



*Office of the Inspector General*

# Semiannual Report to Congress



*April 1, 2012–September 30, 2012*

## OIG VISION

“OIG will identify the most critical risks and vulnerabilities in agency programs and operations in a timely manner to allow the agency to take any necessary corrective action and to prevent and detect fraud, waste, and abuse.”

## OIG MISSION

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

## COVER PHOTOS:

Background: Leskel Gamma Knife® headframe uses radiation to treat people with brain tumors.

1. Patient preparing for Gamma Knife® treatment.
2. NRC inspection and radiation monitoring.
3. Researcher handling radioactive material.
4. A moisture gauge uses radiation to indicate whether a foundation is suitable for construction.

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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 April 1, 2012, to September 30, 2012.

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

During this reporting period, the NRC OIG continued its focus on identifying the most critical risks and vulnerabilities in NRC programs and operations to include the management of import/export authorizations; issuance of general licenses for the use of byproduct material contained in certain products; oversight of industrial radiography; the inspections, tests, analyses, and acceptance criteria process; and the contract administration of the Enterprise Project Management contract. Working with the NRC timely to identify program areas warranting improvement affords the agency the opportunity to take any necessary corrective action.

During this semiannual reporting period, we issued 11 program audit reports. As a result of this work, OIG made a number of recommendations to improve the effective and efficient operation of NRC's safety, security, and corporate management programs. OIG also opened 49 investigations, and completed 32 cases. Nine of the open cases were referred to the Department of Justice, 24 allegations were referred to NRC management for action, and 2 were referred to other agencies.

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. My staff continuously strives to maintain 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 ongoing commitment to the mission of this office.

Finally, the success of the NRC OIG would not be possible without the collaborative efforts between my staff and those of the agency to address OIG findings and to timely implement recommended corrective actions. I thank them for their dedication and support, and I look forward to their continued cooperation as we work together to ensure the integrity and efficiency 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



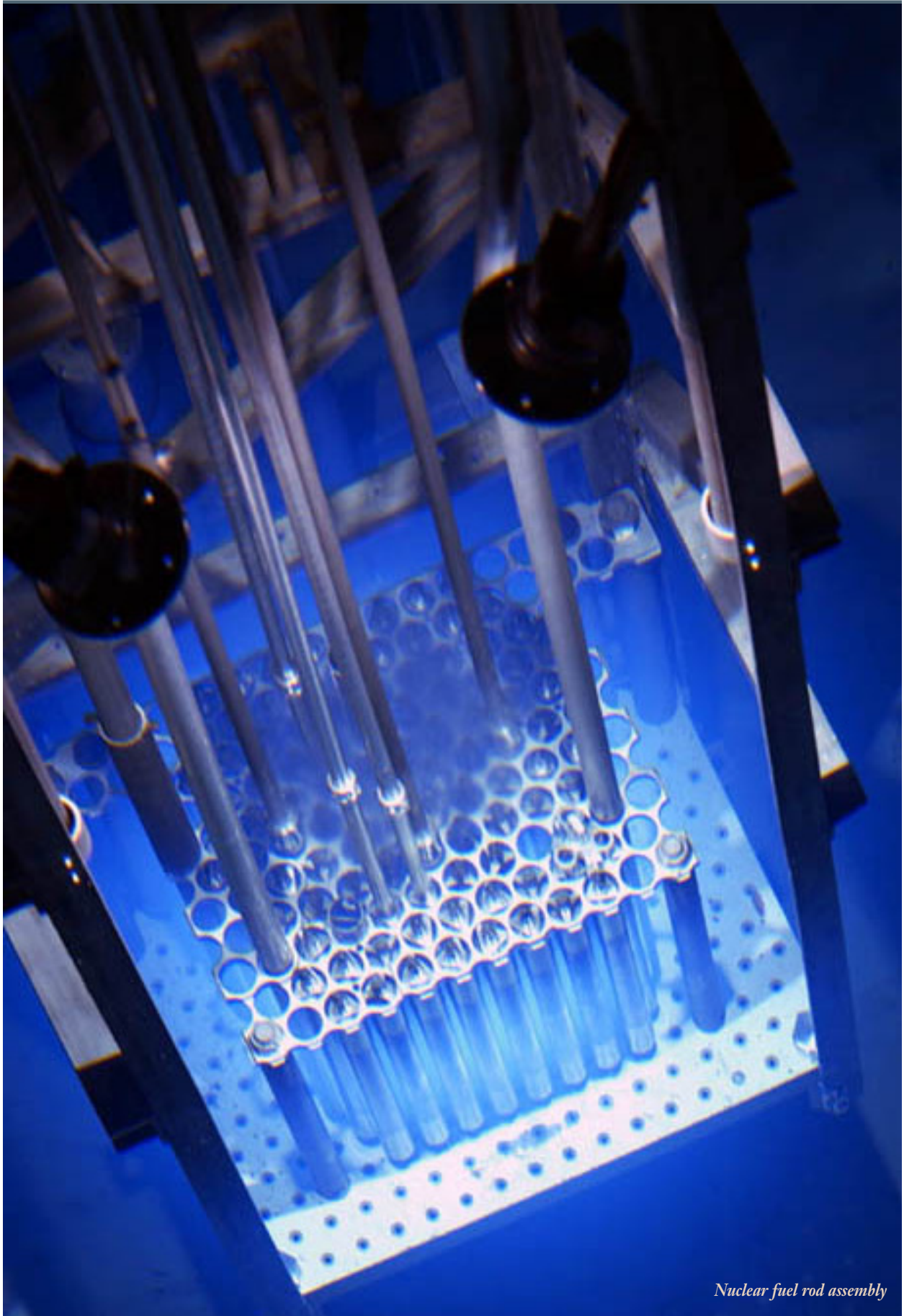
*Gamma knife® collimator helmet*



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# Contents

<b>Highlights</b> . . . . .	v
Audits . . . . .	v
Investigations . . . . .	viii
<b>Overview of NRC and OIG</b> . . . . .	1
NRC's Mission . . . . .	1
OIG History, Mission, and Goals . . . . .	2
OIG History . . . . .	2
OIG Mission and Goals . . . . .	3
<b>OIG Programs and Activities</b> . . . . .	4
Audit Program . . . . .	4
Investigative Program. . . . .	5
OIG General Counsel Regulatory Review. . . . .	6
Regulatory Review . . . . .	6
Other OIG General Counsel Activities . . . . .	7
Other OIG Activities . . . . .	8
<b>Management and Performance Challenges</b> . . . . .	9
<b>Audits</b> . . . . .	10
Audit Summaries . . . . .	10
Audits in Progress. . . . .	27
<b>Investigations</b> . . . . .	35
Investigative Case Summaries . . . . .	35
<b>Summary of OIG Accomplishments</b> . . . . .	44
Investigative Statistics. . . . .	44
Audit Listings . . . . .	46
Audit Resolution Activities . . . . .	48
<b>Abbreviations and Acronyms</b> . . . . .	51
<b>Reporting Requirements</b> . . . . .	52
<b>Appendix</b> . . . . .	53



*Nuclear fuel rod assembly*

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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

- Safeguards Information, or SGI, is a category of sensitive unclassified information that is unique to the U.S. Nuclear Regulatory Commission (NRC). SGI is detailed security-related information that identifies security measures for the physical protection of special nuclear material, or security measures for the physical protection and location of certain plant equipment vital to the safety of production or utilization facilities. Unauthorized disclosure of SGI could have a significant adverse effect on public health and safety and/or the common defense and security by significantly increasing the likelihood of theft, diversion, or sabotage of materials or facilities subject to NRC jurisdiction. The audit objective was to determine if NRC adequately ensures the protection of SGI. This audit was conducted to follow up on an audit issued in January 2004, OIG-04-A-04, *Audit of NRC's Protection of Safeguards Information*.
- One of NRC's statutorily mandated responsibilities under the Atomic Energy Act of 1954, as amended (AEA), is to license the import and export of nuclear materials and equipment into and from the United States. NRC issues two types of licenses for the import and export of nuclear material: general licenses and specific licenses. The type of license required depends on the amount and type of nuclear material or equipment and the foreign country involved. The audit objectives were to determine whether NRC (1) properly reviews and approves import/export authorizations in a timely manner, (2) effectively coordinates this activity with other Federal agencies, and (3) efficiently and effectively coordinates import/export authorizations internally.
- NRC issues specific and general licenses for domestic use of radioactive materials. Specific licenses are issued to named individuals who have filed an acceptable application to use certain types or quantities of radioactive materials. In contrast, general licenses are provided by regulations found in Title 10, Code of Federal Regulations (10 CFR) Part 31, *General Domestic Licenses for Byproduct Material*. These regulations allow persons to receive and use a general licensed device containing byproduct or source material if the device has been manufactured and distributed in accordance with a specific license issued by NRC or an Agreement State. A general licensed device (GLD) consists of radioactive material encased in a capsule within a shielded device. NRC asserts that the GLDs are designed with inherent radiation safety features so that they can be used by persons with no radiation safety training or experience. A few of the more commonly used GLDs include fixed gauges, x-ray fluorescence analyzers, static elimination devices, and tritium exit signs. The Office of the Inspector General (OIG) conducted two audits pertaining to GLDs. One audit sought to determine if NRC issues general licenses for only inherently safe nuclear materials. The other audit sought to determine if NRC's general

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licensing program provides for the necessary accountability and tracking of general licensed devices to protect public health and safety.

- NRC regulates the use of ionizing radiation for nondestructive examination of the structure of materials in its jurisdiction. This process is known as industrial radiography. Radiographers use radiography devices, or cameras, to produce images used in the examination of structures such as pipelines. The cameras contain radioactive sealed sources. When the source is exposed, radiation penetrates the material and produces a shadow image on film or some other detection medium. Radiography cameras use high activity sources that, if unshielded, are dangerous. Significant unplanned and excessive exposures to radiation, including radiation injuries, have occurred during radiography operations when personnel failed to properly use survey meters and other safety equipment, and failed to follow regulatory requirements and safety procedures. The audit objective was to determine the adequacy of NRC's processes for overseeing licensee activities addressing the safety and control of radiography sources.
- The next generation of nuclear power plants will be built under combined construction permit and operating licenses (COL) that reference designs that are certified by NRC. A COL is issued under 10 CFR Part 52, a process that combines the construction permit and operating license. NRC, in conjunction with industry, designed the *Inspections, Tests, Analyses, and Acceptance Criteria* (ITAAC) process to verify conformance with the COL as construction proceeds. ITAAC are a design-specific, pre-approved set of performance standards, grouped into families, which the licensee must meet to NRC's satisfaction. Families are composed of ITAAC that are related through similar construction processes, resulting products, and general inspection attributes. The audit objective was to assess NRC's regulatory approach, through the ITAAC review process, to ensure that new nuclear power plants have been constructed and will be operated in conformity with the license, the provisions of the Atomic Energy Act, and the Commission's rules and regulations.
- NRC has four regional offices that conduct inspection, enforcement, investigation, licensing, and emergency response programs for nuclear reactors, fuel facilities, and materials licensees. The regional offices, which operate under the direction of a regional administrator, are NRC's front line in carrying out its mission and implementing established agency policies and programs nationwide. The Region II office oversees regulatory activities in the southeastern United States, and is located in Atlanta, Georgia. The Region III office oversees regulatory activities in the northern midwestern United States and is located in Lisle, Illinois. Independent information security risk evaluations were conducted of NRC's information technology security program, policies, and practices for compliance with the *Federal Information Security Management Act of 2002* in accordance with Office of Management and Budget guidance and Federal regulations and guidelines as implemented at Region II and Region III. The evaluations also sought to evaluate the effectiveness of agency security control techniques as implemented at Regions II and III.



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- In November 2009, NRC entered into a contract to “execute its vision for implementing Microsoft technologies throughout the agency in a timely, efficient, and secure manner.” NRC stated in the contract’s statement of work that it currently employs a variety of Microsoft technologies, including Enterprise Project Management (EPM) tools. The contract has an estimated ceiling of approximately \$34 million and is an Indefinite Delivery, Indefinite Quantity contract with provisions for firm fixed price and labor hour task orders. Effective implementation of the contract requires a significant level of coordination among participating offices. The audit objective was to evaluate NRC’s contract administration for technology initiatives using EPM applications under the contract.
  - NRC is authorized to enforce its regulatory requirements by imposing sanctions, such as orders, against licensees or other persons subject to the Commission’s jurisdiction who are in violation of requirements. An order is a written NRC directive to modify, suspend, or revoke a license; to cease and desist from a given practice or activity; or to take such other action as may be proper. The Commission’s order issuing authority under Section 161 of the AEA extends to any area of licensed activity that the Commission deems necessary to promote the common defense and security or to protect health or to minimize danger to life or property. The audit objective was to evaluate the efficiency and effectiveness of NRC’s documentation, verification, and closure process for issued orders.
  - In October 1987, NRC contracted with Southwest Research Institute (SwRI) to operate a Federally Funded Research and Development Center (FFRDC). SwRI established the Center for Nuclear Waste Regulatory Analyses (the Center) to provide long-term technical assistance and research related to NRC programs authorized under the Nuclear Waste Policy Act of 1982, as amended. In October 1992, September 1997, September 2002, and again in September 2007, the agency extended its contract with the Center for an additional 5 years. The 2007 contract, with a ceiling of approximately \$123.3 million, expired on September 28, 2012. Section 35.017 of the Federal Acquisition Regulation sets forth the policy regarding establishment, review, and termination of FFRDCs and related sponsoring agreements. The audit objectives were to determine if NRC was (1) properly considering all Federal Acquisition Regulation requirements for an FFRDC review in preparing its renewal justification, and (2) adequately fulfilling its oversight responsibilities for the FFRDC.

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## Investigations

- OIG conducted an investigation into several allegations concerning the former NRC Chairman's exercise of his authority under the Reorganization Plan No. 1 of 1980 and the Energy Reorganization Act of 1974. The investigation also addressed allegations concerning the former Chairman's interactions with NRC officials and the former Chairman's testimony during U.S. House of Representatives and Senate committee hearings in December 2011.
- OIG conducted an investigation into an allegation that an NRC licensee had no quality assurance program, which has allowed the licensee to release quantities of uranium and other radioactive materials into the environment over several decades.
- OIG conducted an investigation into an allegation that previously identified concerns regarding misconduct and deficiencies at the Vallecitos Nuclear Center were not being properly addressed by the NRC.
- OIG completed an investigation into an allegation that an information technology contractor may have inappropriately billed NRC's Region II office for the same work for which the contractor had previously billed NRC's Region III office.
- OIG conducted an investigation into an allegation that an NRC employee was working on a volunteer basis as a collaborator on an NRC grant provided to a university to develop a comprehensive undergraduate and graduate course. According to the allegation, the NRC employee was also the lead reviewer on the panel that recommended that the university receive the grant award; however, the original grant proposal did not mention that the employee would potentially provide assistance to the grant on a volunteer basis. The allegation also conveyed that the grantees were planning to publish a book related to the grant work, and raised a concern that the NRC employee might receive money from the book publication.
- OIG conducted an investigation into an allegation that three former NRC employees violated post-employment restrictions, specifically, Title 18, U.S. Code, §207, "Restrictions on Former Officers, Employees, and Elected Officials of the Executive and Legislative Branches," by providing support in an ongoing antitrust and unfair competition lawsuit between two NRC licensees.

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# Overview of NRC and 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.

NRC maintains a current Web site and a public document room at the agency's headquarters in Rockville, Maryland; holds public hearings and public meetings in local areas and at NRC offices; and engages in discussions with individuals and organizations.

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# OIG History, Mission, and Goals

## OIG History

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

In response, 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 encourage 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*<sup>1</sup> 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* (See <http://www.nrc.gov/insp-gen/plandocs/strategic-plan.pdf>) 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 or 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 fiscal year, 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 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.

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## 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 to 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.

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.

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# OIG General Counsel Regulatory Review

## 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. 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's review is structured so as to identify vulnerabilities and offer additional or alternative choices.

From April 1, 2012, through September 30, 2012, OIG reviewed agency documents, including Commission papers (SECYs), Staff Requirements Memoranda, 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.

During this period, substantive comments were provided for three agency MD revisions related to human capital issues: MD 10.1, *Recruitment, Appointment, and Merit Staffing*; MD 10.101, *Employee Grievances*; and MD 14.2, *Relocation Allowances*.

- MD 10.1 provides guidance on fair and equitable appointments and employment within NRC. The revised document was generally comprehensive. OIG comments focused on clarification of IG functions, the addition of references related to OIG, as well as suggesting further definition in describing reemployment rights and issues related to temporary promotions. OIG provided more detailed suggestions on the need for additional elaboration of processes to be employed when compromise of a selection was suspected.
- MD 10.101 describing NRC agency procedures for grievances was well constructed. OIG suggested an addition to the Organizational Responsibilities and Delegations of Authority section to include the Chairman, Commission, and Office of the Inspector General, along with a detailed description of the independent OIG grievance procedures and a recitation of its functional role in oversight of this program. In addition, the need for clarification as to whether former employees are covered by this MD and specification of precise time limits for certain actions was identified. Finally, further detail on the role of union representatives was suggested.



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- OIG provided two significant comments on MD 14.2. The first identified the need to clarify the delegations of authority within the OIG. The second suggested changing the terminology used in the document to avoid confusion with other allowance and incentive programs.

OIG also commented on draft MD 6.3, *The Rulemaking Process*, providing language to correctly reflect the role and functions of the OIG within agency rulemaking.

## Other OIG General Counsel Activities

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

The Council of Counsels to Inspectors General, a group of attorneys who serve as legal advisors in the Federal Inspector General community, sponsors a training program for law students working as summer interns in IG offices in the Washington, DC, area. As part of the introductory session, Maryann Grodin, the NRC OIG General Counsel, provided a 1-hour presentation on the History and Concept of the Inspector General in the Federal Government. In addition to the chronological history, the OIG General Counsel related the political and philosophical context of IG authority and functions, adding factual illustrations and anecdotes from practice in the community.

In addition, Ms. Grodin made two presentations based on a 2011 article published in *The Federal Ethics Report* and *The Journal of Public Inquiry*, titled, “Growing Old Together: Inspector General and Ethics Counsel Changing Environments and Challenges.” The article provides a comprehensive description of statutory and regulatory rules that define the roles of Federal Government attorneys serving as ethics advisors and IG counsel. Along with the history of these positions, the article discusses their professional and organizational relationships and best practices. The article was jointly authored by Assistant Counsel Nancy Eyl, Department of Homeland Security Office of Inspector General; Alexandra Keith, Senior Attorney in the Office of General Counsel of the Special Inspector General for Iraq Reconstruction; and Ms. Grodin.

The first presentation concerning the 2011 article was to the Association of Inspectors General. This professional organization fosters and promotes public accountability and integrity in the general areas of prevention, examination, investigation, audit, detection, elimination, and prosecution of fraud, waste and abuse, through policy research and analysis; standardization of practices, policies, conduct, and ethics; encouragement of professional development by providing and sponsoring educational programs; and the establishment of professional qualifications, certifications, and licensing. The second presentation was made at the U.S. Navy Inspector General Conference in Washington, DC, to several hundred military and civilian attendees. In both lectures, Ms. Grodin conducted an interactive practical exercise, and provided responses to questions on IG ethics issues.

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## Other OIG Activities

### NRC OIG Employee Receives Prestigious Inspector General Award



*Judy G. Gordon receives 2012 Inspector General Award. Pictured left to right are David C. Lee, Deputy Inspector General; Judy Gordon, Quality Assurance Manager; and Hubert T. Bell, Inspector General.*

*Source: NRC*

The NRC Inspector General, Hubert T. Bell, recognizes with appreciation the valuable contributions made by OIG employees over the course of their OIG career. In July 2012, Inspector General Bell presented Judy G. Gordon, Quality Assurance Manager, with the prestigious Inspector General Award in recognition of her outstanding achievements of OIG-wide significance. During her 14 year career with OIG, Ms. Gordon has consistently made outstanding contributions to the Audit and Investigation programs in particular as well as the wider OIG program and its mission as a whole.

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# Management and Performance Challenges

## Most Serious Management and Performance Challenges Facing the Nuclear Regulatory Commission\* as of October 1, 2011 *(as identified by the Inspector General)*

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

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

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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, summarized below, that resulted in numerous recommendations to NRC management. In addition, the Defense Contract Audit Agency completed three contract audits for OIG.*

## Audit Summaries

### Audit of NRC's Protection of Safeguards Information

#### *OIG Strategic Goal: Security*

Safeguards Information, or SGI, is a category of sensitive unclassified information that is unique to NRC. SGI is detailed security-related information that identifies security measures for the physical protection of special nuclear material, or security measures for the physical protection and location of certain plant equipment vital to the safety of production or utilization facilities. Unauthorized disclosure of SGI could have a significant adverse effect on public health and safety and/or the common defense and security by significantly increasing the likelihood of theft, diversion, or sabotage of materials or facilities subject to NRC jurisdiction. Such an unauthorized release could result in damage to the Nation's critical infrastructure, which includes nuclear power plants and certain other facilities and radioactive materials licensed and regulated by the NRC.

Access to SGI is restricted to personnel who have an established "need-to-know" the information and are deemed "trustworthy and reliable" by undergoing a background check and a Federal Bureau of Investigation criminal history records check. A security clearance is not needed to access SGI. While most people who consistently deal with SGI are NRC employees or licensees, access to SGI is not contingent upon one's relationship with NRC. For example, contractors, consultants, private citizens who participate in adjudicatory hearings, and qualified private citizens who choose to comment on certain regulatory guides can gain access to SGI if they meet the regulatory requirements stated above.

Hardcopy and electronic documents containing SGI must be protected in accordance with NRC regulations and guidance. When in use, documents containing SGI must always be under the direct control of the authorized user of the information. These documents must be protected to avoid disclosing the information to unauthorized persons. Within NRC, this means that hardcopy SGI documents are stored in locked security containers, while electronic copies are stored in the Safeguards Local Area Network and Electronic Safe (SLES). SLES is NRC's electronic document management system for the storage of electronic SGI documents. NRC has given a select group of individuals within the agency the authority to review security documents to determine whether the items contain SGI and therefore warrant protection. These individuals are referred to as SGI designators, and the majority



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of offices have at least one designator. The SGI designator role is a collateral duty and employees must fulfill training requirements to become certified to perform the role. Only individuals who have been certified as SGI designators can make SGI determinations.

The audit objective was to determine if NRC adequately ensures the protection of SGI. This audit was conducted to follow up on an audit issued in January 2004, OIG-04-A-04, *Audit of NRC's Protection of Safeguards Information*. The 2004 audit found that the benefit of having an SGI program was unclear and that NRC lacked a central authority for controlling, coordinating, and communicating SGI program requirements. The audit also found examples in which NRC and licensee representatives inappropriately released SGI to unauthorized individuals.

### *Audit Results:*

Since the 2004 audit, NRC has made improvements to the SGI program, including the development of a management directive specifically for SGI and identification of a lead program office for developing SGI policies and procedures. However, OIG identified the following areas for further improvement of the SGI program: NRC (1) lacks a structured process for tracking SGI releases, (2) lacks guidance on granting “outsiders” access to SGI, and (3) has inadequate business processes over the SGI designator role.

#### **Lack of a Structured Process for Tracking SGI Releases**

While SGI releases are reported to NRC offices identified to record and respond to such incidents, the total universe of SGI releases is not known to NRC management. The universe of SGI releases is unknown because NRC does not have a structured, streamlined process for reporting and tracking releases. Without a full understanding of the universe of releases, NRC cannot trend releases to see if there is a systemic problem that could be resolved from additional guidance, or if clarifications to existing guidance need to be made.

During the audit, OIG attempted to identify the universe of SGI releases reported to one or more of the five NRC offices assigned to receive such notifications and to assess the timeliness of such reporting. Auditors determined that 95 unique releases were reported between March 11, 2005, and October 4, 2011. While nearly 60 percent of the releases were reported the day the incident occurred, 10 percent were not reported until a month or more after the release occurred.

#### **No Guidance for Granting “Outsiders” Access to SGI**

While MD 12.7 provides details on many aspects of protecting SGI, it lacks guidance on how to grant SGI access to a non-NRC, non-licensee entity. MD 12.7 lacks information about approving SGI access to outsiders because the Office of Nuclear Security and Incident Response, which is responsible for the content of MD 12.7, believes that the existing guidance is sufficient. Without comprehensive guidance, there is no assurance that consistent measures are being taken to protect SGI.

## Inadequate Business Processes Over the SGI Designator Role

NRC does not have accurate and complete records on the universe of SGI designators because NRC lacks adequate business processes over the SLES SGI designator role and certified SGI designator list. OIG interviewed 46 NRC employees who were listed on the certified SGI designator list. Of the 46 interviewed, 16 (35 percent) did not know they were on the list. Furthermore, 21 individuals (46 percent) have never designated SGI. Several employees had moved offices, changed job functions, or no longer needed to maintain their status as an SGI designator.

A lack of accurate SGI designator lists could prevent NRC from communicating policy or procedural changes to those who have this responsibility and ensuring there is adequate SGI designator coverage throughout the program offices.

*(Addresses Management and Performance Challenge #5)*

## Audit of NRC's Management of Import/Export Authorizations

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

NRC's mission is to regulate the Nation's civilian use of nuclear materials to ensure protection of public health and safety, promote the common defense and security, and protect the environment. One of the agency's statutorily mandated responsibilities under the Atomic Energy Act of 1954, as amended (AEA), is to license the import and export of nuclear materials and equipment into and from the United States.

NRC issues two types of licenses for the import and export of nuclear material: general licenses and specific licenses. The type of license required depends on the amount and type of nuclear material or equipment and the foreign country involved. A person may use an NRC general license as authority to import or export nuclear material or equipment if the item is covered by the NRC general licenses issued under regulation in 10 CFR Part 110. If an import or export is not covered by the

general license, a person must file an application with the Commission for a specific license. A specific import/export license is a paper document issued by the NRC on a case-by-case basis to a named person or entity for the proposed transaction(s) described in the license application form.

NRC's Office of International Programs (OIP) is assigned to process specific nuclear import/export licensing actions under 10 CFR Part 110 after receiving any necessary guidance from the Commission. OIP coordinates its license application review, as needed, with the Office of Federal and State Materials and Environmental Management Programs, the Office of Nuclear Security and Incident Response, the Office of Nuclear Material Safety and Safeguards, the Office of the General Counsel, and the Commission.

Cost Recovery Hours Billed to Hours Worked	
<b>Biennial Period 2004–2006</b>	<b>2004–2006</b>
Hours Billed	2,297.25
Hours Worked	3,202.75
<b>Under Recovery</b>	<b>28.27%</b>
<b>Biennial Period 2006–2008</b>	<b>2006–2008</b>
Hours Billed	5,641.50
Hours Worked	6,097.00
<b>Under Recovery</b>	<b>7.47%</b>
<b>Biennial Period 2008–2010</b>	<b>2008–2010</b>
Hours Billed	4,718.50
Hours Worked	5,864.50
<b>Under Recovery</b>	<b>19.54%</b>

Source: OIG Data

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OIP also coordinates with State government officials and representatives of regional low-level radioactive waste interstate compacts<sup>2</sup> on applications for the import of waste materials. Additionally, OIP coordinates with the Departments of Energy and State on communications with foreign governments related to requirements of the AEA.

From FY 2008 through FY 2010, OIP completed between 123 and 139 licensing actions per year. OIP has nine staff who spend part of their work effort on processing import and export license applications. In FY 2010, according to NRC Human Resources Management System records, OIP staff charged approximately 2,670 staff-hours to billable licensing activities. Other program offices involved in reviewing import/export applications estimated they expended approximately an additional 969 staff-hours in support of billable import/export licensing activities during the same period.

The audit objectives were to determine whether NRC (1) properly reviews and approves import/export authorizations in a timely manner, (2) effectively coordinates this activity with other Federal agencies, and (3) efficiently and effectively coordinates import/export authorizations internally.

### *Audit Results:*

In general, OIP is properly reviewing and approving import/export license authorizations (applications) in a timely fashion and coordinates effectively with external stakeholders. However, OIG identified opportunities for improvement for more efficient and effective internal coordination on import/export authorizations. Specifically, OIP does not (1) have a systematic approach to biennial fee reviews and adjustments, (2) reconcile import/export license application revenue, and (3) employ an adequate quality control review process over application files.

### **OIP Does Not Have a Systematic Approach to Biennial Fee Reviews and Adjustments**

OIP employs an ad hoc and inconsistent approach to identifying the hours and license applications to include in the agency's biennial review of costs associated with import/export licensing activities. OIP does not use a systematic method to:

- Determine staff hours spent reviewing import/export license applications.
- Determine the number of licensing applications per fee category.
- Adjust the average number of hours assigned per import/export license category as a result of the biennial fee review.

These inconsistencies occur because OIP management does not provide sufficient quality control over data collection, data analysis, and use of biennial fee review results. As a result, OIP is not accurately charging licensees, also known as customers, and not receiving full reimbursement for the cost of providing these services.

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<sup>2</sup> Under the Low-Level Radioactive Waste Policy Amendments Act of 1985, States were given the responsibility for disposal of their low-level radioactive waste. States were encouraged to enter into agreements (compacts) to dispose of waste in common facilities. Currently, there are 10 interstate compacts and 10 unaffiliated States.

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OIG estimated the under recovery of import/export fees during FY 2010 by comparing (a) hours worked related to import/export application processing multiplied by the professional hourly rate charged for these licensing activities against (b) the fee revenue reported by the Department of the Interior, National Business Center (DOI NBC) for import/export activities for the same time period. This comparison indicated that NRC under recovered import/export licensing costs by approximately \$325,000.

### **OIP Does Not Reconcile Import/Export License Application Revenue**

OIP recorded receipt of import/export license fees submitted by at least one applicant in internal office records, but did not forward the funds to NRC's lockbox<sup>3</sup> as required by OIP policy. Specifically, OIG compared FY 2010 data for one specific vendor from OIP records to DOI NBC records. Of the 15 FY 2010 transactions for this vendor, OIG identified 8 instances where OIP recorded a \$4,100 fee received, but DOI NBC did not have a record of the fees being processed. This error occurred because OIP procedures describing the fee handling process do not specifically instruct OIP employees on how to deposit revenue and OIP staff thought Office of the Chief Financial Officer personnel were making the deposits.

Furthermore, OIP does not have adequate separation of duties related to revenue and does not perform an adequate reconciliation to verify that submitted import/export license fees are, in fact, deposited in the agency's account. As a result, NRC has not recovered all the money owed for services rendered.

### **OIP Does Not Employ an Adequate Quality Control Review Process Over Application Files**

Internal control standards require that all transactions be clearly documented and the documentation should be readily available for examination. However, OIP application files do not always contain required information to support the issuance of the license. Sixty-three percent of completed import/export files reviewed by OIG contained checklists that were incompletely filled out or were missing one or more items identified in OIP's policies and procedures as required documentation. Files were incomplete because OIP does not employ an effective quality control process over file documentation and management's review and approval process is inadequate.

Incomplete file documentation and inadequate management review has resulted in instances where licenses were issued without proof that all required documentation was included. Without an adequate quality control process for compiling and reviewing import/export files prior to completion, there is an increased chance that NRC could erroneously issue a license. Such action would be contrary to NRC's mission to ensure adequate protection of public health and safety, promote the common defense and security, and protect the environment.

*(Addresses Management and Performance Challenges #1 and #6)*

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<sup>3</sup> OIP policy provides that OIP staff should forward import/export license fee payments to the agency's lockbox located in St. Louis, Missouri.

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## Audit of NRC's Issuance of General Licenses

### *OIG Strategic Goal: Safety*

NRC regulations provide a general license for the use of byproduct material contained in certain products. This general license allows persons to receive and use a device containing byproduct or source material (a general licensed device) if the device has been manufactured and initially distributed in accordance with a specific license issued by NRC or an Agreement State.

A general licensed device (GLD) consists of radioactive material encased in a capsule within a shielded device. The design of a GLD is subject to a regulatory review to ensure that the device meets NRC or Agreement State regulatory requirements prior to approval for distribution. NRC asserts that the GLD is designed with inherent radiation safety features so that it can be used by persons with no radiation safety training or experience. A few of the more commonly used GLDs include fixed gauges, x-ray fluorescence analyzers, static elimination devices, and tritium exit signs.

NRC's Office of Federal and State Materials and Environmental Management Programs is primarily responsible for the regulation of GLDs. Specifically, the Licensing Branch within the office provides program oversight for the general license program. In addition to developing and implementing technical and policy guidance, the branch is responsible for the following:

- **Sealed Source and Device Registry Review**—A device must undergo this review and safety evaluation prior to distribution as a GLD. Satisfying the review ensures that the device meets NRC's or an Agreement State's regulatory requirements.
- **General License Tracking System**—This database facilitates the tracking and accountability of general licensees and GLDs. The database stores information about NRC's current general licensees located in NRC's jurisdiction.
- **Registration**—Certain general licensees (approximately 600) are required to register their devices with NRC annually. The registration requires licensees to provide NRC the location of the devices and specific information about the licensee.

The audit objective was to determine if NRC issues general licenses for only inherently safe nuclear materials.

### *Audit results:*

#### **General Licensed Devices Can Contain Dangerous Sources**

Although GLDs can contain dangerous radioactive sources, NRC considers GLDs to be inherently safe, allowing persons with no radiation training or experience to operate these devices. Existing regulations do not specify an activity threshold for byproduct material allowed in general licensed fixed gauges. When exposed to a



*Fixed Density Gauge*  
Source: Vega Australia



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dangerous source, a person can receive a radioactive dose that exceeds the regulatory limits for radiation exposure. Exposure to radiation can occur to non-radiation workers during routine operations or in accident conditions. Furthermore, members of the public who encounter fixed gauges after they have been lost, stolen, or improperly disposed can also be exposed.

*(Addresses Management and Performance Challenge #1)*

## Audit of NRC's Oversight of Industrial Radiography

### *OIG Strategic Goal: Safety*



*Radiography camera.*  
Source: NRC

NRC regulates the use of ionizing radiation for nondestructive examination of the structure of materials in its jurisdiction. This process is known as industrial radiography. Radiographers use radiography devices, or cameras, to produce images used in the examination of structures such as pipelines. The cameras contain radioactive sealed sources. When the source is exposed, radiation penetrates the material and produces a shadow image on film or some other detection medium.

Radiography cameras use high-activity sources that, if unshielded, are dangerous. The typical radioactive sources used in industrial radiography are iridium-192 and cobalt-60. As an example of how dangerous these sources can be, an unshielded 50-curie iridium-192 radioactive source could cause severe injury if the source is within a few inches of a person for an hour. Significant unplanned and excessive exposures to radiation, including radiation injuries, have occurred during radiography operations when personnel failed to properly use survey meters and other safety equipment, and failed to follow regulatory requirements and safety procedures. For example, a radiographer working under an NRC license received radiation exposures beyond the NRC occupational dose limits when the source failed to fully retract into the shielded position.

NRC's regulatory requirements for industrial radiography are provided in 10 CFR Part 34, "Licenses for Industrial Radiography and Radiation Safety Requirements for Industrial Radiographic Operations." These regulations require radiographers to perform radiography in a safe manner. For example, radiographers are required to post radiation and high-radiation boundaries when performing radiography. Also, the regulations require radiographers to wear radiation monitoring equipment to track the radiation dose to the radiography workers and use radiation monitoring equipment to warn workers when radiation is present.

The audit objective was to determine the adequacy of NRC's processes for overseeing licensee activities addressing the safety and control of radiography sources.

### *Audit Results*

Generally, NRC's oversight of industrial radiography is effective, and the agency has taken steps to improve its oversight by updating some guidance for radiography and stressing the importance of safety culture during radiography inspections. However,

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OIG identified the following areas that could be improved:

- Clarity and consistency of radiography licenses.
- Routine inspection program for licensees.
- Temporary job site inspections.
- Approach to inspecting NRC licensees located in Agreement States.

### **Radiography Licenses Are Not Clear or Consistent**

Radiography licenses do not clearly or consistently indicate what activities licensees are authorized to conduct or where the licensees may conduct them because NRC management does not require such information in the license. As a result, (1) some licensees have unknowingly performed unauthorized activities, (2) inspectors could miss inspecting activities or expend resources attempting to inspect activities no longer authorized by NRC, and (3) license reviewers could make future licensing decisions based on inaccurate information.

### **NRC's Routine Inspection Program for NRC Radiography Licensees Could Be Improved**

During routine inspections, NRC does not always inspect the location where the licensee's Radiation Safety Officer (RSO) works to verify the RSO is adequately overseeing the licensee's radiation safety program. Additionally, inspectors use various, inconsistent factors to select which field stations to inspect for licensees with multiple field stations. NRC's inspection guidance lacks language defining which licensee location should be visited for each routine inspection, and lacks a methodology to ensure that field station selection is reliable. As a result, (1) future inspectors might not inspect the location where the RSO is for each routine inspection and (2) radiography licensee field stations may go significant periods of time without an inspection, or never get inspected.

### **NRC Could Improve Temporary Job Site Inspections**

Some NRC licensees' temporary job sites have not been inspected for several consecutive routine inspections because NRC management has not formally defined when inspectors should take additional steps to arrange for a temporary job site inspection. Additionally, NRC is not inspecting radiography at temporary job sites on offshore platforms or lay-barges because the agency has not secured transportation to offshore platforms and lay-barges and NRC has not established a means to be aware of when and where its licensees conduct radiography at these temporary job sites. As a result, NRC does not know whether licensees conducting radiography at these temporary job sites are in compliance with NRC regulations.

### **Inconsistent Approach To Inspecting NRC Licensee Facilities in Agreement States**

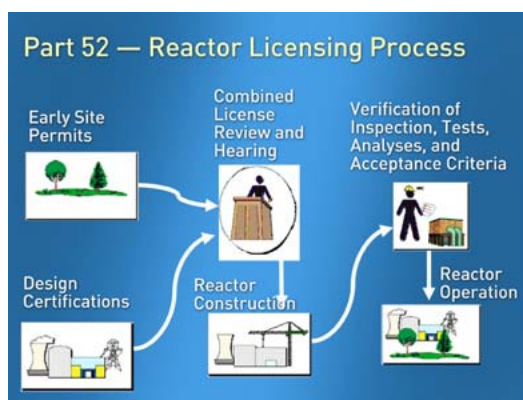
Some NRC inspectors do not know what they can require of an NRC licensee during an inspection when that licensee's facility is located in an Agreement State because there is no guidance for NRC inspectors conducting inspections of NRC licensees in

Agreement States. Therefore, inspectors risk (1) missing violations that fall within NRC jurisdiction and (2) encroaching on Agreement State jurisdiction.

*(Addresses Management and Performance Challenge #1)*

## Audit of NRC's Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) Process

### *OIG Strategic Goal: Safety*



Source: NRC

The next generation of nuclear power plants will be built under combined construction permit and operating licenses (COL) that reference designs that are certified by NRC. The Office of New Reactors (NRO) is the lead organization for licensing new reactors and overseeing their construction.

A COL is issued under 10 CFR Part 52, a process that combines the construction permit and operating license. NRC, in conjunction with industry, designed the ITAAC process to verify conformance with the COL as construction proceeds. ITAAC are a design-specific,

pre-approved set of performance standards, which the licensee must meet to NRC's satisfaction. Families are composed of ITAAC that are related through similar construction processes, resulting products, and general inspection attributes.

NRC conducts performance-based inspections throughout the construction period on a sample of ITAAC completed by the licensee to verify that they have been appropriately completed. Once the licensee determines that the acceptance criteria have been met for a particular ITAAC, it informs NRC by submitting an ITAAC closure notification to NRC for review.

ITAAC inspections are performed primarily by the Center for Construction Inspection in Region II. Other Region II construction inspectors and NRC headquarters technical staff will participate in the inspection and oversight activities to better ensure that the facility conforms to the conditions of the COL.

NRC vendor inspections are also performed as part of the ITAAC inspection process, in particular because a key characteristic of the current approach to new reactor construction is the use of modular assemblies, which are constructed offsite and shipped to the construction site for installation. Interdependence between the ITAAC and vendor inspection programs is an important aspect of NRC's role in assuring that components destined for modular assemblies that will go into new reactors are manufactured to appropriate safety and regulatory standards. ITAAC inspection results will be recorded in an NRC-created and maintained electronic database referred to as the Construction Inspection Program Information Management System (CIPIMS).

The audit objective was to assess NRC's regulatory approach, through the ITAAC review process, to ensure that new nuclear power plants have been constructed and will

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be operated in conformity with the license, the provisions of the Atomic Energy Act, and the Commission's rules and regulations.

### *Audit Results*

The agency established NRO in 2006 to oversee the regulatory activities associated with new reactor licensing under 10 CFR Part 52. To date, NRO staff have taken significant steps to employ a formalized approach for reviewing new reactor construction, such as implementing the ITAAC closure process. Staff have continued to strengthen the ITAAC closure process by developing and revising guidance and inspection procedures, creating a database tracking system, and working to identify and remedy issues associated with the ITAAC process. OIG identified opportunities to further improve aspects of the ITAAC process with regard to (1) ITAAC guidance and procedures, (2) development and implementation of CIPIMS, (3) a formal strategy for inspection of components and modular assembly facilities, and (4) coordination between headquarters and NRC Region II.

#### **Strengthening Guidance Would Enhance Staff Understanding of ITAAC Requirements**

NRC staff have an inconsistent understanding of existing ITAAC guidance and procedures. This is because current programmatic guidance and procedures lack clarity, and training is improvised. Consequently, NRC may not be able to ensure that new nuclear power plants have been constructed and will be operated in conformity with the license, the provisions of the Atomic Energy Act, and the Commission's rules and regulations.

#### **Development and Implementation of CIPIMS Has Been Delayed**

CIPIMS is a necessary tool to document all ITAAC and vendor inspections, inform the agency's ITAAC closure notice review, and support the Commission in making informed findings for permitting licensees to load fuel into a newly constructed reactor. However, CIPIMS was not available when ITAAC-related construction activities were begun at Vogtle, Georgia, in March 2010.<sup>4</sup> While CIPIMS was officially deployed in January 2012, just prior to NRC's approval of the Vogtle COL on February 10, 2012, two software updates were already planned through the end of the fiscal year. Delays associated with CIPIMS development and deployment occurred due to insufficient oversight of database development. Consequently, NRC has spent approximately \$2 million, some of which cannot be accurately accounted for, over a period of 5 years without developing a fully functional database for the ITAAC closure process. Additional delays and inaccurate accounting are likely to continue.

#### **A Formal Strategy for Inspection of Components at Modular Assembly Facilities Would Strengthen the ITAAC Inspection Program**

The extent to which NRC's inspection activities for components manufactured and assembled offsite are sufficient for ITAAC verification is unclear. This is because NRC has not developed a formal strategy for evaluating what inspections are necessary at modular assembly facilities located away from the plant construction

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<sup>4</sup> Located near Augusta, Georgia, Southern Nuclear Company has begun construction on two AP1000 Pressurized Water Reactors that are designated as Vogtle, Units 3 & 4.

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site. Consequently, NRC may not be able to provide reasonable assurance that new nuclear plants are constructed in accordance with NRC requirements.

### **Coordination Between Headquarters and Region II Could Be Improved**

There is a lack of sustained coordination both within headquarters and between headquarters and Region II for ITAAC program related activities and interactions. These problems would have been minimized if NRO and Region II had in place formalized change management processes to address communications and coordination problems in a changing environment. Without a formalized change management process, coordination and communication concerns between NRO and Region II will continue to proliferate, with the potential to affect the agency's safety mission.

*(Addresses Management and Performance Challenge #3)*

## **Information Security Risk Evaluations of Region II (Atlanta, GA) and Region III (Lisle, IL)**

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

NRC has four regional offices that conduct inspection, enforcement, investigation, licensing, and emergency response programs for nuclear reactors, fuel facilities, and materials licensees. The regional offices, which operate under the direction of a regional administrator, are NRC's front line in carrying out its mission and implementing established agency policies and programs nationwide. NRC's Region II office oversees regulatory activities in the southeastern United States, and is located in Atlanta, Georgia. NRC's Region III office oversees regulatory activities in the northern midwestern United States and is located in Lisle, Illinois.

Office of Management and Budget (OMB) Circular A-130, *Management of Federal Information Resources*, Appendix III, *Security of Federal Automated Information Resources*, requires agencies to implement and maintain an information technology (IT) security program, including the preparation of policies, standards, and procedures. An effective IT security program is an important managerial responsibility. Management establishes a positive climate by making computer security a part of the information resources management process and by providing support for a viable IT security program.

On December 17, 2002, the President signed the *E-Government Act of 2002*, which included the Federal Information Security Management Act (FISMA) of 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. FISMA requires the annual evaluation to be performed by the agency's OIG or by an independent external auditor.



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The objectives of the regional information security risk evaluations were to:

- Perform independent information security risk evaluations of the NRC IT security program, policies, and practices for compliance with FISMA of 2002 in accordance with OMB guidance and Federal regulations and guidelines as implemented at Region II and Region III.
- Evaluate the effectiveness of agency security control techniques as implemented at Region II and Region III.

### *Region II Evaluation Results:*

Region II has made improvements in its implementation of NRC's IT security program and practices for NRC IT systems since the previous evaluations in 2003, 2006, and 2009. All corrective actions from the previous evaluations have been implemented. However, the Region II IT security program and practices are not always consistent with the NRC's IT security program, as summarized below:

*Physical and Environmental Security Controls.* All IT equipment in the Region II data center and telecommunications closets is connected to short-term uninterruptible power supplies (UPS); however, the UPSs are not tested on a regular basis. As a result, Region II does not have assurance the UPSs will perform as expected in the event of a power failure. If a UPS fails during a power failure, equipment may not be shut down in an orderly manner, resulting in possible equipment damage or loss of data.

*Continuity of Operations and Recovery.* Backup procedures are not maintained and kept up-to-date as required. As a result, Region II may not have reliable IT system backup information available if there is a need for system or file recovery.

*IT Security Program.* Some NRC-owned laptops have not been authorized to operate and documentation for regional laptop systems is not up-to-date. As a result, Region II is not fully compliant with NRC requirements for laptop systems. Without up-to-date documentation, Region II laptop systems users may not be aware of their responsibilities with regard to use of these laptops, which could lead to unauthorized use of NRC resources or release of sensitive information.

Regional IT security program procedures are not kept up-to-date. As a result, steps or processes could be skipped or forgotten if personnel responsible for a particular activity are unavailable. In addition, outdated procedures make it more difficult when training new personnel to handle a specific activity.

### *Region III Evaluation Results:*

Region III has made improvements in its implementation of NRC's IT security program and practices for NRC IT systems since the previous evaluations in 2003, 2006, and 2009. All corrective actions from the previous evaluations have been implemented. However, the Region III IT security program and practices are not always consistent with NRC's IT security program, as summarized below.

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*Continuity of Operations and Recovery.* Server administration procedures, including backup procedures are not maintained and kept up-to-date as required.

*IT Security Program.* Regional procedures and divisional instructions specific to the Region III IT security program are not kept up-to-date. As a result, steps or processes could be skipped or forgotten if personnel responsible for a particular activity are unavailable. In addition, outdated procedures make it more difficult when training new personnel to handle a specific activity.

*(Addresses Management and Performance Challenges #2 and #5)*

## **Audit of NRC's Contract Administration of the EPM Contract**

### *OIG Strategic Goal: Corporate Management*

In November 2009, NRC entered into a contract to “execute its vision for implementing Microsoft technologies throughout the enterprise in a timely, efficient and secure manner.” NRC stated in the contract’s statement of work that it currently employs a variety of Microsoft technologies, including Enterprise Project Management (EPM) tools.<sup>5</sup> NRC noted that these EPM applications were integral to its business operations and justified the need to obtain Microsoft consulting services to support product updates and upgrades as the agency integrates all of the existing Microsoft technologies into its current operating environment.

The contract has an estimated ceiling of approximately \$34 million and is an Indefinite Delivery, Indefinite Quantity (IDIQ) contract with provisions for firm fixed price and labor hour task orders.<sup>6</sup> The contract was awarded on November 4, 2009, for 1 year with 4 option year periods of performance. As of July 9, 2012, NRC had spent \$7,521,789.93. The contract was implemented as an umbrella contract (frequently referred to as a “blanket contract”), which provides the opportunity for multiple offices to obtain a variety of services related to implementing Microsoft EPM technologies over the contract’s designated period of performance. For example, the Office of Nuclear Reactor Regulation, the Office of New Reactors, and the Office of Information Services use the Microsoft EPM applications to electronically support various agency programs, such as licensing programs and maintenance of existing systems.

Effective implementation of the contract requires a significant level of coordination among participating offices. For example, the Office of Administration and the Office of Information Services share responsibility for overseeing the contract’s implementation. Specifically, the Office of Administration is responsible for facilitating

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<sup>5</sup> EPM tools include applications such as Microsoft Project Server 2007, Microsoft SharePoint 2007, and Microsoft SQL Server 2005.

<sup>6</sup> An Indefinite Delivery, Indefinite Quantity contract provides for an indefinite quantity, within stated limits, of supplies or services to be furnished during a fixed period, with deliveries or performance to be scheduled by placing orders with the contractor (Federal Acquisition Regulation (FAR) 16.504).

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the contract award and closeout process and negotiating contract terms. These activities are managed by a contract specialist. The Office of Information Services is tasked with routine contract oversight, including coordinating invoice reviews, monitoring funding, and initiating contract modifications. These activities are managed by a Contracting Officer's Representative.<sup>7</sup> Individual offices that use the contract have responsibility for assigning a Task Order Manager to oversee the daily implementation of their respective task orders.

The audit objective was to evaluate NRC's contract administration for technology initiatives using EPM applications under the EPM contract.

### *Audit Results*

NRC's administration of the EPM contract demonstrates a notable lack of internal controls, specifically over the invoice review process. This is readily apparent in how the staff inconsistently review invoices. Moreover, although NRC staff purport to review contractor invoices for "reasonableness" per NRC guidance, the staff's invoice review and approval practices do not include the steps necessary to verify that the number of contractor labor hours billed are accurate and allowable.

Invoice irregularities have occurred because NRC has not provided staff with detailed guidance that sufficiently addresses the specifics of reviewing and approving contract invoices, including those resulting from IDIQ contracts. Consequently, NRC lacks assurance that contract costs are being consistently and appropriately evaluated to determine whether they are allowable, allocable, and reasonable. OIG reviewed 83 invoices totaling approximately \$6.8 million and found several irregularities. Anomalies included costs that were outside the invoice billing period, inconsistent labor categories and contractor and job roles, as well as status reports that did not match invoice billing periods. As a result, NRC is vulnerable to potential fraud, waste, and abuse.

*(Addresses Management and Performance Challenges #5 and #6)*

## **Audit of NRC's Use of Orders**

### *OIG Strategic Goal: Safety*

NRC is authorized to enforce its regulatory requirements by imposing sanctions, such as orders, against licensees or other persons subject to the Commission's jurisdiction who are in violation of requirements. An order is a written NRC directive to modify, suspend, or revoke a license; to cease and desist from a given practice or activity; or to take such other action as may be proper. The Commission's order issuing authority under Section 161 of the AEA extends to any area of licensed activity that the Commission deems necessary to promote the common defense and security or to protect health or to minimize danger to life or property.

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<sup>7</sup> A Contracting Officer's Representative assists in the technical monitoring or administration of a contract (FAR Title 48, para 1.604).

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The enforcement program supports the agency's overall safety and security mission, and the *NRC Enforcement Policy* and *NRC Enforcement Manual (Manual)*—maintained by the Office of Enforcement—are the primary sources of guidance for NRC staff implementing the enforcement program. According to the *Manual*, order-issuing authority resides in several offices and regions and order followup is dependent upon the type of order, and may consist of inspection activity, tracking, and order closure.

The audit objective was to evaluate the efficiency and effectiveness of NRC's documentation, verification, and closure process for issued orders.

### *Audit Results*

Based on OIG's review of followup for selected orders, OIG did not identify instances where the agency did not follow up on the recipients' implementation of the requirements stipulated in orders. However, the efficiency and effectiveness of NRC's documentation, verification, and closure process for issued orders can be improved. Specifically, opportunities exist to (1) enhance agency guidance defining order types and for the followup, tracking, and closure of orders, and (2) obtain updated documented delegations of authority for issuing orders for selected offices.

### **Order Guidance**

Guidance for following up on orders should be clear and comprehensive; yet, this is not the case for all types of NRC orders. Some program and regional offices that follow up on orders reported having no relevant guidance for followup of orders. For offices that provided their guidance to OIG, it ranged from a verbal description of the process to various types of documents, including office instructions, inspection procedures, memoranda, and/or agencywide enforcement procedures that do not include specific information needed to document their followup, tracking, and closure of the various types of order types described by agency staff. Guidance on order followup is not clear and comprehensive because some offices have not identified, documented, and coordinated order followup, tracking, and closure requirements. Improvements to the guidance on orders would support NRC's knowledge management efforts and would better inform licensees and the public of NRC's order process.

### **Delegations of Authority**

Commission authorities, including the authority to issue orders, may be delegated as per the AEA. The delegations of authority to issue orders for three key officers—including the Office of International Programs (OIP) Director, the Executive Director for Operations (EDO), and the Chief Financial Officer—are documented inconsistently. Specifically, the CFO's authority to issue orders was delegated via a Chairman's memo, whereas agency staff have been unable to locate a similar document for the OIP Director and the EDO. Agency staff have not sought a similar updated documented delegation of authority for the OIP Director and the EDO to issue orders. Absent an updated documented delegation of authority to issue orders, the agency could face delays in pursuing enforcement of orders in the event of noncompliance by an order recipient.

*(Addresses Management and Performance Challenge #1)*

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## Audit of NRC's Oversight of the Agency's Federally Funded Research and Development Center

### *OIG Strategic Goal: Corporate Management*

In October 1987, NRC contracted with Southwest Research Institute (SwRI) to operate a Federally Funded Research and Development Center (FFRDC). SwRI established the Center for Nuclear Waste Regulatory Analyses (the Center) to provide long-term technical assistance and research related to NRC programs authorized under the Nuclear Waste Policy Act of 1982, as amended. In October 1992, September 1997, September 2002, and again in September 2007, the agency extended its contract with the Center for an additional 5 years. The 2007 contract, with a ceiling of approximately \$123.3 million, expired on September 28, 2012.



*Aerial View of the SwRI in San Antonio, Texas.*  
Source: OIG

FAR Section 35.017 sets forth the policy regarding establishment, review, and termination of FFRDCs and related sponsoring agreements. Section 35.017-4 requires that, prior to extending a contract for an FFRDC, a sponsor must conduct a comprehensive review of the use of and need for the facility. The review must (1) examine the continuing need for the FFRDC, (2) consider alternative sources, (3) assess the FFRDC's efficiency and effectiveness, (4) assess the adequacy of FFRDC management in ensuring that the operation is cost-effective, and (5) determine that guidelines for establishing the Center continue to be satisfied and that the contract is in compliance with FAR Section 35.017-1, which requires certain contract provisions.

The audit objectives were to determine if NRC was (1) properly considering all FAR requirements for an FFRDC review in preparing its renewal justification, and (2) adequately fulfilling its oversight responsibilities for the FFRDC.

### *Audit Results*

OIG found that NRC's justification for renewal satisfactorily addressed the five criteria set forth in FAR Section 35.017-4 and complied with agency requirements for documenting the review.

OIG also found NRC's technical oversight and administration of the contract are adequate. Technical performance monitors who provide oversight of the technical areas track contract deliverables and review monthly Center progress reports before authorizing payment of invoices to ensure that resources expended by the Center are commensurate with work accomplished. A contract specialist reviews invoices to ensure that (1) costs are within the spending plan for each program element and (2) invoices are approved in a timely manner so that payment was made within the required 30 days. OIG also reviewed 13 invoices submitted by the Center for the period October 2010 through September 2011 and found that these invoices were processed within the required times.

*(Addresses Management and Performance Challenge #6)*



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## Audit of NRC's 10 CFR Part 31 General Licensing Program

### *OIG Strategic Goal: Safety*

NRC issues two types of domestic licenses to users of nuclear materials. Specific licenses are issued to named individuals who have filed an acceptable application to use certain types or quantities of radioactive materials. In contrast, general licenses are provided by regulations found in 10 CFR Part 31, *General Domestic Licenses for Byproduct Material*. These regulations allow persons to receive and use a general licensed device containing byproduct or source material if the device has been manufactured and distributed in accordance with a specific license issued by NRC or an Agreement State.

A general licensed device (GLD) consists of radioactive material encased in a capsule within a shielded device. NRC asserts that the GLDs are designed with inherent radiation safety features so that they can be used by persons with no radiation safety training or experience. A few of the more commonly used GLDs include fixed gauges, static elimination devices, x-ray fluorescence analyzers, and luminous (tritium) exit signs.

NRC's Office of Federal and State Materials and Environmental Management Programs is primarily responsible for the regulation of GLDs. Specifically, the Licensing Branch within the office provides program oversight for the general license program. In addition to developing and implementing technical and policy guidance, the branch is responsible for the following:

- Safety evaluation reviews of sealed sources and devices—The design and use of a device must undergo a technical and safety review prior to distribution as a GLD. Satisfying the review ensures that the device meets NRC's safety requirements.
- General License Tracking System (GLTS)—GLTS facilitates the tracking and accountability of GLDs and general licensees. This database is populated primarily with information provided to NRC from device manufacturers.
- Registration—General licensees in possession of GLDs containing certain isotopes and activity are required to register their devices with NRC annually.

The audit objective was to determine if NRC's general licensing program provides for the necessary accountability and tracking of general licensed devices to protect public health and safety.

### *Audit Results*

Over the past decade, NRC has made some improvements to its oversight of general licensees and GLDs to facilitate adequate protection of public health and safety and the environment; however, opportunities exist for NRC to further strengthen its oversight of this type of licensee. In order to improve program oversight, NRC has developed and maintains GLTS and the registration program. NRC can further

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improve oversight of general licensees and GLDs by informing each new general licensee of regulatory requirements, and periodically re-informing general licensees of these requirements.

Many general licensees are unaware of NRC regulatory requirements. The AEA, through the Code of Federal Regulations, establishes these requirements for GLDs. However, NRC relies on manufacturers to make general licensees aware of these regulatory requirements, thereby delegating some of its responsibilities. When licensees are unaware of their regulatory requirements, there is an increased probability that accountability of GLDs will decrease, placing public health and safety and the environment at risk.

*(Addresses Management and Performance Challenge #1)*

## Audits In Progress

### Audit of NRC's Budget Execution Process

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

The Federal budget execution process involves activities related to the use of funds appropriated by Congress. This includes the detailed planning for the use of the funds as well as the control of their use to assure that congressional intent for the use of the funds is preserved. During this process, the NRC Chairman, Chief Financial Officer, allottees, allowance holders, allowance financial managers, and funds certifying officials all share responsibilities for ensuring effective financial management concerning the proper administrative control of funds. NRC's managers must ensure that public funds are used for authorized purposes, and used economically, efficiently, and within prescribed limits.

NRC guidance mandates that agency systems for budget execution and the administrative control of funds adhere to policies, procedures, and standards found in management directives, OMB Circular A-34, "Instructions on Budget Execution," as well as other applicable Federal laws and regulations. The Office of the Chief Financial Officer is responsible for the overall control of funds during budget execution. NRC's budget request for FY 2012 was approximately \$1.038 billion and 3,981 full-time equivalents.

The audit objectives are to determine whether (1) NRC maintains proper financial control over the allotment, allocation, and obligation of appropriated and apportioned funds to ensure compliance with applicable Federal laws, policies, and regulations; and (2) opportunities exist to improve the budget execution process.

*(Addresses Management and Performance Challenge #6)*

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## Audit of NRC's Travel Charge Card Program

### *OIG Strategic Goal: Management*

NRC's Travel Charge Card Program is part of the governmentwide *Commercial Charge Card Program* established to pay the official travel expenses of employees while on temporary duty or other official business travel. The program's intent is to improve convenience for the traveler and reduce the Government's costs of administering travel. OMB has issued guidance that establishes requirements (including internal controls designed to minimize the risk of travel card misuse) and suggested best practices for the Government travel card programs.

During FY 2011, 2,613 NRC employees charged approximately \$8.8 million on travel charge cards, primarily issued to employees as individually billed accounts. Travel cardholders are directly responsible for all charges incurred on their accounts.

The Office of the Chief Financial Officer administers NRC's travel charge card program and controls the use of agency funds to ensure that they are expended in accordance with applicable laws and regulations.

The audit objective is to assess the adequacy and effectiveness of NRC's policies, procedures, and internal controls over the travel card program for preventing and detecting travel charge card misuse and delinquencies.

*(Addresses Management and Performance Challenge #6)*

## Audit of NRC's FY 2012 Financial Statements

### *OIG Strategic Goal: Corporate Management*

Under the Chief Financial Officers Act and the Government Management and Reform Act, OIG is required to audit the financial statements of the NRC. The report on the audit of the agency's financial statements is due on November 15, 2012. In addition, OIG will issue reports on:

- Special Purpose Financial Statements.
- Implementation of the Federal Managers' Financial Integrity Act.
- Condensed Financial Statements.
- Compliance with the Improper Payments Elimination and Recovery Act of 2010.

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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*.
- Assess agency compliance with the Improper Payments Elimination and Recovery Act of 2010.

*(Addresses Management and Performance Challenge #6)*

## Survey of NRC's Safety Culture and Climate

### *OIG Strategic Goal: Corporate Management*

In 1998, 2002, 2006, and 2009, OIG contracted with an international survey firm to conduct surveys that evaluated the organizational safety culture and climate of the agency's workforce and identified agency strengths and opportunities for improvements. Comparisons were made to the previous surveys as well as to national and Government norms. In response to the survey results, the agency evaluated the key areas for improvement and developed strategies for addressing them.

A clear understanding of NRC's current safety culture and climate will facilitate identification of agency strengths and opportunities as it continues to experience significant challenges. These challenges include the licensing of new nuclear facilities, disposal of high-level waste, the loss of valuable experience from retirements, operating under continuing resolutions, and legislation that froze Federal civilian employee pay rates.

The survey objectives are to:

- Measure NRC's safety culture and climate to identify areas of strength and opportunities for improvement.
- Compare the results of this survey against the survey results that OIG reported previously.
- Provide, where practical, benchmarks for the qualitative and quantitative findings against other organizations.

*(Addresses Management and Performance Challenge #7)*

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## Audit of NRC's Progress on the 25-Point Implementation Plan

### *OIG Strategic Goal: Corporate Management*

In December 2010, the U.S. Chief Information Officer (CIO) issued the “25-Point Implementation Plan to Reform Federal Information Technology Management” (25-Point Plan). This guidance directs OMB and Federal agencies to undertake a variety of management reforms for more efficient – and thus, cost-effective – use of information technology (IT) investments.

The U.S. CIO created this guidance through engagements with Federal agency staff, Congress, private industry, and academia, and aimed to identify practical solutions to IT management problems. To that end, the 25-Point Plan emphasizes near-term procedural fixes that may promote longer-term reforms. Consequently, the 25-Point Plan is divided into two sections: (1) Achieving Operational Efficiency, and (2) Managing Large-Scale IT Programs Effectively. The former focuses on cloud computing and shared services at the agency level, while the latter focuses on structural changes that could improve IT programs across the Federal Government.

For each of its 25 points, the U.S. CIO's guidance assigns implementation responsibility to some combination of OMB, CIO and Chief Financial Officer councils, specific agencies with unique missions, and all executive branch agencies. NRC is thus implicated in some action items, such as #3, “Shift to a cloud-first policy.” However, action items like #5, “Stand up contract vehicles for ‘commodity’ services” (which belongs to GSA), fall outside NRC's purview. Lastly, all action items have implementation milestones ranging from 6 to 18 months. Given the 25-Point Plan release date, NRC staff should be able to discuss their efforts to achieve shorter-term action items due for completion before January 2012. Longer-term action items should be completed or nearing completion by July 2012.

The audit objective is to evaluate NRC's progress in executing the 25-Point Plan.

*(Addresses Management and Performance Challenge #5)*

## Audit of NRC's Process for Calculating License Fees

### *OIG Strategic Goal: Corporate Management*

The Omnibus Budget Reconciliation Act of 1990 (OBRA-90), as amended, requires that NRC recover, through fees assessed to its applicants and licensees, approximately 90 percent of its budget authority [less amounts appropriated from the Nuclear Waste Fund, amounts appropriated for Waste Incidental to Reprocessing activities, and amounts appropriated for generic homeland security activities (“non-fee items”)].



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To meet the requirements of OBRA-90, as amended, NRC assesses two types of fees – user charges and annual fees. First, under the authority of the Independent Offices Appropriation Act of 1952, NRC assesses user charges to recover costs of providing special benefits to identifiable applicants and licensees. NRC implements user charges for inspection services and licensing actions for the reactor and materials programs under 10 CFR Part 170. Second, annual fees, established in 10 CFR Part 171 under the authority of OBRA-90, as amended, recover generic and other regulatory costs not recovered through 10 CFR Part 170 fees.

On an annual basis, NRC amends the licensing, inspection, and annual fees. The NRC publishes the annual Fee Rule in the Federal Register.

The audit objective is to determine if NRC has established and implemented management controls to ensure that the license fee calculation process produces timely and accurate fees in accordance with applicable requirements.

*(Addresses Management and Performance Challenge #6)*

## **FY 2012 Evaluation of FISMA**

### *OIG Strategic Goal: Security*

Enacted on December 17, 2002, FISMA outlines the information security management requirements for agencies, including the requirement for an annual review and annual independent assessment by agency Inspectors General. In addition, FISMA includes new provisions, such as the development of minimum standards for agency systems, aimed at further strengthening the security of Federal Government information and information systems. The annual assessments provide agencies with the information needed to determine the effectiveness of overall security programs and to develop strategies and best practices for improving information security.

FISMA provides the framework for securing the Federal Government's information technology, including both unclassified and national security systems. All agencies must implement the requirements of FISMA and report annually to OMB and Congress on the effectiveness of their security programs.

The objective is to conduct an independent evaluation of the NRC's implementation of FISMA for FY 2012.

*(Addresses Management and Performance Challenges #2 and #5)*

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## Evaluation of NRC's Use of and Security Over Social Media

### *OIG Strategic Goal: Security*

Social media technologies, also commonly referred to as Web 2.0, allow individuals and organizations to create, edit, organize, and share content in user generated virtual communities. These Web 2.0 technologies include:

- Web logs (“blogs”) – a Web site containing the writer’s or group of writers’ opinions on a topic including photographs and links to other Web sites.
- Social media sites such as Twitter and Facebook.
- Wikis – Web sites that allow their users to add, modify, or delete content via a Web-browser.
- Video sharing sites such as YouTube.

The evaluation objective is to determine how NRC uses social media, the effectiveness and efficiency of NRC’s use of social media, and whether there are any privacy and security vulnerabilities associated with its use.

The evaluation will also assess the extent to which NRC has developed and implemented policies and procedures for protecting information associated with the use of social media, and relevant regulatory and/or budgetary constraints impeding the agency’s use of social media.

*(Addresses Management and Performance Challenges #2 and #5)*

## Audit of NRC's Implementation of Its NEPA Responsibilities

### *OIG Strategic Goal: Safety*

The National Environmental Policy Act of 1969 (NEPA) requires Federal agencies to consider the environmental impacts of actions under their jurisdiction. NEPA requires that an environmental impact statement (EIS) of the proposed action be prepared for “major Federal actions significantly affecting the quality of the human environment.” Consultations to ensure compliance with other statutory mandates, such as with Section 7 of the Endangered Species Act of 1973 and Section 106 of the National Historic Preservation Act of 1966, are also part of the NEPA review process.

NEPA broadly impacts NRC. Several agency offices conduct environmental reviews. A NEPA review may be initiated in response to a rulemaking, an application for a new license or certification, a license amendment, or a decommissioning plan submitted to the NRC. Generic EISs have been developed to guide staff in the

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areas of nuclear plant license renewal, decommissioning of nuclear facilities, and applications for *in situ* uranium recovery operations. Standard review plans support staff environmental reviews in other areas. Growing public concern over licensing issues such as reactor aging and spent fuel storage heightens the importance of the criteria to determine the appropriate level and adequacy of environmental reviews.

The audit objective is to determine whether NRC implements its environmental review and consultation responsibilities as prescribed by NEPA.

*(Addresses Management and Performance Challenges #1, #3, and #4)*

## **Audit of NRC's Safeguards Local Area Network and Electronic Safe System**

### *OIG Strategic Goal: Security*

NRC created a system for the electronic creation, transmission and storage of Safeguards Information (SGI) documents, known as the Safeguards Local Area Network and Electronic Safe (SLES). This system has two components: the Safeguards Information Local Area Network (SGI LAN) and the Electronic Safe (E-Safe). SGI LAN is a local area network with a secure architecture dedicated for use in SGI data processing. E-Safe is a secure electronic data repository for SGI records. SGI LAN provides access to E-Safe.

SLES provides a secure network for authorized users to access SGI documents electronically, reduces the volume of SGI document storage space, implements a secure SGI records repository in compliance with National Archives and Records Administration requirements, and enables record and document management of SGI in a centralized electronic document management system.

The Office of Information Services is the SLES system owner with responsibility for system operation and maintenance.

The audit objective is to determine if SLES meets its operational capabilities and applicable security controls.

*(Addresses Management and Performance Challenge #5)*

## **Information Systems Security Evaluation Over NRC's Regional Offices and the Technical Training Center**

### *OIG Strategic Goal: Security*

Enacted on December 17, 2002, FISMA outlines the information security management requirements for agencies, including the requirement for an annual review and annual independent assessment by agency Inspectors General. In

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addition, FISMA includes new provisions, such as the development of minimum standards for agency systems, aimed at further strengthening the security of Federal Government information and information systems. The annual assessments provide agencies with the information needed to determine the effectiveness of overall security programs and to develop strategies and best practices for improving information security.

Three of NRC's four regional offices have relocated since OIG's 2009 audit to assess security measures at the regions and the Technical Training Center. The fourth regional office will soon be relocating as well.

The objectives are to evaluate the (1) adequacy of NRC's information security programs and practices and (2) effectiveness of agency information security control techniques for the regional offices and the Technical Training Center.

*(Addresses Management and Performance Challenges #2 and #5)*

## **Audit of NRC Training and Development for Safety Oversight**

### *OIG Strategic Goal: Safety*

NRC regulates commercial nuclear power plants and nuclear materials, such as nuclear medicine, industrial, and research and development through licensing, inspection, and enforcement of regulations. NRC staff perform these oversight activities to assure adequate protection of public health and safety and the environment. Consequently, NRC provides training to its staff to improve individual and organizational performance to achieve NRC's mission and performance goals. NRC strives to provide training and development programs for staff in order to:

- Maintain formal qualification requirements.
- Maintain skill needs to perform their current job.
- Broaden capabilities to meet future skill needs of the NRC.

For example, staff overseeing materials decommissioning activities must meet minimum qualification requirements and possess the knowledge, skills, and abilities to successfully execute tasks required to adequately oversee materials decommissioning activities. Successful training development programs enhance individual and overall organizational performance.

The audit objective is to determine if NRC's overall training process adequately and efficiently prepares staff to perform oversight activities to assure protection of public health and safety and the environment.

*(Addresses Management and Performance Challenge #1)*

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# Investigations

During this reporting period, OIG received 133 allegations, initiated 49 investigations, and closed 32 cases. In addition, the OIG made 24 referrals to NRC management and 9 to the Department of Justice.

## Investigative Case Summaries

### Possible Violations of NRC's Internal Commission Procedures and the Reorganization Plan No. 1 of 1980 by Former Chairman

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

OIG conducted an investigation into four allegations concerning the former NRC Chairman's exercise of his authority under the Reorganization Plan No. 1 of 1980 and the Energy Reorganization Act of 1974. The investigation also addressed allegations concerning the former Chairman's interactions with NRC officials and the former Chairman's testimony during U.S. House of Representatives and Senate committee hearings in December 2011.

The specific allegations were:

1. Following the earthquake and tsunami in Japan, the former Chairman exceeded his authority by assuming emergency powers in response to an incident at a foreign facility, Fukushima Dai-ichi, not regulated by NRC. He failed to keep the other Commissioners fully informed about events in Japan and failed to issue a complete and timely report to the Commission on actions taken during the emergency.
2. The former Chairman violated Commission procedures when he directed the Executive Director for Operations (EDO) and Secretary of the Commission (Secretary) to retract an "advance copy" of SECY-11-0093<sup>8</sup> transmitting the "Near Term Report and Recommendations for Agency Actions Following the Events in Japan." The former Chairman then directed the EDO to strike the recommendations in the SECY paper that the EDO had wanted to provide and resubmit the document without staff analysis or recommendations.
3. Commissioners and senior officials provided examples where they perceived the former Chairman attempted to control the content and flow of information to the Commission. OIG examined whether the former Chairman's control over matters to be presented to the Commission is in accordance with his authority under the Reorganization Plan No. 1 of 1980.
4. The former Chairman directed the Secretary of the Commission not to follow direction provided by a majority of the Commissioners pertaining to finalizing revisions to the NRC's *Internal Commission Procedures*. Instead, the Chairman

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<sup>8</sup> The Commission's primary decisionmaking tool is a written issue paper referred to as a SECY paper.

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intervened and instructed the Secretary not to act on Commission direction and to act at his direction.

5. The Chairman's interpersonal relationship with NRC staff and Commissioners has created a chilled workplace environment at NRC.
6. The Chairman provided inaccurate testimony before the U.S. House of Representatives Committee on Oversight and Government Reform and Senate Environment and Public Works Committee in December 2011.

With regard to allegation #1, OIG found that the former Chairman did not exceed his authorities under the Reorganization Plan in leading the agency's response to events in Japan from March 11, 2011, to May 16, 2011, while the NRC's Headquarters Operations Center (HOC) was in "monitoring mode" because his response actions were within the scope of his authorities. The Chairman is authorized to direct NRC's response to emergencies under both Sections 2 and 3 of the Reorganization Plan. Section 2 allows the Chairman to direct the agency's response as NRC's principal executive officer and to communicate to the public about the response as the official Commission spokesman. Section 3 provides special authority for the Chairman to respond to "an emergency concerning a particular facility or materials licensed or regulated by the Commission" without consulting with the Commission on matters that would otherwise require a collegial approach under the Reorganization Plan. Section 3 also gives the Chairman the sole authority to declare the existence of a Section 3 emergency. The former Chairman did not clarify whether any of his actions were pursuant to his Section 3 authority; however, the former Chairman made no unilateral policy decisions affecting NRC licensees in response to events in Japan. OIG concluded that the former Chairman's emergency response actions were authorized under his Section 2 authority.

OIG found that the Reorganization Plan does not specifically require the Chairman to declare the existence of a Section 3 emergency. Moreover, OIG did not identify any NRC procedure requiring the Chairman to make a Section 3 declaration, and the Chairman did not make such a declaration. When asked, the former Chairman did not respond clearly to specific questions from OIG, a Commissioner, and members of Congress as to whether he was exercising his Section 3 authority. Without such a declaration, the Commission does not know for certain whether the Chairman is using that authority and is less able to hold the Chairman accountable for keeping them fully informed or providing a complete and timely report following the emergency.

OIG found that the former Chairman made reasonable efforts to keep the Commissioners informed of actions taken during the monitoring mode period. The former Chairman informed the Commissioners of actions taken through oral and written status updates and briefings provided to the Commissioners and their staff by the former Chairman and by the Executive Team working in the HOC during the monitoring mode period.



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OIG found that for allegation #2, the former Chairman's actions concerning the withdrawal and resubmission of the revised SECY-11-0093 with the attached near-term task force report did not violate the *Internal Commission Procedures* with regard to "withdrawal of papers submitted to the Commission." The procedures do not specifically define what is meant by "withdrawal" of a SECY paper, but the Secretary of the Commission interprets this to mean withdrawal of an issue from Commission consideration. After learning the staff had pulled back the first version of SECY-11-0093 submitted on July 12, 2011, the Secretary received assurances that the Commission would still vote on the attached task force report recommendations as it had requested in prior Commission direction to the staff (COMGBJ-11-0002) and that the recommendations would be presented as a notation vote paper. Therefore, the Secretary concluded the temporary retraction of SECY-11-0093 did not necessitate a written explanation by staff or polling of Commissioners, and the General Counsel supported the Secretary's interpretation.

OIG found the former Chairman's direction to the Deputy EDO not to include the EDO's and Deputy EDO's perspective on implementation of the near-term task force recommendations in SECY-11-0093 was inconsistent with the Commissioners' expectations to receive the staff's written views, analysis, and recommendations as part of SECY papers. The legislative history of the Reorganization Plan establishes that the Commissioners are to have full access to agency information to support their policy decisionmaking and that the Chairman is not to block the flow of information to the Commissioners. Ultimately, the Commissioners were able to consider the information that the Chairman ordered retracted from the initially submitted version of SECY-11-0093 as well as information they obtained during communications with senior managers to inform their voting on SECY-11-0093. When questioned by OIG, the General Counsel said that this outcome means the full access requirement was met. However, the Commissioners said they rely on the staff's written input to support their policy decisionmaking and found the final SECY-11-0093 transmittal memorandum to be of no value.

OIG found that for allegation #3, the Reorganization Plan assigns the Chairman responsibility for "developing policy planning and guidance for consideration by the Commission," but does not define these terms or articulate the limits on the Chairman's authority in this area. Moreover, the legislative history provides conflicting interpretations as to whether the Chairman can direct the staff not to submit written policy proposals to the Commission or alter the information the staff provides in its written policy proposals. While a Senate committee noted the Chairman was to serve only as a conduit to pass information forward, a House committee noted the Chairman was responsible for guiding, developing, and presenting policy proposals and options to the Commission. This lack of clarity results in differing interpretations by different NRC Chairmen as to the extent of their authority to influence and modify the staff's policy proposals prior to submission to the Commission.

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OIG found the former Chairman interpreted his authority broadly and, at times, attempted to control the flow of information to the Commission. Specifically, the former Chairman directed a senior official to change the staff's recommendation in one SECY paper and to remove the EDO's and Deputy EDO's perspective in another prior to submission to the Commission. The former Chairman also initially directed the staff to stop preparing a paper that the staff wanted to submit for Commission consideration. The Commissioners disagreed with the former Chairman's influence over SECY paper content and uniformly expressed a need to receive the staff's unaltered, expert recommendations to support their decision making. Two prior NRC Chairmen reported they did not change staff views expressed in SECY papers and if they had a different view than the staff, they expressed it in the voting record. Additionally, President Carter, who submitted the Reorganization Plan to Congress, said the Reorganization Plan does not allow the Chairman to interfere with NRC staff proposals and that the Chairman should present the staff's recommendations as received and articulate his position separately, differing or not, to the Commission.

OIG found that with allegation #4, the former Chairman initially instructed the Secretary of the Commission not to follow the consensus approach of the four Commissioners concerning moving forward to finalize the revised *Internal Commission Procedures*. OIG notes that two former Chairmen advised if a majority of Commissioners gave the Secretary direction on how to process a matter, this would have constituted majority direction to proceed. OIG found conflicting direction. The Reorganization Plan states that the Secretary reports to the Commission; however, Management Directive 10.137 assigns the Chairman to serve as the supervising official for the Secretary and the Secretary's position description states that the Secretary reports to the Chairman. The General Counsel noted that the Chairman's supervisory authority was not intended to encroach on the Commission's authorities or functions, but was intended to be included as part of the Chairman's executive and administrative responsibilities. OIG noted that while the Chairman is authorized to provide administrative supervision and oversight of the Secretary, the Secretary must also be responsive to Commission direction concerning policy formulation, rulemaking, and adjudicatory functions, and administrative matters that the Commission determines have a direct effect on the Commission's ability to perform those functions.

Regarding allegation #5, OIG identified more than 15 examples of interactions between the former Chairman and NRC senior executives and Commissioners where the former Chairman's behavior was not supportive of an open and collaborative work environment. Although no one interviewed said they would hesitate to bring a safety matter to the Chairman's attention, NRC senior executives and Commissioners provided specific examples of what they perceived as intimidating and bullying tactics by the former Chairman so that they would be influenced to side with him despite their own judgments. The impact was that some senior officials avoided interactions with the former Chairman and might limit what they tell him, which is contradictory to both NRC's values and an open and collaborative work environment.

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Regarding allegation #6, OIG found that the former Chairman's December 2011 testimony before the House and Senate committees was inconsistent, in five areas, with testimony provided to OIG by NRC senior officials during this investigation.

*(Addresses Management and Performance Challenge # 7)*

## **NRC's Failure To Enforce CFRs**

### *OIG Strategic Goal: Safety*

OIG conducted an investigation into an allegation that Nuclear Fuel Services, an NRC licensee located in Erwin, TN, that manufactures and processes nuclear reactor fuel for commercial purposes and for the military, had no quality assurance (QA) program, which allowed NFS to release quantities of uranium and other radioactive materials into the environment for several decades. According to the allegor, NFS is required to have a QA program as defined by 10 CFR Part 50, Appendix B, "Quality Assurance Criteria for Nuclear Power Plants and Fuel Reprocessing Plants," and meet the requirements of the American Society of Mechanical Engineers (ASME) standard NQA-1, "Quality Assurance Requirements for Nuclear Facility Applications."

OIG determined that NFS has an active QA program and that 10 CFR Part 50, Appendix B, requirements do not apply to NFS. 10 CFR Part 50, "Domestic Licensing of Production and Utilization Facilities," pertains to production and utilization facilities, which are reactors and facilities for the processing of irradiated nuclear fuel (i.e., reprocessing). Also, NFS is not required by NRC regulations to meet the requirements of the ASME NQA-1, which are guidelines for the establishment and execution of QA programs during siting, design, construction, operation, and decommissioning of nuclear facilities. NFS is neither a reactor nor a reprocessing facility, but a fuel fabrication facility governed by 10 CFR Part 70, Domestic Licensing of Special Nuclear Material.

OIG also determined that NFS is permitted to release trace amounts of uranium, plutonium, and thorium to the environment within regulatory limits. 10 CFR Part 70.59 requires NFS to submit biannual "Effluent Monitoring Reporting Requirements" reports to NRC showing the amount of radioactivity released broken down by isotope.

*(Addresses Management and Performance Challenge #1)*

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## Concerns Regarding Region IV Staff Handling of Issues Pertaining to Vallecitos Nuclear Center

### *OIG Strategic Goal: Corporate Management*

OIG conducted an investigation into an allegation that previously identified concerns regarding misconduct and deficiencies at the Vallecitos Nuclear Center (VNC) were not being properly addressed by the NRC Region IV office. A previous OIG investigation addressed an NRC inspector who allegedly was not being objective during an inspection at VNC, and deliberately intimidated the allegor during an interview regarding the allegor's complaint about VNC management. The previous OIG investigation did not substantiate any misconduct on the part of the NRC inspector. According to the allegor's new concerns, the NRC put more effort into discrediting the allegor rather than investigating the allegor's concerns.

As a result of the allegor's continued concerns, the NRC Region IV staff agreed to re-interview the allegor. Based on a re-interview of the allegor, NRC identified nine separate issues that required further review by NRC.

OIG determined that NRC addressed the allegor's concerns by conducting onsite inspections or by utilizing an independent evaluation team composed of multiple contract companies with a background in safety conscious work environments. The onsite inspections resulted in the allegor's concerns being either unsubstantiated or substantiated but not a violation of NRC regulatory requirements.

*(Addresses Management and Performance Challenge # 7)*

## Possible Cost Mischarging by NRC Contractor

### *OIG Strategic Goal: Security*

OIG completed an investigation into an allegation that an IT contractor may have inappropriately billed NRC's Region II office for the same work for which the contractor had previously billed NRC's Region III office. In August 2011, the NRC Region III Information Systems Security Officer (ISSO), received information from the NRC Region II ISSO that draft certification network accreditation (CNA) documents from the NRC contractor contained specific information relating to work completed on behalf of Region III. The Region III ISSO reviewed the documents and agreed that the Region II excerpt looked similar to an assessment the Region III ISSO drafted in March 2009 and provided to the contractor in connection with Region III's CNA review.

OIG learned that the NRC IT contract began on July 28, 2006, and included option years for a total of \$41,279,266.80. The purpose of this time and materials, fixed ceiling, task order contract was to obtain professional services to support the NRC

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in its information systems security certification and accreditation process. Part of the IT contractor's deliverable standards included the development of a CNA process and deliverables that comply with appropriate standards with a quality performance metric target of greater than or equal to 95 percent

OIG's review of Region II's Task Order 75 of the NRC contract disclosed that Region II spent \$117,109.16 on its CNA. Review of Region III's task order 76 from the contract disclosed \$75,617.51 was spent on its CNA. The hourly rates were the same for each task order. Task Order 75 included two sub-categories not included in Task Order 76: E-Authentication Risk Assessment and Security Categorization. Additionally, the IT contractor expended 146 more hours on Task Order 75.

OIG found that the contractor apologized to the project officer for disseminating the report to Region II and emphasized they were trying to help Region II with its CNA. The contractor subsequently removed the Project Manager responsible for quality assurance from that position due to the issues raised by NRC. The contractor informed the NRC Region III ISSO that the CNA would be corrected and the Region III information would be erased from the Region II assessment.

OIG determined that the NRC IT contractor had used the Region III CNA documents as templates for the Region II assessment and left information in the documents from the previous Region III assessment. OIG also found that Region III and Region II invoices submitted by the NRC IT contractor were consistent with the amount of work performed in support of each assessment.

*(Addresses Management and Performance Challenge #5)*

## Potential Conflict of Interest Involving NRC Grant Fraud

### *OIG Strategic Goal: Corporate Management*

OIG conducted an investigation into an allegation that an NRC employee was working on a volunteer basis as a collaborator on an NRC grant provided to a university to develop a comprehensive undergraduate and graduate course. According to the allegation, the NRC employee was also the lead reviewer on the panel that recommended that the university receive the grant award; however, the original grant proposal did not mention that the employee would potentially provide assistance to the grant on a volunteer basis. The allegation also conveyed that the grantees were planning to publish a book related to the grant work, and raised a concern that the NRC employee might receive money from the book publication.

OIG learned that the grant for \$150,000 was awarded to the university in 2010. At some point during the award of the grant, the NRC project manager recommended that an NRC senior adviser assist in the development of the course. The grant did not have a stipulation preventing the Principal Investigator (PI) from developing a curriculum book. Previous grants prevented PI's or universities from developing a course book for their own monetary gain.

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The NRC employee in question was assigned as the senior adviser to assist with the grant.

The NRC employee's role was primarily to focus university personnel efforts on what was considered important for the course from NRC's perspective. The university PI was not aware of direct involvement with the grant by the NRC employee and was not aware of any request made by the NRC employee to be a co-author of the textbook.

OIG learned there was concern about a university report that stated it was preparing a textbook and expressed appreciation for the NRC employee's assistance. NRC became aware of the NRC employee's name being included on the status report. OIG learned that prior to 2010, NRC grant proposal solicitations stipulated that universities could not develop and write textbooks from their research. However, the stipulation relating to textbooks was not included in the 2010 grant proposal solicitations due to an oversight and change in office supervision. OIG learned new NRC solicitations for curriculum grants will explain that universities cannot develop textbooks as a result of their research supporting NRC grants.

OIG learned the NRC employee was aware of the discussion of the development of a textbook. The NRC employee informed the university PI that the employee would provide assistance, but could not accept funds associated with the sale of the textbook due to the employee's position with the NRC.

OIG determined there was no conflict of interest in NRC providing volunteer assistance to support the grant, and that the grant was being rewritten to correctly reflect that NRC grant funds may not be used to publish a book.

*(Addresses Management and Performance Challenge #7)*

## **Possible Violation of Post-Employment Statute by Former NRC Managers**

### *OIG Strategic Goal: Corporate Management*

OIG conducted an investigation into an allegation from an NRC licensee who alleged that three former NRC employees violated 18 U.S.C §207, "Restrictions on Former Officers, Employees, and Elected Officials of the Executive and Legislative Branches," by working on behalf of another NRC licensee to support an ongoing antitrust and unfair competition lawsuit against the allegor. The suit involves a nuclear device and the decision to withdraw approved usage by the NRC. NRC approved the device for use in 2000; in 2007, the NRC withdrew its approval. The allegor contends that the NRC has a direct and substantial interest in the litigation between it and the second licensee and that the former NRC employees are in violation of 18 U.S.C §207. The allegor reported that two of the three former



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NRC employees were directly involved in the decision to withdraw approval of the nuclear instrument while employed by the NRC and later assisted the licensee in the preparation of a report that would ultimately be used in litigation of unfair trade practices.

OIG was unable to substantiate that a violation of post-employment statutes occurred. OIG learned that a company that employed the three former NRC employees was hired by an NRC licensee and prepared an “expert report” that expressed an opinion on the completeness and accuracy of information that had been provided to the NRC by the alleged regarding the nuclear device. The alleged is seeking money damages from the other licensee regarding the device. The NRC is not a party in the lawsuit. The alleged reported that the company that employed the three former NRC employees knowingly represented to the NRC false information as to past employment restrictions of the three former employees. The information was then used by the then-NRC Senior Ethics Counsel to determine that there was no NRC interest in the outcome of litigation between the two NRC licensees, therefore, resulting in a decision that no violations of post-employment activities had occurred. The alleged believed that had the NRC Senior Ethics Counsel been in possession of a letter from the company that employed the three former NRC employees regarding an expert report on the device, the Senior Ethics Counsel would have rendered a different opinion.

The alleged also believed that the company’s involvement in a current NRC Office of Investigations investigation against the alleged shows that the U.S. Government [NRC] has a direct and substantial interest, thereby, resulting in the former NRC employees to have violated post-employment laws.

The Senior Ethics Counsel provided an opinion in 2011 that was used in Federal Court, regarding post-employment activities of the three former NRC employees. His opinion was that the Government was not a party and had no interest in the case between the two licensees. He was not in possession of a letter from the company at the time of his decision; however, after reading the letter, he determined that it would not have changed his decision regarding post-employment activities. The Federal Court confirmed that no violation of the post-employment statutes had occurred. The court held that the matter under review was not the same matters as the subject of the litigation. The court failed to see how the discovery of information withheld from the NRC by the alleged would affect the past review of the device by the NRC. Even if the NRC opened an investigation based on the allegations in the company’s report, the court could not articulate how that would translate into a violation of 18 U.S.C §207 on the part of the former NRC employees.

*(Addresses Management and Performance Challenge # 7)*

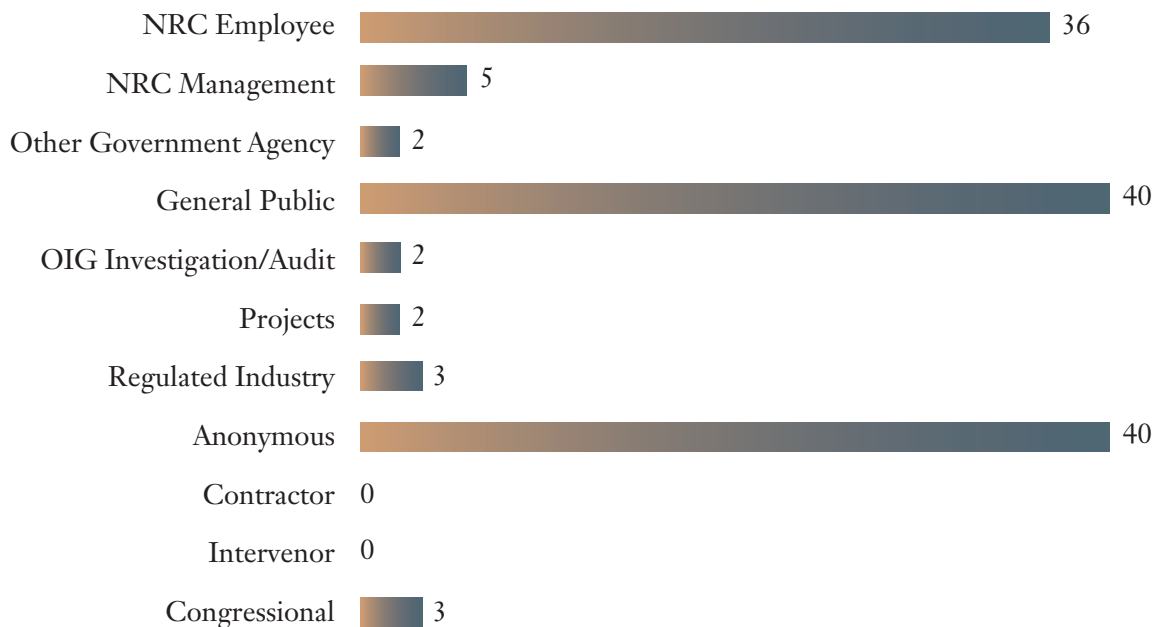
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# Summary of OIG Accomplishments

April 1, 2012, through September 30, 2012

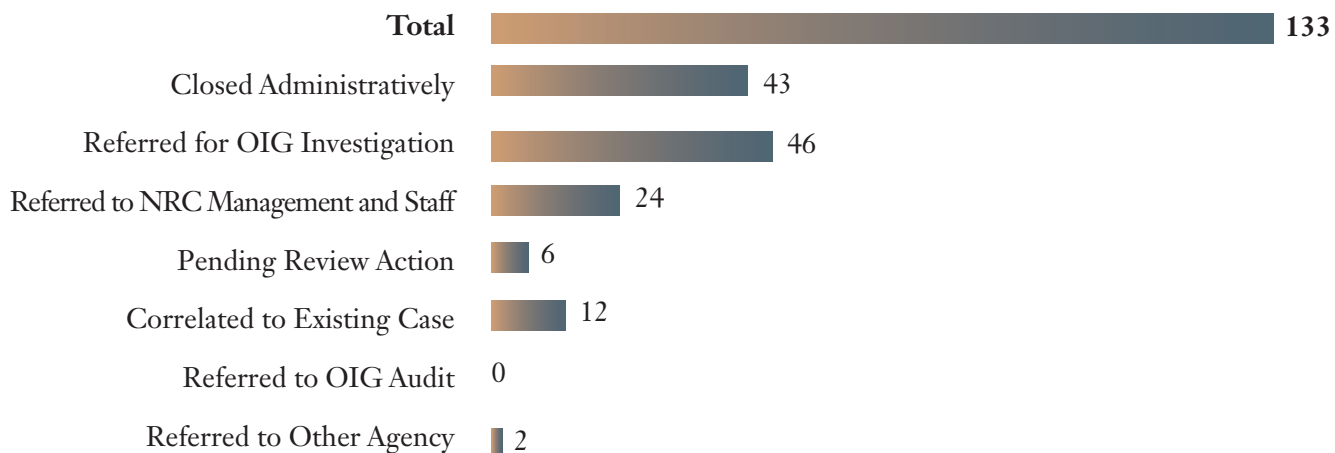
## INVESTIGATIVE STATISTICS

### Source of Allegations



Allegations resulting from Hotline Program: 68  
**Total: 133**

### Disposition of Allegations



## Status of Investigations

DOJ Acceptance . . . . .	1
DOJ Referrals . . . . .	9
DOJ Pending . . . . .	0
DOJ Declinations . . . . .	8
Sentencing . . . . .	0
NRC Administrative Actions:	
Terminations and Resignations . . . . .	1
Suspensions and Demotions . . . . .	0
Counseling . . . . .	0
Recoveries . . . . .	0
Other . . . . .	0
State Referrals . . . . .	0
State Pending . . . . .	0
State Accepted . . . . .	0
PFCRA <sup>8</sup> Referral . . . . .	2
PFCRA Acceptance . . . . .	0
PFCRA Recovery . . . . .	0
PFCRA Pending . . . . .	2

## Summary of Investigations

Classification of Investigations	Carryover	Opened Cases	Closed Cases	Cases in Progress
Conflict of Interest	1	0	1	0
Employee Misconduct	20	17	13	24
Event Inquiry	1	1	0	2
External Fraud	6	2	2	6
False Statements	1	5	1	5
Management Misconduct	7	13	8	12
Miscellaneous	4	3	2	5
Proactive Initiatives	11	0	3	8
Technical Allegations	0	8	2	6
Theft	1	0	0	1
<b>Grand Total</b>	<b>52</b>	<b>49</b>	<b>32</b>	<b>69</b>

<sup>8</sup> Program Fraud Civil Remedies Act.

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## AUDIT LISTINGS

<b>Date</b>	<b>Title</b>	<b>Audit Number</b>
04/16/12	Audit of NRC's Protection of Safeguards Information	OIG-12-A-12
04/20/12	Audit of NRC's Management of Import/Export Authorizations	OIG-12-A-13
06/28/12	Audit of NRC's Issuance of General Licenses	OIG-12-A-14
06/28/12	Audit of NRC's Oversight of Industrial Radiography	OIG-12-A-15
07/12/12	Audit of NRC's Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) Process	OIG-12-A-16
08/27/12	Information Security Risk Evaluation of Region II—Atlanta, GA	OIG-12-A-17
09/17/12	Audit of NRC's Contract Administration of the EPM Contract	OIG-12-A-18
09/25/12	Audit of NRC's Use of Orders	OIG-12-A-19
09/26/12	Audit of NRC's Oversight of the Agency's Federally Funded Research and Development Center	OIG-12-A-20
09/26/12	Audit of NRC's 10 CFR Part 31 General Licensing Program	OIG-12-A-21
09/26/12	Information Security Risk Evaluation of Region III—Lisle, IL	OIG-12-A-22

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## Contract Audit Reports

<b>OIG Issued Date</b>	<b>Contractor/Title/ Contract Number</b>	<b>Questioned Costs</b>	<b>Unsupported Costs</b>
05/14/2012	<b>Southwest Research, Inc.</b> Independent Audit of Southwest Research Institute's Annual Incurred Costs, Contractor Fiscal Year 2008 NRC-04-10-144 NRC-41-08-004 NRC-41-09-011 NRC-03-10-081 NRC-02-06-018 NRC-02-06-021 NRC-03-09-070 NRC-03-10-070 NRC-03-10-066 NRC-HQ-11-C-03-0047 NRC-HQ-11-C-03-0058	\$540,637	0
07/09/2012	<b>Information Systems Laboratories, Inc.</b> Independent Audit of Information Systems Laboratories, Inc. Fiscal Year 2005 Incurred Cost Proposal NRC-04-97-039 NRC-03-00-003 NRC-02-00-003 NRC-04-01-052 NRC-04-01-067 NRC 04-02-054 NRC-03-03-038 NRC-04-04-062 NRC-04-04-054 NRC-04-04-065 NRC-04-05-064	0	0
09/24/2012	<b>Reeves &amp; Associates Consulting and Training, Inc.</b> Independent Audit on Reeves & Associates Consulting and Training, Inc. Pre-award Survey of Prospective Contractor Accounting System NRC-HQ-12-R-11-0116	0	0

# AUDIT RESOLUTION ACTIVITIES

## Table I

### OIG Reports Containing Questioned Costs<sup>9</sup>

Reports	Number of Reports	Questioned Costs (Dollars)	Unsupported Costs (Dollars)
A. For which no management decision had been made by the commencement of the reporting period	0	0	0
B. Which were issued during the reporting period	1	\$540,637	0
<i>Subtotal (A + B)</i>	1	\$540,637	0
C. For which a management decision was made during the reporting period:			
(i) dollar value of disallowed costs	0	0	0
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision had been made by the end of the reporting period	1	\$540,637	0
E. For which no management decision was made within 6 months of issuance	0	0	0

<sup>9</sup> Questioned costs are costs that are questioned by 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>10</sup>

Reports	Number of Reports	Dollar Value of Funds
A. For which no management decision had been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	1	\$357,800
C. For which a management decision was made during the reporting period:		
(i) dollar value of recommendations that were agreed to by management	1	\$357,800
(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>10</sup> A “recommendation that funds be put to better use” is a recommendation by 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

Date	Report Title	Number
05/26/2003	Audit of NRC's Regulatory Oversight of Special Nuclear Materials  Recommendation 1: 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
09/26/2008	Audit of NRC's Enforcement Program  Recommendation 3: Develop and implement a quality assurance process that ensures that collected enforcement data is accurate and complete.	OIG-08-A-17

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# Abbreviations and Acronyms

AEA	Atomic Energy Act of 1954
ASME	American Society of Mechanical Engineers
CNA	certification network accreditation
CFR	Code of Federal Regulations
CIO	Chief Information Officer
CIPIMS	Construction Inspection Program Information Management System
COL	combined construction permit and operating license
DOI NBC	Department of the Interior, National Business Center
EDO	Executive Director for Operations (NRC)
EIS	environmental impact statement
EPM	Enterprise Project Management
E-Safe	Electronic Safe
FAR	Federal Acquisition Regulation
FFRDC	Federally Funded Research and Development Center
FY	Fiscal Year
GLD	general licensed device
GLTS	General License Tracking System
HOC	Headquarters Operations Center (NRC)
IAM	Issue Area Monitor
IDIQ	Indefinite Delivery, Indefinite Quantity
IG	Inspector General
ISSO	Information Systems Security Officer
IT	information technology
ITAAC	Inspections, Tests, Analyses, and Acceptance Criteria
MD	Management Directive
NEPA	National Environmental Policy Act of 1969
NRC	U.S. Nuclear Regulatory Commission
NRO	Office of New Reactors (NRC)
OBRA-90	Omnibus Budget Reconciliation Act of 1990
OIG	Office of the Inspector General (NRC)
OIP	Office of International Programs
OMB	Office of Management and Budget
PI	Principal Investigator
QA	quality assurance
RSO	Radiation Safety Officer
SGI	Safeguards Information
SGI LAN	Safeguards Information Local Area Network
SLES	Safeguards Local Area Network and Electronic Safe
SwRI	Southwest Research Institute
UPS	Uninterruptible Power Supplies
VNC	Vallecitos Nuclear Center

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# Reporting Requirements

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

<b>Citation</b>	<b>Reporting Requirements</b>	<b>Page</b>
Section 4(a)(2)	Review of Legislation and Regulations	6-7
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	10-27, 35-43
Section 5(a)(2)	Recommendations for Corrective Action	10-27
Section 5(a)(3)	Prior Significant Recommendations Not Yet Completed	50
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	45
Section 5(a)(5)	Information or Assistance Refused	None
Section 5(a)(6)	Listing of Audit Reports	46
Section 5(a)(7)	Summary of Significant Reports	10-27, 35-43
Section 5(a)(8)	Audit Reports — Questioned Costs	48
Section 5(a)(9)	Audit Reports — Funds Put to Better Use	49
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

*Public Law 111-203, the Dodd-Frank Wall Street Reform and Consumer Protection Act, requires IGs to include their peer review results as an appendix to each Semiannual Report to Congress.*

Section 989C	Peer Review Information	53
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# Appendix

## *Peer Review Information*

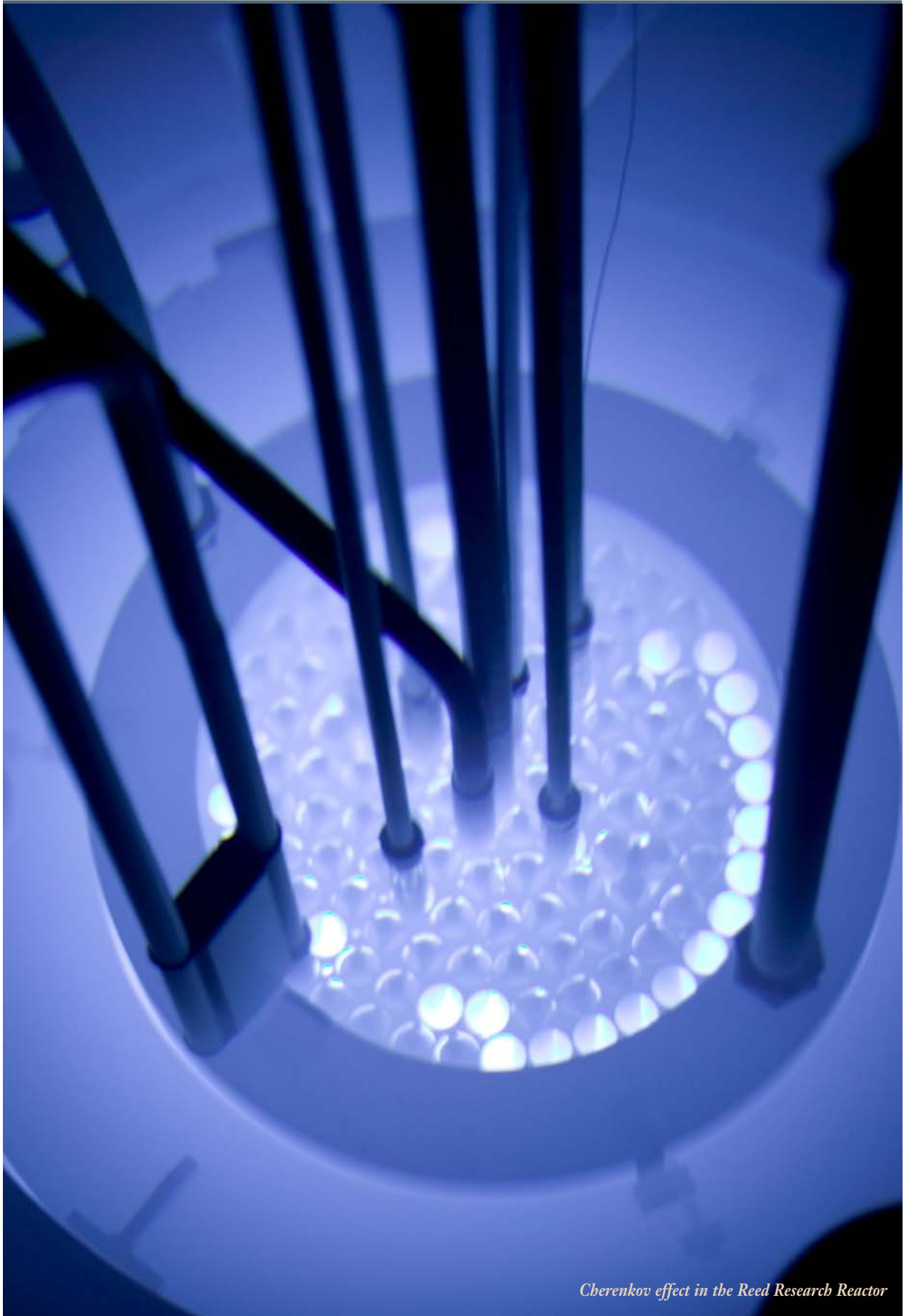
NRC OIG did not conduct any peer reviews of other OIGs during this reporting period.

## *Audits*

The NRC OIG Audit Program was peer reviewed most recently by the National Archives and Records Administration Office of Inspector General. The peer review final report, dated September 27, 2012, reflected that NRC OIG received a peer review rating of pass. This is the highest rating possible based on the available options of pass, pass with deficiencies, or fail.

## *Investigations*

The NRC OIG Investigative Program was peer reviewed most recently by the U.S. Department of State Office of Inspector General. The peer review final report, dated July 6, 2010, reflected that NRC OIG is in compliance with the quality standards established by the President's Council on Integrity and Efficiency/ Executive Council on Integrity and Efficiency and the Attorney General guidelines.



*Cherenkov effect in the Reed Research Reactor*





*Fort Calboun nuclear power plant, located near Omaha, NE* Photo courtesy of Omaha Public Power



## **OIG 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
- Conflict 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:**  
**OIG Hotline**  
**1-800-233-3497**  
**TDD: 1-800-270-2787**  
7:00 a.m. – 4:00 p.m. (EST)  
After hours, please leave a message.



**Submit:**  
Online Form  
[www.nrc.gov](http://www.nrc.gov)  
Click on Inspector General  
Click on OIG Hotline



**Write:**  
U.S. Nuclear Regulatory Commission  
Office of the Inspector General  
Hotline Program, MS 05 E13  
11555 Rockville Pike  
Rockville, MD 20852-2738