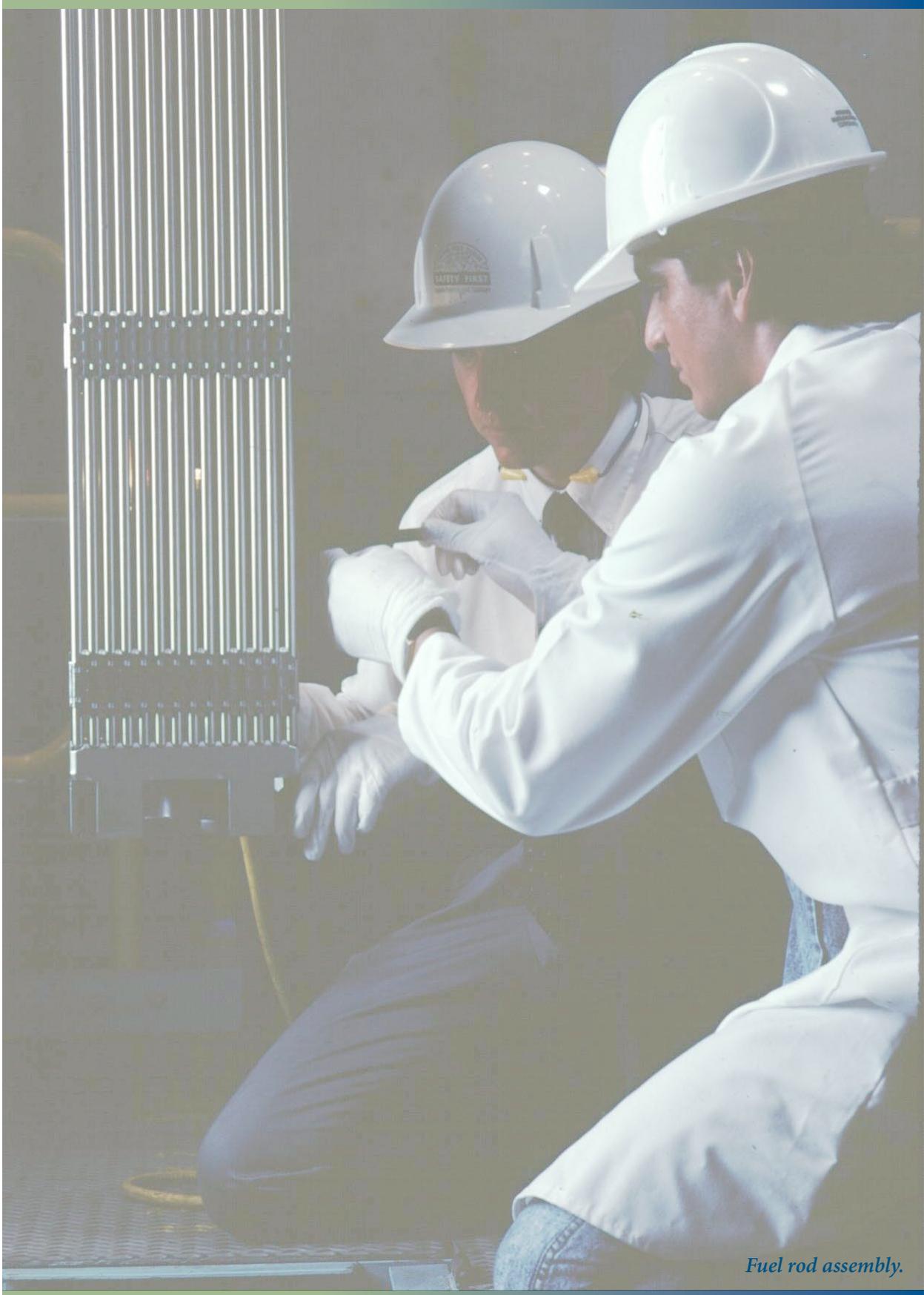
- Social engineering is the practice of obtaining confidential information through manipulation of legitimate users. Social engineers will commonly use the telephone or Internet to trick a person into revealing sensitive information or getting them to do something that is against typical policies, exploiting the natural tendency of individuals to trust others. The evaluation objective was to assess the effectiveness of agency security policies and control measures protecting sensitive information technology systems against a social engineering attack.
- The Atomic Energy Act of 1954, as amended, requires all NRC employees to have a security clearance, but allows employees to begin working for NRC prior to obtaining their clearance — provided the Commission determines that such employment is in the national interest and the employee does not have access to classified information. The NRC personnel security clearance program strives to implement measures to ensure that agency staff can be trusted to work with and protect classified information and to prevent the hiring of employees who might be untrustworthy or unsuitable for Federal employment. The audit objective was to determine whether (1) NRC is in compliance with external and internal personnel security clearance requirements, and (2) NRC's personnel security clearance program is efficiently managed.
- The Chief Financial Officers Act of 1990, as amended, requires the Inspector General or an independent external auditor, as determined by the Inspector General, to annually audit NRC's financial statements to determine whether the agency's financial statements are free of material misstatement. An independent public accounting firm conducted the audit with OIG oversight.
- The Federal Information Security Management Act (FISMA) of 2002 was enacted on December 17, 2002. FISMA outlines the information security management requirements for agencies, which include an annual independent evaluation of an agency's information security program and practices to determine their effectiveness. The objective of this review was to perform an independent evaluation of NRC's implementation of FISMA for fiscal year (FY) 2009.

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- In August 2006, the agency issued Management Directive (MD) 6.8, *Lessons Learned Program*, to establish the formal and structured process needed to manage corrective actions for significant agencywide lessons learned. This directive establishes the process for screening, evaluating, and implementing potential agencywide lessons learned. The audit objective was to determine whether NRC’s agencywide Lessons Learned Program meets its intended purpose to ensure that knowledge gained from significant lessons learned is retained and disseminated in a manner that will maximize its benefit and usefulness to the staff.
  - NRC regulates the design, siting, construction, and operation of nuclear power plants. Title 10 Code of Federal Regulations Part 52 (Part 52) establishes the process to apply for a combined license, which, if approved by the NRC, allows the applicant to construct and operate a nuclear power plant. Under Part 52, each combined license applicant is required to submit a final safety analysis report that describes the facility and presents a safety analysis of the facility as a whole. This report must include a description of the applicant’s quality assurance program to be applied to the design, fabrication, construction, and testing of the structures, systems, and components of the facility. The Office of New Reactors is responsible for reviewing combined license applications. The audit objective was to determine the extent to which NRC provides oversight of applicant and licensee new nuclear power plant quality assurance programs.
  - NRC oversees security programs at facilities that manufacture fuel for nuclear reactors. These fuel cycle facilities use “special nuclear materials” in the manufacturing process. NRC classifies special nuclear materials and the facilities that possess them into three categories based upon the materials’ potential for use in nuclear weapons, or “strategic significance.” The audit objective was to assess the effectiveness of the NRC’s physical security inspection program over the protection and control of special nuclear material at Category I fuel cycle facilities, which are considered the most strategically significant.

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## INVESTIGATIONS

- OIG conducted an investigation based on an allegation from a former NRC employee concerning the appointment of an individual to serve as the Patients' Right Advocate to NRC's Advisory Committee on the Medical Uses of Isotopes. The allegor asserted that NRC staff forwarded the individual's name to the Commission for approval without conveying certain information that would have demonstrated that the individual was not an appropriate choice for the Patients' Right Advocate position.
- OIG conducted an investigation into an attempted network intrusion based on a notification from the NRC Computer Security Office that a user uploaded password cracking software onto the NRC Agencywide Documents Access Management System (ADAMS) Citrix server.
- OIG conducted an investigation into a spear phishing attack in which 17 NRC computer users were targeted. The e-mail contained a link to a Web site that initiated the download of the malicious software. NRC users launched the link and downloaded the malicious software.
- OIG completed an investigation concerning a former licensee employee's harassment and intimidation (H&I) complaint against the individual's former employer. The individual raised the concern to NRC's Office of Investigations (OI), which closed the investigation after the individual reached a settlement with the former employer. The allegor maintained that OI should not have closed the case, but should have continued its investigation into the H&I complaint against the licensee company.
- OIG conducted an investigation involving six separate allegations concerning NRC's oversight of Nuclear Fuel Services, Inc. (NFS), an NRC licensee that manufactures and processes nuclear reactor fuel for commercial and military purposes. Three of the allegations challenged whether NRC followed its own rules and policies with regard to a license amendment approval, provision of information to the public, and handling of an allegation against a senior NFS official. The other three allegations addressed whether NRC influenced a Department of Health and Human Services decision that the NFS facility was not a significant health hazard, whether an NRC inspector assigned to NFS was transferred for pursuing his assignment too rigorously, and whether NRC failed to enforce a confirmatory order concerning NFS.



*Fuel rod assembly.*

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# Overview of the NRC and the OIG

## 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 at NRC headquarters in Rockville, Maryland, and holds public hearings, public meetings in local areas and at NRC offices, and discussions with individuals and organizations.



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## OIG HISTORY, MISSION, AND GOALS

### *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



*Inspector General Hubert T. Bell presents a plaque to former Chairman Dale E. Klein in appreciation of his support to the mission of the Office of the Inspector General. Pictured left to right are Joseph A. McMillan, Assistant Inspector General for Investigations; Hubert T. Bell; Dale E. Klein; David C. Lee, Deputy Inspector General; and Steven E. Zane, Deputy Assistant Inspector General for Audits.*

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, Congress passed the landmark legislation known as the Inspector General Act (IG Act), which President Jimmy Carter signed into law in 1978. The IG Act created independent Inspectors General, 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 investigations, billions of dollars have been returned to the Federal Government or have been better spent based on recommendations identified through those audits and investigations. IG investigations have also contributed to the prosecution of thousands of wrongdoers. In addition, the IG concepts of good governance, accountability, and monetary recovery encourages foreign governments to seek advice from IGs, with the goal of replicating the basic IG principles in their own governments.

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## *OIG Mission and Goals*

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 OIG's priorities 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.**

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<sup>1</sup> OIG's current *Strategic Plan* covers the period FY 2008 through FY 2013.

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# OIG Programs and Activities

## AUDIT PROGRAM

The OIG Audit Program focuses on management and financial operations; economy and efficiency with which an organization, program, or function is managed; and whether the programs achieve intended results. OIG 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 NRC Chairman for resolution.

Each September, OIG issues an *Annual Plan* that summarizes the audits planned for the coming fiscal year. 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

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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, OIG's Investigative Program directs much of its resources and attention on investigations of alleged conduct by NRC staff that could adversely impact matters related to health and safety. These investigations may address 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.
- Conflicts of interest involving NRC employees and NRC contractors and licensees, including 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.

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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.

## 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.

Regulatory review is intended to provide assistance and guidance to the agency prior to the concurrence process so as to avoid formal implementation of potentially flawed documents. The 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 timeframes.

Comments provided in regulatory review reflect an objective analysis of the language of proposed agency statutes, directives, regulations, and policies resulting from OIG insights from audits, investigations, and historical data and experience with agency programs. OIG review is structured so as to identify vulnerabilities and offer additional or alternative choices.

From October 1, 2009, through March 31, 2010, OIG reviewed more than 320 agency documents, including approximately 220 Commission papers (SECYs) and Staff Requirements Memoranda, and 100 Federal Register Notices, regulatory actions, and statutes.

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

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During this reporting period, the OIG also commented on more than 11 draft Management Directives on technical issues, agency communications, program organization and personnel guidance. In addition, OIG provided substantive observations on a Commission paper related to the Open Government Initiative. Feedback and suggestions were also provided on the agency's No Fear Act training. These are summarized below. In addition, the agency provided responsive comments to nine OIG comments and for a commentary issued earlier.

### **Management Directives Related to Agency Communications**

MD 2.3, *Telecommunications*, establishes telecommunications policies and procedures applicable to all facilities, services, and equipment primarily associated with the transfer of information contained within the agency. OIG comments concerned alignment of the direction in this reference with guidance in MD 12.1, "NRC Facility Security Program," so as to ensure compliance with Department of Justice guidance concerning the IG's role in approving the use of devices for monitoring, recording, or intercepting conversations.

MD 3.16, *NRC Announcement Program*, is a new directive intended to formalize the process and procedures for making agencywide announcements. OIG comments noted the need to identify the position responsible for assuring sensitive information is not released in announcements and for consistency in use of terminology within the directive.

MD 3.57, *Correspondence Management*, is intended to aid in preparing and handling correspondence in paper and electronic environments, including the use of e-mail and the Agencywide Documents Access and Management System (ADAMS). The OIG noted that as an office reporting directly to the Chairman, it should be included as an exception to the directive.

### **Management Directives Related to Agency Organization**

MD 9.7, *Organization and Functions, Office of the General Counsel*, generally describes the legal program within the agency. OIG comments suggested that it would be helpful to include more comprehensive information on the Office of the General Counsel (OGC) relationship with Regional Counsels, and to urge that legal advice on acquisition matters be extended further than "as requested." OGC responded with additional direction on the relationship with Regional Counsels, and additional OGC involvement in procurement matters, specifically Organizational Conflict of Interest and 10 CFR Part 11 clearances.

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MD 9.17, *Organization and Functions, Office of the Executive Director for Operations*, (EDO), adequately described that office. OIG commented that it would be helpful if the EDO responsibilities in the directive included those related to audit recommendations as stated in MD 6.1, *Internal Management Resolution of Audit Recommendations*. In addition, inclusion of Reorganization Plan No. 1, “Internal Commission Procedures,” of 1980 in the references section of the MD was recommended.

MD 9.24, *Organization and Functions, Office of Small Business and Civil Rights (SBCR)*, was well constructed, but lacked specificity in 10 identified areas, which were identified in the OIG comment. These items included SBCR’s responsibility for the Equal Employment Opportunity counselors program and its role in the Commission briefing, grants award program, and recruitment. Additionally, clarification was suggested for several items, including position responsibilities and the organization chart.

### **Management Directives and Actions Related to Agency Personnel Processes**

MD 10.11, *Visiting Fellows Program*, provides direction to implement the agency policy to supplement NRC’s expertise in science, medicine, and engineering by limited employment of visiting professionals. The OIG suggested additional detail in the directive regarding employment benefits available to the fellows during their tenure at NRC.

MD 10.72, *Awards and Recognition*, comprehensively described the awards program, but omitted reference to OIG staff. After discussion with the agency, directions applicable to OIG personnel that appeared in the previous version of the MD were added back into the directive.

MD 10.51, *Recruitment, Relocation and Retention Incentives*, was also complete for agency personnel, but omitted reference to OIG staff. In this case also, after discussion with agency staff, OIG personnel actions were included in the directive.

MD 10.38, *Position Management*, needed revision to include OIG personnel management matters, which was accomplished after discussion with the agency.

The agency also created an agencywide training video for employees on the *No Fear Act*. OIG was asked to review and comment on contained proposed scenarios and announcement language. OIG provided technical and editorial corrections, which were adopted by the agency.

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## Comments Related to Technical Issues

Draft final rule, 10 CFR 51.22, *Criterion for Categorical Exclusion: Identification of Licensing and Regulatory Actions Eligible for Categorical Exclusion or Otherwise Not Requiring Environmental Review*. OIG expressed reservations regarding an aspect of the draft rule, which would have exempted code cases applicable to the Boiler and Pressure Vessel Code, Section II, “Materials Review.” This would have potentially allowed exclusion from environmental review certain materials which, once introduced into the reactor system, could become environmentally harmful. The agency agreed with these comments and revised the draft rule to address these concerns.

Draft amendments to 10 CFR Part 40, *Domestic Licensing of Source Material – Amendments/Integrated Safety Analysis*. The draft rule proposed adding a new section H to Part 40, which would have required uranium conversion facilities to meet new safety standards for chemical and radiological hazards similar to those in 10 CFR Part 70. OIG comments questioned the basis for the amendments and the estimated cost for compliance with the changes. Meetings with cognizant agency officials clarified the derivative authority conveyed by the Atomic Energy Act and further that the cost estimates were related to current costs and not changed costs; as a result, OIG concerns were satisfied without further changes to the draft.

Draft MD 8.13, *Reactor Oversight Process*. OIG related a concern regarding the Handbook section on “Significance of Indicators and Findings,” because it omitted the definition of safety significance of findings and performance indicators in terms of colors (Red, Yellow, White, and Green). This basic program information is considered essential, and was actually included as reference material in other sections of the MD. The agency agreed with this comment and revised the draft accordingly.

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## OIG ACTIVITIES

### *Support of the Inspector General Community in Training*

The OIG General Counsel, Maryann Grodin, supported the Inspector General community in training and presentations. Ms. Grodin served as a guest speaker for the Naval Facilities Command Inspector General Conference. During that conference, the OIG General Counsel made a presentation to more than 40 IG auditors, attorneys, and investigators from worldwide field offices. Ms. Grodin's presentation, titled, "Fraud and Reform," covered two matters of significance to the IG community: the Supreme Court decision in *Allison Engine Co. v. U.S. ex rel Sanders*, No. 07-214, and the Fraud Enforcement and Recovery Act of 2009, Public Law 111-21. During the presentation, Ms. Grodin related 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.

## OTHER ACTIVITIES

### *NRC OIG Receives CIGIE Awards for Excellence*

In 2009, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) recognized an OIG audit team and a senior special agent by awarding each the prestigious CIGIE Award for Excellence.

- The audit team was recognized for exceptional performance in recommending actions to enhance NRC's oversight of the Agreement State Program. The team consisted of Robert Wild, Senior Management Analyst; Eric Rivera, Senior Auditor; and Rebecca Ryan, Management Analyst.
- Senior special agent Veronica Bucci was recognized for exceptional performance in investigating and reporting that a Fortune 500 company submitted 77 false claims to NRC in violation of the False Claims Act.

#### **CIGIE Award for Excellence in Audit – Agreement State Audit**

In accordance with section 274 of the Atomic Energy Act, as amended, NRC's Agreement State Program may relinquish its authority to regulate certain nuclear material to States. Nuclear material is widely used in the United States and abroad for peaceful purposes. However, the events of September 11, 2001, heightened the Nation's concerns that the loss or theft of nuclear material could lead to malicious use such as in a radiological dispersal device, also known as a dirty bomb.

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The States to which NRC relinquishes its authority must first demonstrate that their regulatory programs are adequate to protect public health and safety and are compatible with NRC's program. States that have entered into an agreement assuming this regulatory authority from NRC are called Agreement States. NRC has programmatic responsibility to periodically review Agreement State actions to comply with the requirements of the Atomic Energy Act. NRC's policy is to evaluate Agreement State radiation control programs using performance indicators to ensure nationwide that public health and safety is being adequately protected and that Agreement State programs are compatible with NRC's program.



*The NRC Agreement States Audit Group receives its 2009 CIGIE Award for Excellence. Pictured left to right are Stephen D. Dingbaum, Assistant Inspector General for Audits; Robert K. Wild, Audit Manager; Sherri A. Miotla, Team Leader; Eric Rivera, Audit Manager; David C. Lee, Deputy Inspector General; and Hubert T. Bell, Inspector General.*

Although NRC maintains oversight of the Agreement States, the audit team identified the following program adequacy and effectiveness issues:

- NRC does not effectively monitor the Integrated Materials Performance Evaluation Program (IMPEP) operational issues. IMPEP is NRC's mechanism for periodically reviewing the actions of the Agreement States to comply with the requirements of the Atomic Energy Act. Agreement State program managers are unaware of several operational issues because there is no systematic mechanism for conducting self-assessments and capturing lessons learned for IMPEP. Consequently, IMPEP may not be as effective as it could be for assessing the adequacy and compatibility of Agreement State programs.
- NRC could be challenged to re-exert authority over an Agreement State program in the event of an emergency. Under the Atomic Energy Act, NRC can temporarily suspend its agreement with a State during an emergency situation. However, NRC has not identified all of the information necessary for re-exerting authority and lacks formal procedural guidance about what information is needed about Agreement State programs and materials licensees. Without this valuable planning information, NRC could lose oversight and awareness of licensees and materials.
- NRC's communications with and collection of information from Agreement States needs improvement. Even though NRC serves as the Federal-level presence for materials safety and security under the National Materials Program, the agency lacks (1) standardization in communication

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procedures, and (2) a standardized data collection process that can be used as a basis for developing a national information sharing tool. As a result, some States may be unaware of important issues, and NRC does not have a full and accurate picture of Agreement State regulatory activities.

- Weaknesses exist in NRC’s review of Agreement State event reporting. NRC’s reviews of whether an Agreement State has appropriately reported all events to the Nuclear Material Events Database (NMED) may not be consistently performed. NRC’s IMPEP reviews do not require an analysis of unreported events to determine whether such events are being appropriately identified for and included in NMED. Consequently, NRC and the public may have an inaccurate accounting of material events in some States, which could also hamper events data trend analysis efforts.

The audit team’s work represented a significant contribution to protecting public health and safety by ensuring that NRC’s oversight of Agreement State regulatory programs are adequate to protect public health and safety, and are compatible with NRC’s program.

#### **CIGIE Award for Excellence in Investigation – Violation of False Claims Act**



*Senior Special Agent Veronica O. Bucci receives her 2009 CIGIE Award for Excellence. Pictured left to right are Joseph A. McMillan, Assistant Inspector General for Investigations; Rossana Raspa, Senior Level Assistant for Investigative Operations; Hubert T. Bell, Inspector General; Senior Special Agent Bucci; and David C. Lee, Deputy Inspector General.*

Senior Special Agent (SSA) Veronica Bucci was recognized by the CIGIE for work involving an allegation that an NRC contractor, Science Applications International Corporation (SAIC), a Fortune 500 scientific, engineering, and technology applications company, violated the False Claims Act (FCA) and breached two contracts with the NRC.

OIG’s investigation found that in 1992 and 1999, NRC awarded two contracts to SAIC to provide the agency with technical assistance on the development of a rule that would allow for the recycling and reuse of slightly radioactive material, primarily contaminated metals. In 1992, SAIC was responsible for assisting NRC in establishing scientific standards governing the reuse of such material and was to present an options paper outlining the possible approaches to rulemaking for the release of these materials. The goal of the 1999 contract was to assess regulatory alternatives regarding the release of reusable materials. As part of both contract requirements, SAIC certified to NRC that SAIC had no conflicts of interest; however, during a public meeting, a private citizen reported that SAIC did have conflicts of interest related to this issue.

OIG's investigation determined that SAIC breached its organizational conflict-of-interest obligations under both NRC contracts by engaging in relationships with organizations, including the Association of Radioactive Metal Recyclers, whose aim was to advocate in favor of recycling and reusing radioactive materials. By concealing these relationships, SAIC stood to benefit from the rule. The OIG investigation concluded that SAIC violated the FCA and breached its contract requirements with NRC by not disclosing these relationships.

Throughout the investigation and subsequent Federal trial, SSA Bucci provided invaluable assistance and support to the Department of Justice and the NRC's Office of the General Counsel, which culminated in a Federal jury finding that SAIC violated the FCA. The jury awarded the U.S. Government \$6.49 million under the FCA and penalties for 77 false claims and statements that SAIC submitted to NRC for payment.

## Management and Performance Challenges

<b>Most Serious Management and Performance Challenges Facing the Nuclear Regulatory Commission *</b> <b>as of September 30, 2009</b> <i>(as identified by the Inspector General)</i>	
<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>Ability to modify regulatory processes to meet a changing environment, to include the licensing of new nuclear facilities.</i>
<b>Challenge 4</b>	<i>Oversight of radiological waste.</i>
<b>Challenge 5</b>	<i>Implementation of information technology and information security measures.</i>
<b>Challenge 6</b>	<i>Administration of all aspects of financial management.</i>
<b>Challenge 7</b>	<i>Managing human capital.</i>

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

The seven 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.

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# 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 one contract audit report.*

## AUDIT SUMMARIES

### *Social Engineering Assessment Report*

#### **OIG Strategic Goal: Security**

Social engineering is the practice of obtaining confidential information through manipulation of legitimate users. Social engineers will commonly use the telephone or Internet to trick a person into revealing sensitive information or getting them to do something that is against typical policies, exploiting the natural tendency of individuals to trust others. A contemporary example of a social engineering attack is the use of e-mail attachments that contain malicious payloads that, for example, use the victim's machine to send massive quantities of spam. After earlier malicious e-mails led software vendors to disable automatic execution of attachments, users now have to explicitly activate attachments for this to occur. Many users, however, will automatically click on any attachments they receive, thus allowing the attack to work.

OIG sought to assess the effectiveness of agency security policies and control measures protecting sensitive information technology systems against a social engineering attack. A contractor with expertise in this area was selected to perform the assessment, which involved the following techniques:

- *Reconnaissance* to discover publicly available information that may be leveraged to develop materials that may facilitate the social engineering assessment, including scripts, scenarios, samples, and e-mails.
- *Dumpster/recycle bin diving and workspace walk throughs* to determine whether employees and contractors are transporting, storing, and disposing of sensitive information according to defined policies.
- *Physical access assessment* to identify weaknesses in physical access controls that are typically used to protect against unauthorized access to buildings, information technology systems, and sensitive information.
- *Baiting* by deliberately placing removable media, containing malware, outside and around facilities, with the hope that an employee will find the media, connect it to the network, and inadvertently deploy the contained malware.

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- *Social engineering phone calls* attempting to extract sensitive information from employees by impersonating trusted figures, including the help desk or the security office.
  - *Phishing e-mails* attempting to entice users to divulge sensitive information or click on non-NRC links.

***Assessment Results:***

The assessment, which was performed between August 19, 2009, and November 6, 2009, demonstrated that NRC had improved its controls since 2006, when a prior OIG social engineering assessment was conducted. The assessment, however, also revealed areas where NRC can further strengthen the controls needed to protect against social engineering attacks and made recommendations to help NRC address specific areas noted for improvement. Additional information concerning the assessment results cannot be reported publicly due to the security-related nature of the assessment and results. *(Addresses Management and Performance Challenge #5)*

## ***Audit of NRC's Personnel Security Clearance Program for Employees***

### **OIG Strategic Goal: Security**

Atomic Energy Act of 1954, as amended, requires all NRC employees to have a security clearance. The NRC personnel security clearance program strives to implement measures to ensure that agency staff can be trusted to work with and protect classified information and to prevent the hiring of employees who might be untrustworthy or unsuitable for Federal employment. At NRC, the Office of Administration, Division of Facilities and Security, through its Personnel Security Branch (PSB) administers the personnel security clearance program.

NRC allows employees to begin working for the agency prior to their clearance — provided the Commission determines that such employment is in the national interest and the employee does not have access to classified information. Today, a significant number of new NRC employees are permitted to begin work prior to receiving a security clearance, but only after PSB conducts a review of the individual's criminal history, credit history and background information as reported by the individual; evaluates the results; and determines there are no factors that may constitute a security risk to the agency. This approval is referred to as a pre-appointment investigation waiver or a 145b waiver.

After NRC grants an initial approval to begin work (with no access to classified information), the agency requests a full background investigation from the

Office of Personnel Management (OPM). Once the background investigation is returned to NRC, PSB staff adjudicate the results by reviewing the investigation report. The adjudicative process is an examination of a sufficient period of a person's life to make a determination to grant or deny a security clearance.

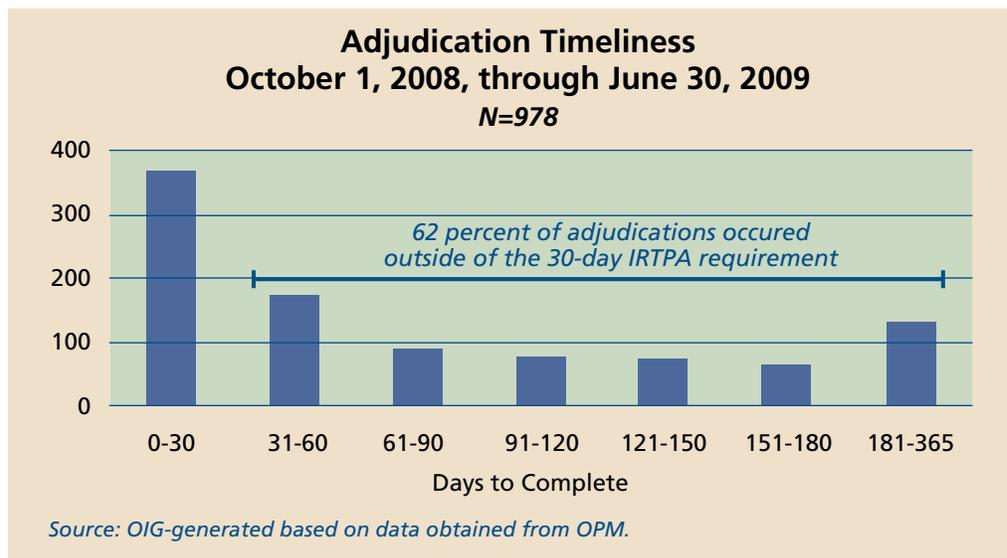
The audit objective was to determine whether (1) NRC is in compliance with external and internal personnel security clearance requirements, and (2) NRC's personnel security clearance program is efficiently managed.

**Audit Results:**

NRC is not fully in compliance with established timeliness requirements for processing personnel security clearances. Furthermore, NRC's personnel security clearance program lacks sufficient management controls and oversight to measure the program's efficiency and assign accountability for the program's performance.

**Timeliness Requirements Not Met**

The Intelligence Reform and Terrorism Prevention Act of 2004 provides timeliness requirements for processing Federal personnel security clearance investigations. In accordance with the act, agencies (1) should adjudicate most clearance investigation results within 30 days, and (2) initiate a reinvestigation every 5 years for "Q" (top secret) and every 10 years for "L" (secret) clearances. Despite these requirements, 62 percent of NRC adjudications during the first three quarters of FY 2009 took longer than 30 days, and OIG identified 161 NRC employees whose reinvestigations were more than 1 year past due. NRC has not met the timeliness requirements because the agency has not



implemented a procedure to routinely monitor and follow up on all case files to ensure cases are processed timely. Additionally, management lacks useful and reliable reports to track the status of clearance investigations through the various stages of the investigative process. Delays in completing initial investigations may hinder agency productivity, while delays in completing reinvestigations can lead to increased security risks.

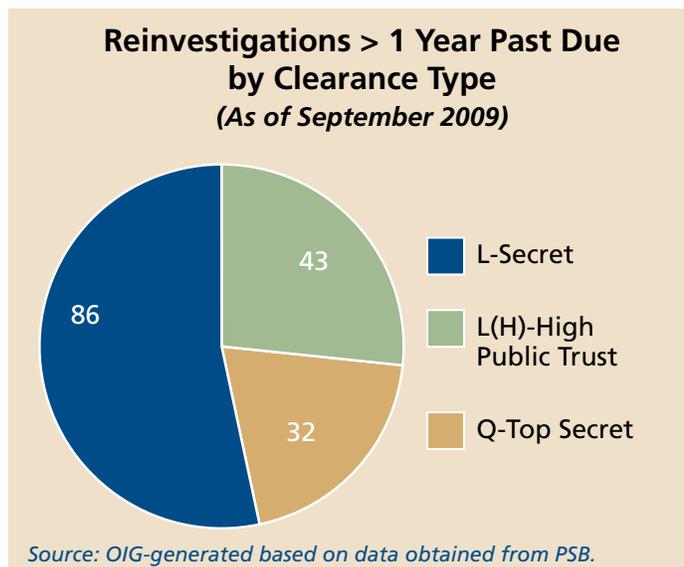
### **Agency Lacks Personnel Security Performance Measures**

Federal control standards require the establishment and review of performance measures and indicators. At the start of this audit, NRC lacked performance measures to assess the efficiency of NRC's personnel security clearance program. In response to a 2004 OIG audit report recommendation, the Division of Facilities and Security added a timeliness performance measure to the FY 2005 Office of Administration Operating Plan for the processing of personnel security investigations. However, in FY 2006, deeming the timeliness performance measure unattainable, management removed the measure from the plan. Without performance measures, the agency's ability to assess personnel security clearance program efficiency and assign accountability for the program performance is limited. (*Addresses Management and Performance Challenges #5 and #7*)

## ***Results of the Audit of the Nuclear Regulatory Commission's Financial Statements for Fiscal Years 2009 and 2008***

### **OIG Strategic Goal: Corporate Management**

The Chief Financial Officers Act of 1990, as amended, requires the Inspector General or an independent external auditor, as determined by the Inspector General, to annually audit NRC's financial statements to determine whether the agency's financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.



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In addition, the audit evaluates the effectiveness of internal controls over financial reporting and the agency's compliance with laws and regulations.

***Audit Results:***

**Financial Statements**

The auditors expressed an unqualified opinion on the agency's FY 2009 and 2008 financial statements.

**Internal Controls**

The auditors expressed an unqualified opinion on the agency's internal controls.

**Compliance with Laws and Regulations**

The auditors found no reportable instances of noncompliance with laws and regulations. (*Addresses Management and Performance Challenge #6*)

***Independent Evaluation of NRC's Implementation of the Federal Information Security Management Act for Fiscal Year 2009***

**OIG Strategic Goal: Security**

The Federal Information Security Management Act (FISMA) of 2002 was enacted on December 17, 2002. FISMA outlines the information security management requirements for agencies, which include an annual independent evaluation of an agency's information security program<sup>2</sup> and practices to determine their effectiveness. This evaluation must include testing the effectiveness of information security policies, procedures, and practices for a representative subset of the agency's information systems. FISMA requires the annual evaluation to be performed by the agency's Inspector General or by an independent external auditor as determined by the Inspector General. Office of Management and Budget (OMB) memorandum M-09-29, *FY 2009 Reporting Instructions for the Federal Information Security Management Act and Agency Privacy Management*, dated August 20, 2009, requires the agency's IG to report their responses to OMB's annual FISMA reporting questions for Inspectors General via an automated collection tool.

The objective of this review was to perform an independent evaluation of NRC's implementation of FISMA for FY 2009.

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<sup>2</sup> For the purposes of FISMA, the agency uses the term "information system security program."

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As of the completion of the fieldwork associated with this review, NRC had 22 operational systems that fall under FISMA reporting requirements. Of the 22, 8 were general support systems, and 14 were major applications. In addition, NRC had three systems operated by a contractor or other organization on behalf of the agency.

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

#### **Program Enhancements and Improvements**

Over the past 7 years, NRC has continued to make improvements to its information system security program and continues to make progress in implementing the recommendations resulting from previous FISMA evaluations. In 2007, the Commission approved the establishment of the Computer Security Office. The new office reports to the Deputy Executive Director for Corporate Management and Chief Information Officer and is headed by the Chief Information Security Officer. The Chief Information Security Officer plans, directs, and oversees the implementation of a comprehensive, coordinated, integrated, and cost-effective NRC information technology security program, consistent with applicable laws; regulations; Commission, Executive Director for Operations, and Chief Information Officer direction; management initiatives; and policies.

The agency has accomplished the following since the FY 2008 FISMA independent evaluation:

- Completed certification and accreditation of 12 of the agency's 22 operational systems and 1 of the agency's 3 contractor systems. As of the completion of fieldwork for FY 2009, all but one of the operational NRC information systems had a current certification and accreditation, and all three of the systems used or operated by a contractor or other organization on behalf of the agency had a current certification and accreditation.
- Completed or updated security plans for 19 of the agency's 22 operational systems and for all 3 contractor systems.
- Completed annual security control testing for all agency systems and for all contractor systems.
- Completed annual contingency plan testing for all agency systems and for all contractor systems.
- Issued several new and updated policies related to the protection of personally identifiable information (PII) including an updated *Computer*

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*Security Incident Response Policy, an updated PII Breach Notification Policy, an updated Computer Security Information Protection Policy, the Laptop Security Policy, and the Computer Security Policy for Encryption of Data at Rest When Outside of Agency Facilities.*

- Issued the *Agencywide Rules of Behavior for Authorized Computer Use*. The rules of behavior are provided to NRC computer users as part of the annual computer security awareness course, and apply to all NRC employees, contractors, vendors, and agents (users) who have access to any system operated by the NRC or by a contractor or outside entity on behalf of the NRC.
- Developed configuration guidance, configuration standards, and standard system security plans for laptops, as well as a new *Laptop Security Policy*.
- Identified all employees with significant information technology security responsibilities and developed a plan for ensuring those employees receive appropriate role-based training.

### **Program Weaknesses**

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 two information system security program weaknesses. One is a repeat finding from the FY 2008 independent evaluation, and the other is a repeat finding from several previous independent evaluations.

- The NRC inventory interface information is still inconsistent (repeat finding).
- The NRC inventory of major information systems operated by the agency and the identification of the interfaces between each system is still inconsistent (repeat finding).
- The quality of the agency's plans of action and milestones still needs improvement (repeat finding).

*(Addresses Management and Performance Challenge #5)*

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## *Audit of NRC's Lessons Learned Program*

### **OIG Strategic Goal: Safety**

In 2002, NRC created the Davis-Besse Lessons Learned Task Force to evaluate the agency's regulatory processes used during the Davis-Besse event.<sup>3</sup> The Davis-Besse Lessons Learned Task Force recommended, among other things, that NRC conduct an effectiveness review of the actions taken in response to past lessons learned reviews. Consequently, the Office of Nuclear Reactor Regulation (NRR) established the Effectiveness Review Lessons Learned Task Force. This task force found that some corrective actions implemented prior to the Davis-Besse event had not been effective. In response, the EDO assigned the task force to establish a program to institutionalize significant agencywide lessons learned.

On August 1, 2006, the agency issued MD 6.8, *Lessons Learned Program*, to establish the formal and structured process needed to manage corrective actions for significant agencywide lessons learned. MD 6.8 establishes the process for screening, evaluating, and implementing potential agencywide lessons learned. In accordance with this process, a Lessons Learned Program Manager is responsible for compiling potential lessons learned issues. The Program Manager then schedules a Lessons Learned Oversight Board<sup>4</sup> meeting to discuss whether the selected issues should be considered as agencywide lessons learned. The Oversight Board compares the issues to threshold criteria established in MD 6.8, and only if the criteria are met can an issue be considered an agencywide lessons learned. Issues that do not meet the lessons learned criteria may be addressed by NRC offices through other corrective action mechanisms.

The EDO assigns a lead NRC office to create and implement a corrective action plan when a lesson learned is identified. Once the lead office implements the corrective action plan, the Oversight Board determines if that plan was satisfied. Upon successful completion of the corrective action plan, the Oversight Board determines when the lead office conducts an effectiveness review. When completed, the Oversight Board reviews and makes recommendations if necessary.

The audit objective was to determine whether NRC's agencywide Lessons Learned Program meets its intended purpose to ensure that knowledge gained

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<sup>3</sup> In March 2002, plant workers at the Davis-Besse Nuclear Power Station discovered degradation of the pressure boundary material of the Davis-Besse Nuclear Power Station reactor pressure vessel head while conducting a routine repair. This problem led to a leakage of reactor cooling water, which contains boric acid and can damage other areas of the nuclear reactor.

<sup>4</sup> The Oversight Board is composed of deputy office directors from NRR, the Office of New Reactors, the Office of Nuclear Material Safety and Safeguards, the Office of Federal and State Materials and Environmental Management Programs, the Office of Nuclear Regulatory Research, the Office of Nuclear Security and Incident Response, and a representative from one of the four NRC regions.

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from significant lessons learned is retained and disseminated in a manner that will maximize its benefit and usefulness to the staff.

***Audit Results:***

Although NRC has identified significant agencywide lessons learned, agency staff are generally unaware of the program's lessons and activities.

Specifically, staff are unaware of the issues considered for potential agencywide lessons learned, the lessons learned identified, and who has oversight for the program. OIG interviewed 24 NRC office points-of-contact identified by the Office of the Executive Director for Operations and found that 92 percent of the points of contact had limited knowledge of the program. Furthermore, current and former Lessons Learned Project Managers and Oversight Board members were unaware of the status of a database that was developed for the Lessons Learned Program. The database was intended to serve as a means to communicate issues considered by the Oversight Board and the identified agencywide lessons learned that then could be documented and shared with agency staff. Although the database has been ready for use since November 2008, as of June 2009, the \$342,000 system had not been implemented for agencywide use.

The Lessons Learned Program could have been more effectively communicated to staff, and management's attention to and support for certain aspects of the program has diminished over time. As a result, the program is missing opportunities to identify and inform NRC staff of significant agencywide lessons learned that would improve agency operations. (*Addresses All Management and Performance Challenges*)

## ***Audit of NRC's Quality Assurance Planning for New Reactors***

### **OIG Strategic Goal: Safety**

NRC regulates the design, siting, construction, and operation of nuclear power plants. Title 10 Code of Federal Regulations (CFR) Part 52 (Part 52) establishes the process to apply for a combined license, which, if approved by the NRC, allows the applicant to construct and operate a nuclear power plant. The Office of New Reactors (NRO) is responsible for reviewing combined license applications.

Under Part 52, each combined license applicant is required to submit a final safety analysis report that describes the facility and presents a safety analysis of the facility as a whole. This report must include a description of the applicant's quality assurance program to be applied to the design, fabrication, construction, and testing of the structures, systems, and components of the facility.

Part 52 references the quality assurance program requirements, which are described in Title 10 CFR Part 50, Appendix B (Appendix B). Appendix B applies to all activities affecting safety-related functions of the facility. NRO staff reviews, which include an evaluation of quality assurance, are performed in accordance with NUREG-0800, the standard review plan.

During the application process, applicants often conduct activities associated with new nuclear power plant construction, including developing processes that will be used during construction, testing, and operations; establishing programs for areas such as corrective action, security, and training; and procuring materials and parts. The applicant must provide oversight of vendor programs if safety-related parts are procured. Many nuclear vendors are now foreign-based companies and oversight of these foreign-based companies can present new challenges, such as overcoming cultural and language barriers.

The audit objective was to determine the extent to which NRC provides oversight of applicant and licensee new nuclear power plant quality assurance programs.

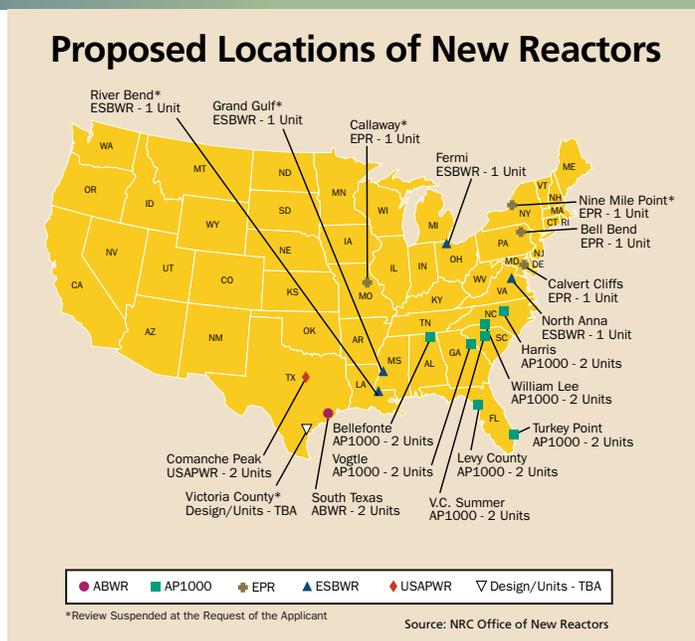
**Audit Results:**

NRO conducts reviews of applicant quality assurance programs for new nuclear power plant design, construction, and operation, as well as reviews of vendor quality assurance programs. Given that the interest to build new nuclear power plants is in its infancy, NRO is appropriately focusing on quality assurance as it relates to design and procurement activities. OIG has identified areas needing management attention while NRO continues its ongoing quality assurance review activities. Specifically:

- Coordination of quality assurance reviews among NRO branches is informal.
- NRC’s quality assurance oversight does not include a review for accurate translations.

**Coordination of Quality Assurance Reviews Among NRO Branches Is Informal**

Sections of the standard review plan specify that the responsible technical reviewer will coordinate the applicable quality assurance reviews with the NRO’s quality



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assurance branches. However, coordination of quality assurance reviews among the technical reviewers and the quality assurance branch reviewers, when it occurs, is actually informal communication. Some individual reviewers informally communicate through phone calls and e-mail, usually to address a specific issue rather than to coordinate a quality assurance review. For example, OIG learned that a quality assurance reviewer may ask a technical reviewer to provide assistance with a technical issue, or to participate in a quality assurance audit or inspection. Similarly, a technical reviewer may have a question for the quality assurance branch regarding quality assurance requirements. This interaction is dependent on the initiative of an individual reviewer.

Agency expectations concerning quality assurance review coordination are not clearly defined and there is no process in place to ensure that it occurs. Consequently, there is no way to verify that the quality assurance review coordination has occurred, nor that all the quality assurance portions of the standard review plan technical chapters have been fully satisfied.

### **NRC's Quality Assurance Oversight Does Not Include Review for Accurate Translations**

NRC's oversight of applicant and licensee quality assurance programs and activities does not include a review for accurate document translations. Given the current industry reliance on foreign vendors and sub-suppliers for the design and manufacture of safety-related components, such as reactor vessels, the accuracy of translated design basis and other documentation, such as technical manuals, becomes more relevant for applicants/licensees and NRC alike. Indeed, OIG discovered one large nuclear vendor with a quality assurance procedure for translation that it uses in-house for foreign language document translation. The vendor does not, however, apply the same quality assurance procedure to its foreign suppliers, and simply requires its suppliers to provide documentation in English, without regard for the translation process.

NRC has undertaken some efforts to assess the impacts of the changing nuclear industry on its vendor inspection program but it has not fully assessed the impact of translated document quality on quality assurance oversight. Further, NRC has not assessed how translated documents from foreign providers of safety-related systems might impact the quality of safety-related components supplied to new nuclear power plant applicants and licensees in the United States.

Consequently, NRC and its new nuclear power plant applicants and licensees could be relying on inaccurate translations. Furthermore, the accuracy of translated documents used for design, construction, and operation of new nuclear power plants could be called into question. (*Addresses Management Challenge #3*)

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## *Audit of NRC's Physical Security Inspection Program for Category I Fuel Cycle Facilities*

### **OIG Strategic Goal: Security**

NRC oversees security programs at facilities that manufacture fuel for nuclear reactors. These fuel cycle facilities use “special nuclear materials” in the manufacturing process. NRC classifies special nuclear materials and the facilities that possess them into three categories based upon the materials’ potential for use in nuclear weapons, or “strategic significance.” The three categories are:

- Category I: High strategic significance.
- Category II: Moderate strategic significance.
- Category III: Low strategic significance.

Two fuel cycle facilities in the United States process Category I materials into nuclear fuel for the Federal Government. The U.S. Navy, in particular, uses this fuel in nuclear powered ships and submarines. There are no Category II fuel cycle facilities operating in the United States, and Category III facilities are subject to a different NRC physical security inspection regime than Category I facilities because these materials present less risk to public safety and security.

The main objective of NRC’s oversight program for Category I fuel cycle facilities is to ensure that these facilities operate safely and securely in accordance with NRC requirements. Since the terrorist attacks of September 11, 2001, NRC has issued licensees new requirements and guidance to enhance security at Category I fuel cycle facilities against sabotage and theft of nuclear materials.

The audit objective was to assess the effectiveness of the NRC’s physical security inspection program over the protection and control of special nuclear material at Category I fuel cycle facilities.

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

The Office of Nuclear Security and Incident Response (NSIR) fulfills its responsibility to conduct physical security inspections at Category I fuel cycle facilities. However, the inspection program faces the following two challenges:

- Need to provide physical security training for supervisors without previous security experience to enhance management oversight of inspections.



*Armed security officers safeguard fuel cycle facilities and are trained according to standards specified in Federal Government regulations.*

*Source: Babcock and Wilcox Nuclear Operations Group*

- Inspection guidance has not undergone periodic review to ensure that it aligns with current NRC security guidance and requirements.

### **Security Training Would Enhance Management Oversight**



*Fuel cycle facility personnel processing uranium.*

*Source: Babcock and Wilcox Nuclear Operations Group*

Federal Government internal control guidance recommends that agencies staff positions with qualified personnel and provide appropriate training. NRC branch chiefs play an important role in overseeing inspection activities; however, the branch chiefs responsible for fuel cycle facility physical security inspections are not required to have background experience or undergo training in this area. NRC opens branch chief positions to generalists to increase the pool of potential job candidates, and staff said that branch chiefs can learn through on-the-job training and that branch chiefs rely on inspectors for technical expertise. In addition, NRC seeks candidates who exhibit leadership and supervisory skills, as well as programmatic and regulatory knowledge.

Without providing job-specific training to branch chiefs, NRC faces increased risk that branch chiefs might not be able to fulfill duties such as training new inspectors and reviewing inspection reports.

### **NRC Has Not Conducted Timely Reviews of Inspection Guidance**

NRC guidance requires staff to review inspection policies and procedures at least once every 3 years and to revise them as necessary. However, guidance for fuel cycle facility physical security inspections has not undergone routine review and has not been revised to ensure that the guidance is up to date. Physical security inspectors and headquarters-based NSIR staff said there have been some efforts to revise inspection guidance, but acknowledged that this has not occurred in a systematic way. For example, 9 of 34 of the applicable inspection procedures were issued before 1987 and have not been updated. Moreover, staff recommended that reviews should address content gaps and overlaps among some inspection manual chapters and inspection procedures applicable to the program.

Inspection guidance reviews and revisions have not occurred because NRC has not dedicated resources for this work and the agency has reportedly deferred some guidance revision pending an ongoing security rulemaking. As a consequence, NRC lacks assurance that physical security inspections are conducted in accordance with current regulations and requirements, which has the potential to compromise the agency's oversight function. (*Addresses Management Challenge #1*)

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## AUDITS IN PROGRESS

### *Audit of NRC's Oversight of Irradiator Security*

#### **OIG Strategic Goal: Security**

Irradiators are devices that expose products, such as food and medical supplies, to radiation for sterilization and other purposes. Radiation is achieved by the exposure to extremely hazardous radioactive sources, such as Cobalt-60. NRC has long participated in efforts to address radioactive source protection and security. However, the terrorist attacks of September 11, 2001, heightened concerns about the use of risk-significant radioactive materials in a malevolent act. Any loss of this material, whether inadvertent or through a deliberate act, may result in significant adverse impacts that could constitute a threat to the public health and safety or the common defense and security of the United States.

NRC has enhanced security measures by developing orders requiring increased security of irradiators and other radiological materials of concern. These security orders supplement existing regulatory requirements. NRC is currently in the rulemaking process to adopt the orders into regulation.

The objective of this audit is to determine the adequacy of NRC's oversight of industrial irradiator security. (*Addresses Management and Performance Challenge #1*)

### *Audit of NRC's Non-Concurrence Process*

#### **OIG Strategic Goal: Safety**

NRC managers and staff have various mechanisms for expressing their views about agency decisions. The Non-Concurrence Process applies to all documents undergoing concurrence and applies equally to administrative issues, policy issues, and technical concerns. The objectives of the Non-Concurrence Process are to (1) promote discussion and consideration of differing views on documents in the concurrence process, (2) provide a non-concurrence option for individuals with concerns about documents in the concurrence process that they had a role in creating or reviewing, and (3) provide a uniform approach to processing non-concurrences.

According to a former Executive Director for Operations, "Non-concurrence should be viewed as a routine option in the NRC's document concurrence process. All employees have a responsibility to raise concerns as early as possible in the document preparation and review process, engage in discussions and seek solutions before non-concurrences are initiated. The Non-Concurrence Process is another tool the agency can use to foster an

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environment in which the views of all employees are welcome, even when they differ from those of management.”

The audit objective is to assess the effectiveness of how NRC dispositions issues objected to through the Non-Concurrence Process. (*Addresses Management and Performance Challenge #2*)

### ***Audit of NRC’s Deployment of the National Source Tracking System***

#### **OIG Strategic Goal: Security**

The National Source Tracking System (NSTS) is a data system developed by NRC to monitor licensees’ inventories and transactions of Category 1 and Category 2 radiological sources. NRC deployed NSTS in December 2008, and licensees were required to begin reporting source transactions using NSTS by January 2009. In addition, NRC requires licensees to reconcile their physical inventories with NSTS inventory data on an annual basis. To facilitate public use, NSTS enables licensees to enter source data directly into the system via secure Internet connection. However, an NRC regulatory analysis completed in June 2009 shows that licensees tend to submit source data to NRC by fax. This requires NRC staff and/or contractors to enter source data into NSTS on behalf of licensees, and may increase support costs relative to NRC’s initial projections.

NSTS is a congressionally mandated project, and NRC regards it as critical for enhancing accountability of radiological sources that could pose a public health and safety threat if lost or stolen. Moreover, the Commission voted in June 2009 against expanding NSTS to include Category 3 radiological sources pending more information regarding NRC and licensee experience in using NSTS to track Category 1 and Category 2 sources.

The audit objective is to determine if NSTS meets its required operational capabilities. (*Addresses Management and Performance Challenge #5*)

### ***Audit of NRC’s Process for Closed Meetings***

#### **OIG Strategic Goal: Security**

Nuclear regulation is the public’s business and must be transacted publicly and candidly. The public must be informed about and have the opportunity to participate in the regulatory process as required by law. NRC has long recognized the importance and value of public communication and involvement as a cornerstone of fair regulation of the nuclear industry, and the agency has sought to include the public in various ways, including public meetings.

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There are times, however, when NRC's policy dictates that the agency conduct meetings with licensees that are closed to the public. Meetings are closed when the discussions include preliminary, pre-decisional, or unverified information. This policy applies solely to NRC staff-sponsored and staff-conducted meetings and not to meetings conducted by external organizations. It does not apply to the Commission or offices that report directly to the Commission or to meetings between NRC staff and State government representatives. It also does not apply to meetings involving enforcement matters or settlement conferences.

A public perception is that NRC's process for closed meetings gives licensees preferential treatment, particularly with regard to release of information. As a result, it is not always clear that NRC is conducting agency business in a transparent manner.

The audit objective is to determine if NRC's process for closed meetings hinders the transparent transaction of nuclear regulation. (*Addresses Management and Performance Challenge #2*)

## ***Audit of NRC's Vendor Inspection Program***

### **OIG Strategic Goal: Safety**

Appendix B to 10 CFR 50 establishes quality assurance requirements for the design, construction, and operation of structures, systems, and components that prevent or mitigate the consequences of postulated accidents. (These requirements are also referenced by 10 CFR 52.) Quality assurance comprises all activities necessary to provide adequate confidence that a structure, system, or component will perform satisfactorily in service. Among other things, these quality assurance activities include design, fabrication, purchasing, storing, testing, and installation of components.

NRC is responsible for ensuring that suppliers of nuclear safety-related structures, systems, and components engage in suitable quality assurance activities. For NRC to ensure that nuclear suppliers maintain adequate quality assurance programs, it is first necessary to know which domestic and global suppliers are providing components to licensees, and then it is essential to perform inspections of their quality assurance programs.

The audit objective is to assess NRC's regulatory approach for ensuring the integrity of domestic and global parts and services supplied to nuclear power reactors. (*Addresses Management and Performance Challenge #3*)

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## *Audit of NRC's Management Controls Over the Placement and Monitoring of Work With Department of Energy Laboratories*

### **OIG Strategic Goal: Corporate Management**

During FY 2008 and FY 2009 (as of March 31, 2009), NRC obligated approximately \$92 million and \$23 million, respectively, for agreements with Department of Energy (DOE) laboratories. MD 11.7, *NRC Procedures for Placement of Work With the U.S. Department of Energy*, states, "It is the policy of the U.S. Nuclear Regulatory Commission that work placed with the U.S. Department of Energy be managed effectively."

The MD and associated handbook specify the interagency responsibilities, authorities, and procedures for placement and monitoring of work with DOE and its contractors. The objectives of MD 11.7 are to ensure (1) that procedures for negotiating and managing agreements with DOE are consistent with sound business practices and contracting principles; (2) uniform application of an agencywide standard of contract management for projects placed with DOE; and (3) that a framework exists for program management control, administration, monitoring, and closeout of projects placed with DOE.

The audit objective is to determine whether NRC has established and implemented an effective system of internal control over the placement and monitoring of work with DOE laboratories. (*Addresses Management and Performance Challenge #6*)

## *Audit of NRC's FY 2010 Financial Statements*

### **OIG Strategic Goal: Corporate Management**

Under the Chief Financial Officers Act and the Government Management and Reform Act, the OIG is required to audit the financial statements of the NRC. OIG measures the agency's improvements by assessing corrective action taken on prior audit findings. The report on the audit of the agency's financial statements is due on November 15, 2010. In addition, the OIG will issue reports on:

- Special Purpose Financial Statements.
- Implementation of the Federal Managers' Financial Integrity Act.
- Condensed Financial Statements.

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The audit objectives are to:

- Express opinions on the agency’s financial statements and internal controls.
- Review compliance with applicable laws and regulations.
- Review the controls in the NRC’s computer systems that are significant to the financial statements.
- Assess the agency’s compliance with OMB Circular A-123, Revised, *Management’s Responsibility for Internal Control*.

*(Addresses Management and Performance Challenge #6)*

## ***Audit of NRC’s Telework Program***

### **OIG Strategic Goal: Corporate Management**

Public Law 106-345, Section 356, states, “Each executive agency shall establish a policy under which employees of the agency may participate in telecommuting to the maximum extent possible without diminishing employee performance.” Telework benefits employers and employees through reduced costs and increased productivity. Telework can also play a critical role in Continuity of Operations activities. Recent events have necessitated a need for Continuity of Operations planning. This planning is intended to ensure that essential functions can continue during and after a disaster. A social benefit is also gained from telework with the reduction of traffic and pollution. The agency expects to grow from about 3,600 employees in FY 2008 to more than 4,000 by FY 2010. This growth will place a premium on office space and equipment.

NRC has a Flexible Workplace Program (Flexiplace) that allows employees in eligible positions to apply for a fixed-schedule telework arrangement. Under Flexiplace, employees may work at home or at an offsite location, for up to 3 days per week, with the approval of their office director or regional administrator. Alternatively, employees can request to participate in Flexiplace under a project-based schedule.

The audit objectives are to determine (1) if NRC’s telework program complies with relevant law and OPM guidance, (2) the adequacy of internal controls associated with the telework program, and (3) NRC’s readiness to have staff telework under emergency situations. *(Addresses Management and Performance Challenge #7)*

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## *Audit of NRC Employee Use of Federal Calling Cards*

### **OIG Strategic Goal: Corporate Management**

NRC costs associated with employee use of Federal Calling cards have increased significantly over the past several years. In FY 2007, 2,354 employees had calling cards, and NRC spent \$20,388 for 389,687 minutes of card use. In FY 2008, employee use of the cards increased by about 400 percent over FY 2007 levels, with NRC spending \$100,490 for 1,793,167 minutes of card use. FY 2009 usage is projected to increase by 30 percent over the FY 2008 level. As of May 2009, the agency had already spent \$108,199 for 1,869,708 minutes of use. Currently, it costs about 6 cents a minute to use the cards.

NRC guidance on calling card use states that on domestic travel, employees may use the cards for official business calls and for either one 30-minute phone call home or two 10-minute phone calls home per day. For foreign travel, NRC permits one 5-minute call home three times within a 7-day period.

A recent audit at the Internal Revenue Service found a lack of controls over calling card use and identified excessive spending on international calls and in connection with teleconferences.

The audit objective is to determine whether NRC has established and implemented an effective system of internal control over the use of Federal calling cards. (*Addresses Management and Performance Challenge #6*)

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# Investigations

*During this reporting period, OIG received 100 allegations, initiated 19 investigations, and closed 17 cases. In addition, the OIG made 20 referrals to NRC management and 8 to the Department of Justice.*

## INVESTIGATIVE CASE SUMMARIES

### *Patients' Rights Advocate*

#### **OIG Strategic Goal: Corporate Management**

OIG conducted an investigation based on a letter from a former NRC employee to the NRC Commission regarding the February 2007 appointment of an individual to serve as the Patients' Right Advocate to the Advisory Committee on the Medical Uses of Isotopes (ACMUI). The ACMUI was established in 1958 and advises the NRC on policy and technical issues related to the regulation of the medical use of radioactive material. The letter from the former NRC employee alleged that the NRC staff forwarded the individual's name to the Commission for approval without conveying certain information that would have demonstrated that the individual recommended was not an appropriate choice for the Patients' Right Advocate position. Specifically, the former NRC employee maintained that (1) NRC staff concealed that the individual recommended for the ACMUI Patients' Right Advocate was a senior DOE official, and (2) a NRC press release announcing the appointment of the Patients' Right Advocate cited this individual's involvement in the American Association of Cancer Patients, which was a fictitious organization.

This investigation determined that the NRC selected the individual for the Patients' Right Advocate in February 2007 based on his experience with patient rights and counseling and his experience as a health physicist. The individual's career achievements were reviewed by an NRC screening panel, which determined that he was the most qualified applicant for the position before forwarding the individual's name to the Commission for review. OIG found that these actions were in accordance with NRC's process for selecting ACMUI members.

This investigation also determined that the individual selected for the Patients' Right Advocate in February 2007 was not a senior DOE official, but at the time of his appointment had been employed as a contactor for a DOE national laboratory since 1978. OIG also determined that an NRC press release incorrectly referred to the American Association of Cancer Patients instead of another patient advocacy organization with a similar name. (*Addresses Management and Performance Challenge #7*)

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## *ADAMS Citrix Intrusion*

### **OIG Strategic Goal: Security**

OIG's Computer Crimes Unit (CCU) conducted an investigation into an allegation from the NRC Computer Security Office (CSO) of an attempted intrusion of the Agencywide Documents Access Management System (ADAMS) Citrix server when antivirus software located password-cracking software on the system. ADAMS is an information system that provides access to all image and text documents that the NRC has made public since November 1, 1999, as well as bibliographic records (some with abstracts and full text) that the NRC made public before November 1999.

The OIG CCU forensically reviewed the server and no pertinent information was found for the reported password cracking software because the antivirus software quarantined and removed it. Additional investigative analysis of the server revealed that a different password cracking software program had also been placed on the Citrix system. The CCU identified Internet Protocol addresses connected to the Citrix server when the malicious software was uploaded. The CCU was unable to determine the identity of the individual(s) who placed the malicious software on the Citrix server because it appeared the network intruders masked their identities by surreptitiously taking control of another individual's computer. (*Addresses Management and Performance Challenge #6*)

## *Spear Phishing Attack on NRC*

### **OIG Strategic Goal: Security**

OIG's CCU conducted an investigation into an allegation from the NRC CSO of a spear phishing attack in which 17 NRC computer users were targeted.



*Photo illustration of digitized lock with binary code and circuit board.*

The e-mail address was similar to the name of an NRC employee. OIG CCU found that this spear phishing attack originated from an overseas location. The individuals involved gained access through an insecure auto parts store's server and utilized it to open a Yahoo! e-mail account using the name of an NRC employee. This e-mail account was then used to send spear phishing e-mails to members of the NRC staff, triggering the download of the malicious software. (*Addresses Management and Performance Challenge #6*)

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## *NRC Response to H&I Complaint*

### **OIG Strategic Goal: Safety**

OIG completed an investigation concerning a former licensee employee's harassment and intimidation (H&I) complaint against the individual's former employer. The individual raised the concern to NRC's OI, which closed the investigation after the individual reached a settlement with the former employer. The alleged maintained that OI should not have closed the case, but should have continued its investigation into the H&I complaint against the licensee company.

OIG learned that the former licensee employee raised the H&I complaint to OI after choosing not to follow NRC's Alternative Dispute Resolution (ADR) process to pursue the matter. ADR is a term that refers to a number of processes, such as mediation and facilitated dialogue, which can be used to assist parties in resolving disputes.

After the individual raised the H&I complaint to OI, that office opened an investigation and attempted to interview the individual concerning the complaint. However, before OI investigators had the opportunity to interview the individual, OI was notified that a settlement agreement had been reached between the parties and that NRC had reviewed the agreement and found it acceptable. OI subsequently closed the investigation on the basis that a settlement agreement had been reached and no further investigation was warranted.

After OI decided to close the case with no further investigation, NRC sent two letters to the individual with explanations concerning the rationale for closing the OI case. One letter, from NRC's Office of Enforcement, stated that "although the settlement was reached outside of NRC's ADR process, we can accept such settlements in lieu of an OI investigation per NRC policy." The second letter, sent by the Office of Nuclear Reactor Regulation, stated that "NRC's policy regarding ADR is such that if the parties agree to mediate a discrimination complaint and reach settlement through that process, whether ADR or through some other process, the NRC will not initiate an investigation into the complaint." While both letters suggested that OI would not conduct a case if a settlement was reached via ADR, these explanations did not seem entirely applicable because OI had already opened its investigation into the H&I matter.

OIG reviewed OI's investigative procedures manual and interviewed a senior OI official to ascertain why OI closed the case. The senior official explained that while OI assigned the H&I allegation a case number, the office never

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“initiated” an investigation because the preliminary interview with the alleged never occurred due to delays on the alleged’s side. The OI official said that if OI had conducted a preliminary interview on the record and NRC’s attorneys determined there was prima facie evidence regarding the allegation, then OI would have continued the investigation even if a settlement were reached.

Based on the details of this case, NRC officials agreed that the initial letter sent to allegeders should better articulate the relationship between settlement of allegations and OI involvement in a case. Agency officials said that as a result of the agency’s experience with this matter, they will be including more concise language in their ADR letter sent to allegeders. (*Addresses Management and Performance Challenge #1*)

## ***NRC Oversight of Nuclear Fuel Services***

### **OIG Strategic Goal: Safety**

OIG conducted an investigation involving six separate allegations concerning NRC’s oversight of NFS, an NRC licensee located in Erwin, Tennessee, that manufactures and processes nuclear reactor fuel for commercial purposes and for the military. The allegations were conveyed from concerned individuals to OIG during a series of meetings.

Three of the allegations challenged whether NRC followed its own rules and policies with regard to approval of an NFS license amendment, withholding of information to the public, and handling of an allegation against a senior NFS official. Each of these three allegations had been investigated and substantiated by OIG prior to being raised by concerned individuals during the OIG meetings. In the first case, OIG found that NRC approved a license amendment before the deadline for public comment. However, an agency official explained that in accordance with the Atomic Energy Act, the adjudication process is separate from the regulatory review process. Therefore, the official said, NRC may issue a licensing action prior to the expiration of the public comment period because the agency can later rescind its licensing actions as a result of adjudication action. In the second case, OIG found that the agency misapplied its June 2004 policy to withhold from the public all information on Department of Energy naval reactor activities involving NFS. The June 2004 policy directed NRC staff to designate all future correspondence with NFS related to the naval reactor programs as Official Use Only and withhold it from public disclosure. OIG found that instead of withholding only the naval reactor-related information, NRC withheld information on all activities, regardless of whether the information related to naval reactor or commercial operations. In

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September 2007, NRC placed all previously withheld documents on the NRC public Web site for 60 days. In the third case, OIG found that in March 2006, NRC Region II improperly referred to the licensee an allegation that a senior NFS official attended a force-on-force exercise under the influence of alcohol. NRC allegation guidance states that an allegation should not be referred to a licensee if it is made against the licensee's management or those parties who would normally receive and address the allegation. This referral was not in accordance with agency guidance because the subject was a licensee high-level management official and was typically responsible for receiving and handling NRC allegation referrals.

The remaining three NFS-related allegations raised by concerned individuals were not substantiated by OIG. One, addressed in a previous OIG case, alleged that the Department of Health and Human Services Agency for Toxic Substances and Disease Registry (ATSDR) was influenced by NRC to find that the NFS facility was not a significant health hazard. ATSDR conducts public health assessments of sites on the Environmental Protection Agency's National Priorities List to determine if people are being exposed to hazardous substances. ATSDR assessed NFS and ranked the site as "No apparent health hazard." OIG learned that when NRC Region II was informed of ATSDR's intent to assess NFS, Region II offered its assistance. However, ATSDR did not accept any input or assistance from NRC in its assessment of NFS. The second allegation, also addressed in a previous OIG case, stated that an NRC inspector at NFS was reassigned because he pursued his NRC assignment with too much rigor. OIG learned that, in fact, the inspector left the NFS position after applying for and receiving a promotion to another NRC position.

The third unsubstantiated allegation pertained to NRC's enforcement of a 2007 confirmatory order that required NFS to undertake an independent review of its safety culture. OIG learned that by January 2010, NRC had completed four performance reviews at NFS, the last of which had been conducted in August 2009. In these assessments, NRC staff noted that NFS continued to implement its safety culture improvement plan. (*Addresses Management and Performance Challenges #1 and #2*)

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# Summary of OIG Accomplishments

## INVESTIGATIVE STATISTICS

### *Source of Allegations — October 1, 2009, through March 31, 2010*



### *Disposition of Allegations — October 1, 2009, through March 31, 2010*



## *Status of Investigations*

DOJ Referrals . . . . .	8
DOJ Pending . . . . .	1
DOJ Declinations . . . . .	7
NRC Administrative Actions:	
Terminations and Resignations . . . . .	1
Suspensions and Demotions . . . . .	2
Counseling . . . . .	4
Other . . . . .	2

## *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
External Fraud	4	1	0	5
False Statements	0	1	0	1
Misuse of Government Property	2	1	2	1
Employee Misconduct	10	9	2	17
Management Misconduct	2	3	0	5
Mishandling of Technical Allegations	7	0	3	4
Whistleblower Reprisal	3	0	2	1
Proactive Initiatives	2	1	1	2
Miscellaneous	3	0	3	0
Technical Allegations	3	0	2	1
Projects	7	3	2	8
Management Implication Report	1	0	0	1
Event Inquiries	2	0	0	2
<b>Total Investigations</b>	<b>47</b>	<b>19</b>	<b>17</b>	<b>49</b>

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## AUDIT LISTINGS

### *Internal Program Audit and Special Evaluation Reports*

<i>Date</i>	<i>Title</i>	<i>Audit Number</i>
11/03/2009	Audit of NRC's Physical Security Inspection Program for Category 1 Fuel Cycle Facilities	OIG-10-A-01
11/10/2009	Results of the Audit of the United States Nuclear Regulatory Commission's Financial Statements for Fiscal Years 2009 and 2008	OIG-10-A-05
11/16/2009	Audit of NRC's Quality Assurance Planning for New Reactors	OIG-10-A-02
11/16/2009	Independent Auditor's Report on the U.S. Nuclear Regulatory Commission's Special Purpose Financial Statements as of September 30, 2008, and for the Years Then Ended	OIG-10-A-06
11/17/2009	Memorandum Report: Audit of NRC's Management Directive 6.8, Lessons Learned Program	OIG- 10-A-03
11/17/2009	Independent Evaluation of NRC's Implementation of the Federal Information Security Management Act for Fiscal Year 2009	OIG-10-A-04
01/14/2010	Independent Auditor's Report on the Condensed Financial Statements	OIG-10-A-07
01/22/2010	Audit of NRC's Use of Electronic Submissions for Combined License Applications	OIG-10-A-08
02/23/2010	Audit of NRC's Personnel Security Clearance Program for Employees	OIG-10-A-09
03/11/2010	Memorandum Report: Review of Implementation of the Federal Managers' Financial Integrity Act for Fiscal Year 2009-March 11, 2010	OIG-10-A-10
03/16/2010	Social Engineering Assessment Report– Official Use Only–Security Related Information	OIG-10-A-11

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## *Contract Audit Reports*

<i>OIG Issue Date</i>	<i>Contractor/ Contract Number</i>	<i>Questioned Costs</i>	<i>Unsupported Costs</i>
03/31/10	Dade Moeller & Associates NRC-04-07-112	0	0

# Audit Resolution Activities

**TABLE I**

***OIG Reports Containing Questioned Costs<sup>5</sup>  
October 1, 2009, through March 31, 2010***

<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	0	0	0
<i>Subtotal (A + B)</i>	0	0	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	0	0	0
E. For which no management decision was made within 6 months of issuance	0	0	0

<sup>5</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.

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**TABLE II*****OIG Reports Issued with Recommendations That Funds Be Put to Better Use<sup>6</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	0	0
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	0	0
E. For which no management decision was made within 6 months of issuance	0	0

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<sup>6</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.

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**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
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
09/06/07	Audit of NRC's License Renewal Program  <b>Recommendation 7:</b> Establish a review process to determine whether or not Interim Staff Guidance meets the provisions of 10 CFR 54.37(b), and document accordingly.	OIG-07-A-15

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# Abbreviations and Acronyms

ACMUI	Advisory Committee on the Medical Uses of Isotopes
ADAMS	Agencywide Documents Access and Management System
ADR	Alternative Dispute Resolution
ATSDR	Agency for Toxic Substances and Disease Registry
CCU	Computer Crimes Unit (OIG)
CFR	Code of Federal Regulations
CIGIE	Council of Inspectors General for Integrity and Efficiency
CSO	Computer Security Office (NRC)
DOE	U.S. Department of Energy
EDO	Executive Director for Operations
FCA	False Claims Act
FISMA	Federal Information Security Management Act
FY	fiscal year
H&I	harassment and intimidation
IAM	Issue Area Monitor
IG	Inspector General
IMPEP	Integrated Materials Performance Evaluation Program
MD	Management Directive
NFS	Nuclear Fuel Services, Inc.
NMED	Nuclear Material Events Database
NR	naval reactor
NRC	U.S. Nuclear Regulatory Commission
NRO	Office of New Reactors (NRC)
NRR	Office of Nuclear Reactor Regulation (NRC)
NSIR	Office of Nuclear Security and Incident Response (NRC)
NSTS	National Source Tracking System
OGC	Office of the General Counsel (NRC)
OI	Office of Investigations (NRC)
OIG	Office of the Inspector General (NRC)
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PII	personally identifiable information
PSB	Personnel Security Branch (NRC)
SAIC	Science Application International Corporation
SBCR	Office of Small Business and Civil Rights
SSA	Senior Special Agent

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# Reporting Requirements

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

<b>Citation</b>	<b>Reporting Requirements</b>	<b>Page</b>
Section 4(a)(2)	Review of Legislation and Regulations .....	6-9
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies .....	14-26, 33-37
Section 5(a)(2)	Recommendations for Corrective Action .....	14-26
Section 5(a)(3)	Prior Significant Recommendations Not Yet Completed .....	44
Section 5(a)(4)	Matters Referred to Prosecutive Authorities .....	39
Section 5(a)(5)	Information or Assistance Refused .....	None
Section 5(a)(6)	Listing of Audit Reports .....	40
Section 5(a)(7)	Summary of Significant Reports .....	14-26, 33-37
Section 5(a)(8)	Audit Reports — Questioned Costs .....	42
Section 5(a)(9)	Audit Reports — Funds Put to Better Use .....	43
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 the OIG Disagreed .....	None





## **NRC OIG's STRATEGIC 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.



## The NRC OIG Hotline

The Hotline Program provides NRC employees, other Government employees, licensee/utility employees, contractors and the public with a confidential means of reporting suspicious activity concerning fraud, waste, abuse, and employee or management misconduct. Mismanagement of agency programs or danger to public health and safety may also be reported. We do not attempt to identify persons contacting the Hotline.

### What should be reported:

- Contract and Procurement Irregularities
- Conflicts of Interest
- Theft and Misuse of Property
- Travel Fraud
- Misconduct
- Abuse of Authority
- Misuse of Government Credit Card
- Time and Attendance Abuse
- Misuse of Information Technology Resources
- Program Mismanagement

## Ways to Contact the OIG



**Call:**  
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**TDD: 1-800-270-2787**  
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After hours, please leave a message



**Submit:**  
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Click on OIG Hotline



**Write:**  
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