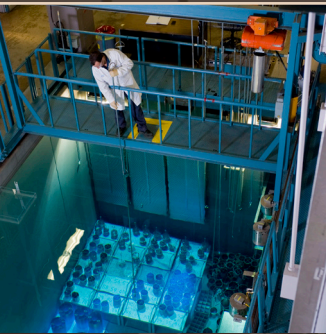




Office of the Inspector General  
Semiannual Report to Congress  
*October 1, 2012–March 31, 2013*



## **OIG VISION**

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

## **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:**

Left: Technician above commercial irradiator.  
Photo courtesy Nordion.

Middle: NRC Inspector at Calvert Cliffs Nuclear Power Station.

Right: Grand Gulf Nuclear Power Station.  
Photo courtesy of Entergy Nuclear.

---

# A Message From the Inspector General



I am pleased to present this *Semiannual Report to Congress* on the activities and accomplishments of the Nuclear Regulatory Commission (NRC) Office of the Inspector General (OIG) from October 1, 2012, to March 31, 2013.

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.

NRC's ability to effectively accomplish its safety and security mission is influenced by the effectiveness of its corporate management programs in areas such as human resources, information technology, and financial resources. One of our strategic goals is to increase the economy, efficiency, and effectiveness with which NRC manages and exercises stewardship over its resources. In this edition of our *Semiannual Report*, we highlighted our efforts in identifying and addressing the risks associated with the principal corporate management areas of the NRC, such as information management security requirements, financial statements, staff training, and social media.

During this semiannual reporting period, we issued the audit report on the fiscal year 2012 financial statements of the NRC and issued 14 program and performance 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 26 investigations, and completed 24 cases. Nine of the open cases were referred to the Department of Justice, and 11 allegations were referred to NRC management for action.

The NRC OIG remains committed to the integrity, efficiency, and effectiveness of NRC programs and operations, and our audits, investigations, and other activities highlighted in this report demonstrate this ongoing commitment. Those efforts were recently recognized with the granting of an Award for Excellence by the Council of the Inspectors General on Integrity and Efficiency to an audit team for its report on NRC's oversight of Master Materials Licenses. 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



*Wolf Creek nuclear power station.* Photo courtesy of Westar Energy

---

# Contents

Highlights . . . . .	v
Audits . . . . .	v
Investigations . . . . .	vii
Overview of NRC and OIG . . . . .	1
NRC’s Mission. . . . .	1
OIG History, Mission, and Goals . . . . .	2
OIG History. . . . .	2
OIG Mission and Goals . . . . .	3
OIG Programs and Activities . . . . .	4
Audit Program . . . . .	4
Investigative Program . . . . .	5
OIG General Counsel Regulatory Review . . . . .	6
Other OIG Activities . . . . .	8
Management and Performance Challenges. . . . .	11
Audits . . . . .	12
Audit Summaries . . . . .	12
Audits in Progress . . . . .	25
Investigations. . . . .	34
Investigative Case Summaries . . . . .	34
Summary of OIG Accomplishments . . . . .	41
Investigative Statistics . . . . .	41
Audit Listings . . . . .	43
Audit Resolution Activities. . . . .	45
Abbreviations and Acronyms. . . . .	49
Reporting Requirements. . . . .	50
Appendix. . . . .	51



*Indian Point nuclear power station.* Photo courtesy of Entergy Nuclear Generation Co.

---

# 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

- The Reports Consolidation Act of 2000 requires Federal agency Inspectors General to annually summarize what they consider to be the most serious management and performance challenges facing their agency and to assess the agency's progress in addressing those challenges. In accordance with the act, the Inspector General (IG) at NRC updated what he considers to be the most serious management and performance challenges facing NRC. The IG considered the overall work of OIG, the OIG staff's general knowledge of agency operations, and other relevant information to develop and update his list of management and performance challenges and assess the agency's progress in addressing the challenges. OIG staff also sought input from NRC's Chairman, Commissioners, and management to obtain their views on the challenges and agency efforts to address previously identified management and performance challenges.
- 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. NRC assesses two types of fees to meet the requirements of OBRA-90: user fees and annual fees. User fees recover NRC's costs of providing special benefits to identifiable applicants and licensees. Annual fees recover generic regulatory costs not recovered through user fees. The audit objective was 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.
- The Federal Information Security Management Act (FISMA) of 2002 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. This evaluation includes testing the effectiveness of information security policies, procedures, and practices for a representative subset of the agency's information systems. The evaluation also includes an assessment of compliance with FISMA requirements and related information security policies, procedures, standards, and guidelines. FISMA requires the annual evaluation to be performed by the agency's OIG. The evaluation objective was to perform an independent evaluation of NRC's implementation of FISMA for FY 2012.
- The Chief Financial Officers Act of 1990, as amended, requires the Inspector General or an independent external auditor to annually audit NRC's financial statements to determine whether the agency's financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also

---

includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. In addition, the audit evaluated the effectiveness of internal controls over financial reporting and the agency's compliance with laws 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. In addition, NRC's Technical Training Center (TTC) provides training for NRC staff in various technical disciplines associated with the regulation of nuclear materials and facilities. Office of Management and Budget. OMB Circular A-130 requires agencies to implement and maintain an Information Technology (IT) security program, including the preparation of policies, standards, and procedures. The regional and TTC information security risk evaluation objectives were to conduct information security risk evaluations of NRC's IT security program, policies, and practices as implemented at Region I (King of Prussia, PA), Region IV (Arlington, TX), and TTC (Chattanooga, TN), and evaluate the effectiveness of agency security control techniques as implemented at these locations.
- On January 21, 2009, President Obama issued a memorandum to the heads of executive agencies that outlined guidance for use of social media to promote greater openness in Government. In January 2011, NRC launched its first official social media site with the release of the NRC blog. NRC followed the launch of its blog with the launch of a Twitter account (August 2011), YouTube channel (September 2011), and Flickr presence (January 2012). The evaluation assessed 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.
- In December 2010, the Federal Chief Information Officer promulgated the "25 Point Implementation Plan to Reform Federal Information Technology Management" (25-Point Plan). The 25-Point Plan tasked agencies, including NRC, with undertaking specific management reforms and policy changes within 6-, 12-, and 18-month timeframes. NRC—by itself or in conjunction with other Federal agencies and the Office of Management and Budget—was responsible for carrying out 10 action items. The audit objective was to evaluate NRC's progress in carrying out the 25-Point Plan.
- NRC's workforce is responsible for overseeing licensee performance and needs to be properly trained to carry out this important safety function. NRC's *Training and Development Strategic Plan* states that the agency conducts training programs in accordance with the five elements of the systems approach to training (Analysis, Design, Development, Implementation, and Evaluation). The systems approach model describes a structured methodology to help ensure that training investments achieve desired performance outcomes. The Office of Personnel Management provides direction and guidance on identifying training needs through training assessments. A training needs assessment is the process



---

of identifying the “gap” between performance required and current performance. The audit objective was to determine if NRC’s process for identifying safety training needs efficiently and effectively prepares staff to perform oversight activities to assure protection of public health and safety and the environment.

- OIG engaged an independent contractor to conduct a fifth, periodic survey of NRC’s workforce to assess the agency’s safety culture and climate. A clear understanding of NRC’s current safety culture and climate facilitates 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, and operating under continuing resolutions, smaller budgets, and legislation that froze Federal civilian employee pay rates. The survey objectives were 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, and provide, where practical, comparative data against other organizations for the qualitative and quantitative findings.

## Investigations

- OIG completed an investigation into an allegation that a major U.S. university performing contract work for NRC improperly billed the agency, through the professor serving as Principal Investigator (PI) for the contract, for work under the contract and failed to provide adequate deliverables and a final deliverable. OIG initiated this review based on reports that the PI was under Federal investigation for submitting fraudulent contract proposals, theft of Federal funds, and money laundering in connection with the PI’s research activities outside of the university.
- OIG completed an investigation into an allegation from a private citizen that he received an e-mail from an AOL Inc. e-mail account to his personal e-mail account containing a malicious software program (i.e., malware) purporting to be from the NRC OIG. The e-mail subject line stated that a report from OIG had been completed and was attached to the e-mail.
- OIG completed an investigation into an anonymous allegation that questioned NRC’s Open, Collaborative Work Environment and Differing Professional Opinion process. The anonymous allegor indicated that the process sounded fair, “but when the rubber meets the road, the programs fall apart.” The allegor did not provide any specific examples to support the allegation.
- OIG completed an investigation based on a letter that was sent to the office of U.S. Representative Darrell Issa (R-CA) by a former nuclear power industry employee who alleged that the NRC Office of Investigations did not address his

---

concern of retaliation by San Onofre Nuclear Generating Station management for allegedly lowering his performance appraisal because the former employee refused to alter cause evaluation reports.

- OIG completed an investigation into an allegation that the NRC Office of Federal and State Materials and Environmental Programs (FSME) had, in official correspondence, materially mischaracterized positions taken by the Colorado Department of Public Health and the Environment, the State level nuclear regulator in the Agreement State of Colorado. The FSME correspondence at issue was distributed to the media and allegedly had the potential to interfere with ongoing litigation in Colorado State court regarding a recently licensed uranium mill.
- OIG completed an investigation into an anonymous allegation that an NRC Commissioner raised his voice during a one-on-one interaction with an NRC office director in the director's office, and forcibly shut the director's office door. It was further alleged that the Commissioner attempted to physically intimidate the director. This incident was allegedly overheard by others on the office director's staff. OIG interviews concerning this allegation disclosed the names of two additional office directors who may have had intimidating interactions with the Commissioner. OIG interviewed the two office directors to determine whether such interactions occurred.

---

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

---

# 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.

---

## 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.**

---

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

---

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

---

## Investigative Program

OIG's responsibility for detecting and preventing fraud, waste, and abuse within NRC includes investigating possible violations of criminal statutes relating to NRC programs and activities, investigating alleged 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 OIG 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.

---

# 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 October 1, 2012, through March 31, 2013, 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.

The focus of many OIG comments is to assure that the independent authority of the Inspector General under the IG Act is correctly reflected in agency directives. An example of how this is accomplished is illustrated in two commentaries provided during this reporting period:

- Management Directive 8.2, *Nuclear Regulatory Commission (NRC) Incident Response Program*, and Management Directive 8.3, *NRC Incident Investigation Program*, describe program activities where the IG may have an interest in assigning OIG staff to participate as observers. As a result, suggestions were provided for each of these drafts for inclusion of provisions stating that at the discretion of the IG, OIG staff could be assigned to participate as observers.

Additionally, during this period, comments were provided on the following MD revisions:

- The revised MD 11.1, *NRC Acquisition of Supplies and Services*, was generally well constructed and comprehensive. However, OIG review found that despite prior findings in OIG audit reports (OIG-12-A-02 and



---

OIG-A-18) identifying lack of coordination and communication between the NRC Division of Contracts and agency project officers, previously provided flowcharts that contained helpful guidance in these areas had been eliminated in this directive update. Another area of concern was that the topics of suspension and debarment were not addressed, except to identify the Suspension and Debarment Official. OIG also noted that the NRC Enterprise Acquisition Tool is referenced in the MD but has not been implemented and therefore it appeared to be premature to reference it in the MD. We also commented on an outdated cite of the Brooks Act, which had been repealed, and suggested provision of Uniform Resource Locators (URL) for cited systems.

- MD 10.50, *Pension Offset Waivers*. OIG’s review found that the revision adequately addressed this topic. However, OIG suggested that the agency substitute the term “proposed appointee” for “employee” throughout the directive and handbook. OIG provided additional comments clarifying that the OIG Human Resources Officer performs the personnel functions for proposed appointees within OIG, and that the Approving Official is the IG for pension offset waivers for proposed appointees within the OIG and the Requesting Official for these actions is the Deputy Inspector General.
- MD 10.130, *Safety and Occupational Health Program*. OIG reviewed this revision and found it to be well structured and comprehensive. Comments on this draft MD were limited to citation corrections and editorial suggestions.
- MD 4.3, *Financial Management Systems*. OIG reviewed the revision and provided comments related to updated terminology and minor clarifications.
- MD 5.4, *Official Representation Expenses*. OIG’s comments focused on clarification as to roles and responsibilities, suggesting precise identification of the individual responsible for specific actions and oversight and required timeframes for notifications.

---

## Other OIG Activities

### NRC OIG Receives CIGIE Award for Excellence



*OIG receives CIGIE Award for Excellence. Pictured left to right are Hubert T. Bell, Inspector General; Sherri A. Miotla, Team Leader; Stephen D. Dingbaum, Assistant Inspector General for Audits; Kevin J. Nietmann, Technical Advisor; Michael S. Zeitler, Audit Manager; Levar S. Cole, Senior Management Analyst; David C. Lee, Deputy Inspector General; Amy L. Hardin, Auditor; and Steven E. Zane, Deputy Assistant Inspector General for Audits. Not pictured: Dana K. Furstenuau, Management Analyst.*

Source: NRC

*In October 2012, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) recognized an OIG audit team with the prestigious CIGIE Award for Excellence in Audit. The audit team was recognized for exceptional performance in identifying ways to improve the NRC's oversight of Master Materials Licenses. The team consisted of Sherri Miotla, Team Leader; Michael Zeitler, Audit Manager; Kevin Nietmann, Senior Technical Advisor; Levar Cole, Senior Management Analyst; Amy Hardin, Auditor; and Dana Furstenuau, Management Analyst.*

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 regulates medical, industrial, and academic uses of nuclear materials through a combination of regulatory requirements, including licensing, inspection, and enforcement. NRC also issues Master Materials Licenses (MML) to other Federal agencies authorizing use of material at multiple sites that fall under the jurisdiction of the other agencies. The MML allows the Federal agency to conduct some activities as a regulator, such as issuing permits for radioactive materials use, conducting inspections, handling allegations, following up on incidents and events, and taking enforcement actions. NRC, in turn, provides oversight of MML licensees through various means.

As of April 2011, NRC had issued MMLs to three Federal agencies: the Department of the Air Force, the Department of the Navy, and the Department of Veterans Affairs. The three MML licensee organizations vary based on the numbers and types of permits they each issue. The Air Force primarily issues permits for chemical agent monitors and detectors, nuclear medicine, waste disposal, and decommissioning. The Navy primarily issues permits for radiography, nuclear medicine, research and development, and decommissioning. Veterans Affairs primarily issues permits for nuclear medicine.

---

The effectiveness of NRC's oversight of MMLs was brought into question in the aftermath of the reported misadministration of treatments to a large number of patients at a Department of Veterans Affairs hospital in Pennsylvania. As such, OIG initiated an audit to determine whether NRC's oversight of MML licensees adequately protects public health and safety and the environment. The audit focused on reviewing the oversight of the MMLs through documentation reviews, observation of the NRC oversight activities, and interviews with NRC and MML licensee management and staff involved in MML oversight.

The audit team found that while NRC made some improvements to its oversight of MML licensees, opportunities exist for the agency to further strengthen its oversight of this unique type of materials licensee. Specifically, the audit team found the following:

- **NRC Could Improve Guidance for NRC Staff Providing Technical Assistance and Training to MML Licensees.** Through interviews with NRC and MML staff and document reviews, the audit team found that MML licensees have difficulty obtaining support they need to successfully implement their programs. Letters of Understanding state that NRC will provide guidance and assistance in areas pertinent to the administration of the MML license, including technical assistance and training where NRC has special capabilities. NRC management has not provided adequate guidance or a consistent process for supporting MML licensee staff. For example, MML licensees often do not receive timely or clear responses to their requests for technical assistance. Additionally, MML licensees have difficulty getting into NRC-sponsored training courses. Without this support, MML licensee staff may lack the knowledge and skills necessary to effectively implement their oversight programs and, consequently, may not adequately protect public health and safety and the environment.
- **Guidance on Selection of MML Permittees for Inspection Could Be Improved.** To determine the scope of NRC's independent inspections, the audit team reviewed 220 NRC inspection reports from independent inspections conducted of MML permittees between 2000 and 2010. OIG also accompanied NRC inspectors on two independent inspections of MML permittees. The audit team found that NRC's selection of MML permittees for independent inspection varies. NRC monitors MML licensees' performance primarily through independent inspections of MML permittees, and NRC principles regarding regulatory transparency and predictability should guide these monitoring actions. However, selection of MML permittees is shaped by wide-ranging interpretations of the guidance for MML licensee oversight, which directs NRC staff to select a "sufficient number" and to choose a "representative sample" of MML permittees to adequately monitor MML licensee and permittee performance. Regional variation in selecting MML permittees for inspection is a result of unclear and vague guidance. Without a clear definition of inspection parameters, MML permittee inspections are at risk of becoming a lower priority than deadline-driven activities. The result of fewer inspections, or no inspections, could be detrimental to the health and safety of workers and the public as well as the environment.

- 
- **NRC Should Clarify MML Licensee Regulatory Oversight Roles, Responsibilities, and Accountabilities.** To better understand the MML licensee roles, responsibilities, and accountabilities, the audit team observed two biennial reviews of MML licensees conducted by NRC teams. The audit team also observed quarterly meetings of the master radiation safety committees for each of the MMLs. Through these observations and reviews of reports from past reviews (from 1999 to 2011), the audit team found that NRC’s regulatory oversight expectations for MML licensees are not being enforced. To ensure adequate protection of public health and safety and the environment, NRC expects MML licensees to perform regulatory oversight functions. However, these expectations are not clearly defined or explicitly enumerated in NRC regulations, the MMLs, the Letters of Understanding, or licensee “tie downs.” As a result, MML licensees and NRC may have different understandings of MML licensee staff and the master radiation safety committee accountabilities and regulatory oversight roles and responsibilities. Consequently, MML licensees may not fully perform these regulatory oversight functions in a manner NRC expects, which could result in inadequate protection of public health, safety, and the environment.

The audit team made five comprehensive recommendations to help NRC improve its oversight of MML licensees. NRC made no formal comments on the report and agreed with the recommendations. The agency is currently implementing corrective actions to improve its program for oversight of MMLs. NRC’s improved oversight will affect the three Federal agencies that are already MML licensees and any other Federal agencies that endeavor to become MML licensees in the future.

---

# Management and Performance Challenges

Most Serious Management and Performance Challenges  
Facing the Nuclear Regulatory Commission  
as of October 1, 2012\*  
*(as identified by the Inspector General)*

- |             |   |
|-------------|---|
| Challenge 1 | <i>Management of regulatory processes to meet a changing environment in the oversight of nuclear materials.</i>                             |
| Challenge 2 | <i>Management of internal NRC security and oversight of licensee security programs.</i>   |
| Challenge 3 | <i>Management of regulatory processes to meet a changing environment in the oversight of nuclear facilities.</i>                            |
| Challenge 4 | <i>Management of issues associated with the safe storage of high-level radioactive waste when there is no long-term disposal solutions.</i> |
| Challenge 5 | <i>Management of information technology.</i>  |
| Challenge 6 | <i>Administration of all aspects of financial management and procurement.</i>   |
| Challenge 7 | <i>Management of human capital.</i>   |

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

---

# Audits

*To help the agency improve its effectiveness and efficiency during this period, OIG completed 15 financial and performance audits or evaluations, 9 of which are summarized here, that resulted in numerous recommendations to NRC management. In addition, Defense Contract Audit Agency completed three contract audits for OIG.*

## Audit Summaries

### Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing NRC

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

The Reports Consolidation Act of 2000 requires Federal agency IGs to annually summarize what they consider to be the most serious management and performance challenges facing their agency and to assess the agency's progress in addressing those challenges.

In accordance with the act, the IG at NRC updated what he considers to be the most serious management and performance challenges facing NRC. The IG considered the overall work of OIG, the OIG staff's general knowledge of agency operations, and other relevant information to develop and update his list of management and performance challenges and assess the agency's progress in addressing the challenges. In addition, OIG staff sought input from NRC's Chairman, Commissioners, and management to obtain their views on what challenges the agency is facing and what efforts the agency has taken or are underway or planned to address previously identified management and performance challenges.

#### *Evaluation Results:*

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

The following chart provides an overview of the seven most serious management and performance challenges facing NRC as of October 1, 2012.

---

**Most Serious Management and Performance Challenges  
Facing the Nuclear Regulatory Commission  
as of October 1, 2012\***  
*(as identified by the Inspector General)*

Challenge 1	<i>Management of regulatory processes to meet a changing environment in the oversight of nuclear materials.</i>
Challenge 2	<i>Management of internal NRC security and oversight of licensee security programs.</i>
Challenge 3	<i>Management of regulatory processes to meet a changing environment in the oversight of nuclear facilities.</i>
Challenge 4	<i>Management of issues associated with the safe storage of high-level radioactive waste when there is no long-term disposal solution.</i>
Challenge 5	<i>Management of information technology.</i>
Challenge 6	<i>Administration of all aspects of financial management and procurement.</i>
Challenge 7	<i>Management of human capital.</i>

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

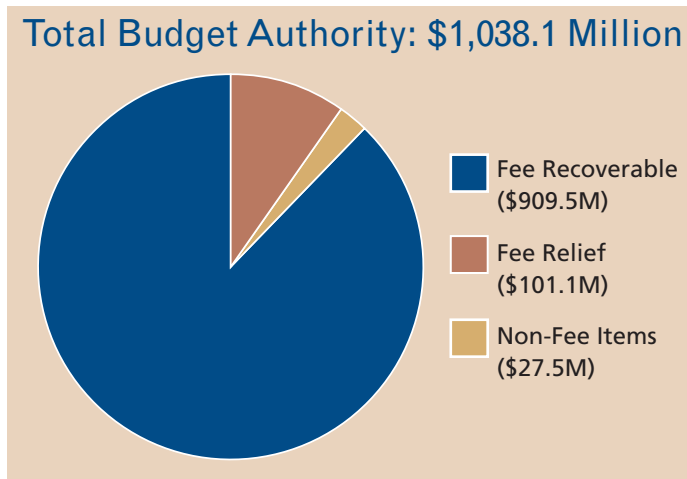
*(Addresses All Management and Performance Challenges)*

## 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 for waste incidental to reprocessing activities and amounts appropriated for generic homeland security activities ("non-fee items")].

NRC assesses two types of fees to meet the requirements of OBRA-90 – user fees and annual fees. First, user fees, presented in Title 10, Code of Federal Regulations (10 CFR), Part 170, under the authority of the Independent Offices Appropriation Act of 1952, recover NRC's costs of providing special benefits to identifiable applicants and licensees. In FY 2012, the estimated 10 CFR Part 170 fees totaled \$345.2 million. Second, annual fees, presented in 10 CFR Part 171 under the



Source: NRC

authority of OBRA-90, as amended, recover generic regulatory costs not recovered through 10 CFR Part 170 fees. In FY 2012, the 10 CFR Part 171 fee collections required totaled \$555.8 million. The total amount of fees to recover in FY 2012 was \$909.5 million (this includes the Part 170 and 171 fees as well as Part 171 billing adjustments).

As noted in the pie chart, in FY 2012 NRC's budget authority was \$1,038.1 million, \$101.1 million was fee relief, and non-fee items were \$27.5 million.

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 was 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.

#### *Audit Results:*

The agency has established and implemented management controls to ensure that the license fee calculation process produces timely and accurate fees in accordance with applicable requirements. However, we have identified the following opportunities to further improve the license fee calculation process:

- Prepare and document an annual Fee Rule validation (budget vs. cost analysis) and make adjustments as needed to the fee calculation process.
- Document all steps performed in calculating the Fee Rule in the desk procedures (Fee Handbook) to enable a new preparer to re-perform or complete the calculation.
- Prepare and complete detailed quality control license fee calculation checklists and document supervisory review and approval on the checklists.

*(Addresses Management and Performance Challenge #6)*



---

# Independent Evaluation of NRC's Implementation of Federal Information Security Management Act (FISMA) for FY 2012

## *OIG Strategic Goal: Security*

On December 17, 2002, the President signed the E-Government Act of 2002, which included the Federal Information Security Management Act (FISMA) of 2002.<sup>2</sup> FISMA outlines the information security management requirements for agencies, which include an annual independent evaluation of an agency's information security program<sup>3</sup> and practices to determine their effectiveness. This evaluation must include testing the effectiveness of information security policies, procedures, and practices for a representative subset of the agency's information systems. The evaluation also must include an assessment of compliance with FISMA requirements and related information security policies, procedures, standards, and guidelines. FISMA requires the annual evaluation to be performed by the agency's OIG.

The evaluation objective was to perform an independent evaluation of NRC's implementation of FISMA for FY 2012.

## *Evaluation Results:*

While the agency has continued to make improvements in its IT security program and has made progress in implementing the recommendations resulting from previous FISMA evaluations, this evaluation identified several weaknesses. Specifically:

- The NRC system inventory is not up-to-date.
- Information system component inventories at NRC remote locations are not up-to-date.
- Contingency planning for the NRC IT environment needs improvement.

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

---

<sup>2</sup> The Federal Information Security Management Act of 2002 was enacted on December 17, 2002, as part of the E-Government Act of 2002 (Public Law 107-347) and replaces the Government Information Security Reform Act, which expired in November 2002.

<sup>3</sup> NRC uses the term "information security program" to describe its program for ensuring that various types of sensitive information are handled appropriately and are protected from unauthorized disclosure in accordance with pertinent laws, Executive orders, management directives, and applicable directives of other Federal agencies and organizations. For the purposes of FISMA, the agency uses the term information technology security program.

---

## Results of the Audit of the United States Nuclear Regulatory Commission's Financial Statements for Fiscal Years 2012 and 2011

### *OIG Strategic Goal: Corporate Management*

The Chief Financial Officers Act of 1990, as amended, requires the Inspector General or an independent external auditor, as determined by the IG, to annually audit NRC's financial statements to determine whether the agency's financial statements are free of material misstatement. The audit for Fiscal Years 2012 and 2011, conducted by Clifton Gunderson, LLP, under a contract with OIG, included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also included assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

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

### *Audit Results:*

#### **Financial Statements**

The auditors expressed an unqualified opinion on the agency's FY 2012 financial statements.

#### **Internal Controls**

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

#### **Compliance with Laws and Regulations**

The auditors found no reportable instances of noncompliance/no substantial noncompliance.

*(Addresses Management and Performance Challenge #6)*

---

## Information Security Risk Evaluations of Region I (King of Prussia, PA), Region IV (Arlington, TX), and the Technical Training Center (Chattanooga, TN)

### *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 are the agency's front line in carrying out its mission and implementing established agency policies and programs nationwide. NRC's Region I office oversees regulatory activities in the northeastern United States and is located in King of Prussia, Pennsylvania. NRC's Region IV office oversees regulatory activities in the western and southern midwestern United States and is located in Arlington, Texas. In addition, NRC's Technical Training Center (TTC) provides training for NRC staff in various technical disciplines associated with the regulation of nuclear materials and facilities. Located in Chattanooga, Tennessee, the TTC is part of NRC's Office of the Chief Human Capital Officer.

OMB Circular A-130, *Management of Federal Information Resources*, Appendix III, *Security of Federal Automated Information Resources*, requires agencies to implement and maintain an 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 providing support for a viable IT security program.

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

- Perform independent information security risk evaluations of the NRC IT security program, policies, and practices as implemented at Region I, Region IV, and TTC.
- Evaluate the effectiveness of agency security control techniques as implemented at Region I, Region IV, and TTC.

### *Evaluation Results:*

Region I, Region IV, and TTC have made improvements in their 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, their IT security programs and practices are not always consistent with NRC's IT security program, as summarized below.

***Region I IT Security Program.*** Some NRC-owned laptops do not have a current authority to operate. As a result, Region I is not fully compliant with NRC requirements for laptop systems. 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 IV Continuity of Operations and Recovery.*** Backup procedures are inadequate. Specifically, backup procedures are not maintained and kept up-to-date and backups of NRC-managed servers are not sent to an offsite storage location. As a result, Region IV may not have reliable IT system backup information available if there is a need for system or file recovery.

***Region IV IT Security Program.*** Some NRC-owned laptops do not have a current authority to operate. As a result, Region IV is not fully compliant with NRC requirements for laptop systems. The Region IV physical security plan is not 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.

***TTC IT Security Program.*** Some NRC-owned laptops do not have a current authority to operate. As a result, the TTC is not fully compliant with NRC requirements for laptop systems.

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

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

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

On January 21, 2009, President Obama issued a memorandum to the heads of executive agencies that outlined guidance for use of social media to promote greater openness in Government. In January 2011, NRC launched its first official social media site with the release of the NRC blog. The timing of the blog launch proved fortuitous as 3 months later, the Fukushima Daiichi nuclear accident in Japan occurred and NRC realized the benefits of social media for increasing the speed and reach of information dissemination. In the month following the accident, the blog attracted 41,561 views. This remains the highest trafficked period across any NRC social media platform to date.

NRC followed the launch of its blog with the launch of a Twitter account (August 2011), YouTube channel (September 2011), and Flickr presence (January 2012). These four official channels served as the basis for this evaluation.

The objective of this evaluation was 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.

### Evaluation Results:

Over the past 2 years, NRC has made significant progress with its social media program. This is particularly noteworthy considering the limited resources it has dedicated to the effort. It is compliant with Federal social media policies and regulations, it has developed a strategy and published guidance, and it has established and trained a cadre of bloggers from across the agency.

The agency has also been very active in generating frequent and informative content across its four official social media platforms and has promoted these sites internally through brown bag lunches and postcards as well as externally through the NRC Web site and at NRC meetings and events. Furthermore, NRC has generated respectable subscription and viewership rates across its social media channels, especially for a small Federal agency with a niche stakeholder community.

	Blog	Twitter	YouTube	Flickr
<b>Activity</b>	238 posts	603 tweets	55 videos	1060 images
<b>Views</b>	238,067 views since launch 76,016 views in 2012	n/a	18,390 views (350-400 daily average)	90,206 views
<b>Comments</b>	1,350 approved comments	(not applicable)	(directed to blog)	(directed to blog)
<b>Shares</b>	1,054 total shares Average comment rate per post: less than 10 Average post likes: less than 5 Average Facebook shares: less than 5 Average Twitter retweets: less than 5 Blog content is shared primarily via: Facebook: 479 Twitter: 376	135 retweets	2-3 embeds in Facebook and other personal sites on average for most videos	(not applicable)
<b>Followers</b>	643 Followers	2,430 Followers	189 Subscribers	(not applicable)
<b>Following</b>	0	0	0	0

Source: NRC

### As a result of these efforts, NRC has met most of its stated social media objectives including:

- Increasing the distribution speed of agency content.
- Applying NRC branding to social media tools and services.
- Establishing new information distribution channels.
- Enhancing access to agency content through multiple channels.

However, consistent with the fact that NRC is still in its early stages with its social media program, there remain areas where the agency can enhance its efficiency and effectiveness.

### These areas include:

- Integrating social media into existing policies, training, and practices.
- Implementing more social media specific security, training, and awareness safeguards.
- Establishing a more prominent voice in the digital realm.
- Maximizing the potential of social media to enhance interaction with agency stakeholders and engage them in a dialogue on nuclear issues.

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

---

# Audit of NRC’s Progress in Carrying Out the “25 Point Implementation Plan to Reform Federal Information Technology Management”

## *OIG Strategic Goal: Corporate Management*



*New Data Center  
Construction in Progress.  
Source: NRC*

NRC invests in a broad range of IT products and services to perform its mission. Some IT investments support business activities such as financial, administrative, and human resource management. Others support core regulatory activities related to nuclear security, reactor safety, and nuclear materials and waste safety. In addition, investments such as IT security and infrastructure services support activities across NRC’s organizational lines. Despite rapidly changing IT security threats and increased reliance on IT to accomplish the agency’s mission, NRC faces the Governmentwide challenge of declining

budgets. For example, NRC spent \$164.7 million on IT in FY 2011, but has budgeted \$151.4 million for IT in FY 2013—a decline of approximately 8 percent.

In December 2010, the Federal Chief Information Officer (CIO), a representative of the Office of Management and Budget (OMB), promulgated the “25 Point Implementation Plan to Reform Federal Information Technology Management” (25-Point Plan). The 25-Point Plan tasked agencies, including NRC, with undertaking specific management reforms and policy changes within 6-, 12-, and 18-month timeframes. NRC—by itself or in conjunction with other Federal agencies and OMB—was responsible for carrying out 10 action items.<sup>4</sup>

The audit objective was to evaluate NRC’s progress in carrying out the 25 Point Plan.

### *Audit Results:*

Auditors determined that NRC met its obligations for the 10 action items for which it was responsible, and developed the following findings to improve the agency’s IT management in areas related to action items on Investment Review Boards, IT acquisition cadres, and data center consolidation.

---

<sup>4</sup> The 10 action items were (1) Complete detailed implementation plans to consolidate 800 data centers by 2015, (2) Shift to a “Cloud First” policy, (3) Scale IT program management career path, (4) Design and develop a cadre of specialized IT acquisition professionals, (5) Work with Congress to create IT budget models that align with modular development, (6) Work with Congress to scale flexible IT budget models more broadly, (7) Work with Congress to consolidate commodity IT spending under the agency CIO, (8) Reform and strengthen Investment Review Boards, (9) Redefine the role of agency CIO and the Federal CIO Council, and (10) Roll out the “TechStat” model at the bureau level.

---

## **NRC Does Not Review Performance of Non-Major IT Investments, as Defined by OMB**

OMB has directed Federal agencies to apply the TechStat<sup>5</sup> model to review performance of IT investments. NRC has implemented TechStat, but uses it only to review major IT investments as defined by OMB. NRC considers nine of its IT systems as major investments, and these investments account for approximately 72 percent of NRC's estimated \$151.4 million FY 2013 IT budget. Subsequently, 23 non-major investments, which account for approximately 28 percent of the agency's spending, are not included in the agency's TechStat reviews. NRC has not applied the model to non-major IT investments, having focused instead on the major IT investments, which are fewer in number and higher in total value than non-major IT investments. Without reviewing non-major IT investments, NRC may miss opportunities to improve performance and cost-effectiveness of these investments.

## **NRC Has Specialized IT Acquisition Professionals, but Has Not Institutionalized Current Training and Retention Best Practices**

OMB has directed Federal agencies to design and develop a cadre of specialized IT acquisition professionals by providing specific training, on-the-job experience, and mentoring. Although NRC has a branch of IT acquisition specialists who are encouraged to pursue training in this field, NRC has not institutionalized current training and retention best practices for these staff. This occurs because NRC's 2012 acquisition human capital plan<sup>6</sup> did not include details about staff training. Without institutionalized best practices, NRC faces challenges in training and retaining specialized IT acquisition professionals.

## **NRC Does Not Include All Data Centers in Consolidation Plans**

Federal agencies are required to inventory their data center assets and develop data center consolidation plans. However, NRC has limited its data center count to three headquarters facilities, excluding data centers in its regional offices and TTC. This has occurred because OMB has promulgated different definitions of "data center," and NRC has interpreted OMB guidance to exclude regional data centers. Without a complete data center count, NRC may miss opportunities to identify potential cost savings that could be realized through expanding its data center consolidation efforts.

---

<sup>5</sup> "TechStat" reviews are evidence-based evaluations designed to identify IT program weaknesses and develop plans for improvement. TechStat reviews can also help identify failed IT programs for early termination.

<sup>6</sup> Each Federal agency covered by the Chief Financial Officers Act is required to develop an annual Acquisition Human Capital Plan as a means to improve the strategic management of the agency's acquisition workforce. A template developed by OMB's Office of Federal Procurement Policy and the Federal Acquisition Institute is used to gather information about each agency's acquisition workforce.

---

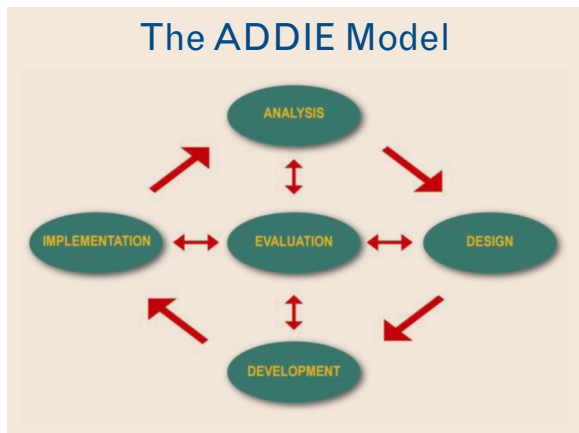
## NRC Should Perform Alternatives Analysis for the Excess Capacity in the New Data Center

The Three White Flint North data center was built with spare capacity that may not be used. The new data center was built with infrastructure to accommodate up to 184 server racks if needed, which includes additional electrical and cooling systems. NRC currently plans to use 90 server racks, and is considering alternatives to in-house data hosting that would eliminate the need to nearly double its physical server count. Emerging budget and space usage constraints bear heavily on NRC's data center consolidation plans, so careful analysis of alternatives to in-house data hosting will be particularly important in adopting the most cost-effective solution to NRC's data center needs.

*(Addresses Management and Performance Challenge #5)*

## Audit of NRC's Safety Training and Development for Technical Staff

*OIG Strategic Goal: Corporate Management*



Source: NRC

NRC licenses individuals and organizations to use radioactive materials and strives to ensure that licensees perform at acceptable safety levels. NRC's workforce is responsible for overseeing licensee performance and needs to be properly trained to carry out this important safety function.

NRC's *Training and Development Strategic Plan* states that the agency conducts training programs in accordance with the five elements of the systems approach to training (Analysis, Design, Development, Implementation, and Evaluation). The systems approach model, known as ADDIE, is commonly used by many training organizations. The ADDIE model describes a structured methodology to help ensure that training investments achieve desired performance outcomes. Well-designed training and development programs are linked to goals and to the skills and competencies needed for effective job performance. Identifying training program needs is the first step to planning and implementing an effective training program.

The Office of Personnel Management provides direction and guidance on identifying training needs through training assessments. A training needs assessment is the process of identifying the "gap" between performance required and current performance. An Occupational Training Needs Assessment examines the skills, knowledge, and abilities required for affected occupational groups. Occupational assessments identify how and which occupational gaps exist. The assessment also examines new ways to perform work that can eliminate the gaps.



---

The audit objective was to determine if NRC's process for identifying safety training needs efficiently and effectively prepares staff to perform oversight activities to assure protection of public health and safety and the environment.

*Audit Results:*

NRC rarely conducts occupational training needs assessments for staff positions responsible for performing safety oversight activities, and the existing needs assessments are not formally reviewed on a defined basis.

Federal regulations require occupational training needs assessments; however, the agency does not have defined procedures identifying when and how to perform new or review existing occupational training needs assessments. Instead of performing these required assessments, Office of the Chief Human Capital Officer (OCHCO) managers identify training needs through dialogue with NRC program office management and staff. OCHCO responds to training requests from program offices, rather than systematically performing training needs assessments to identify the gaps between required and current performance. By not conducting occupational needs assessments, NRC risks not identifying gaps in knowledge, skills, and abilities and is unable to fully assure that its overall training process efficiently and effectively prepares staff to perform safety oversight activities.

*(Addresses Management and Performance Challenge #7)*

## 2012 NRC Safety Culture and Climate Survey

*OIG Strategic Goal: Corporate Management*

OIG engaged an independent contractor, Towers Watson, to conduct a fifth, periodic survey of NRC's workforce to assess the agency's safety culture and climate. A clear understanding of NRC's current safety culture and climate facilitates 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, loss of valuable experience from retirements, operating under continuing resolutions, smaller budgets, and legislation that froze Federal civilian employee pay rates. The survey was administered from September 4 – September 28, 2012. Of 3,755 NRC full and part-time agency employees, 2,981 completed the survey, for an overall return rate of 79 percent.

The survey objectives were 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, comparative data against other organizations for the qualitative and quantitative findings.

---

### *Survey Results:*

While the 2012 NRC data continues to be more favorable than industry and national norms, the overall trend is for less favorable results relative to the 2009 survey.

#### **Overall Strengths To Maintain**

- **Workload and Support** – Sufficient staff to handle the workload and information needed to do my job.
- **Training** – Many feel training prepared them for their work and they have sufficient knowledge of safety concepts.
- **Communication** – Most understand how goals/objectives of their work fit into NRC's future, and understand objectives of NRC overall. Despite the strength in communication overall, the survey reinforces a key point raised in 19 focus group meetings held before the survey was administered: the need to improve communication of why decisions were made.

#### **Overall Opportunities for Improvement**

- **DPO/Non-Concurrence** – NRC is losing significant ground on negative reactions when raising views different from senior management, supervisor, and peers.
- **Management** – NRC is well below external benchmarks on recognizing and respecting value of human differences.
- **Development** – Significant declines in recruiting/retaining the right people and developing people to their full potential.
- **Performance Management** – Low and losing ground for effectiveness of performance reviews.
- **Image** – NRC has been aligned to the benchmarks in the past, but is now below all three external benchmarks.
- **Senior Management** – Less than half of respondents feel action has been taken since the last survey—as many are neutral—which provides a good opportunity for improvement.
- **Quality Focus** – There is a clear opportunity to impact the perception that people sacrifice quality in order to meet metrics.

Results-to-Action workshops were held the week of January 8, 2013. The workshops were designed to help agency managers analyze the survey results for their individual organizations and develop appropriate action plans aimed at improving NRC's safety culture and climate.

*(Addresses Management and Performance Challenge #7)*

---

## 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 of 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 managers must ensure that public funds are used only for authorized purposes, and that the funds are 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 (such as 4.2, *Administrative Control of Funds*); 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)*

### Audit of NRC's Travel Charge Card Program

#### *OIG Strategic Goal: Corporate 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 intent of the program is to improve convenience for the traveler and to 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 account.

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 standards.

The audit objective is to assess whether NRC's policies and procedures are effective in preventing and detecting travel charge card misuse and delinquencies.

*(Addresses Management and Performance Challenge #6)*

## Audit of NRC's FY 2013 Financial Statements

### *OIG Strategic Goal: Corporate Management*

Under the Chief Financial Officers Act and the Government Management and Reform Act, the OIG is required to audit the financial statements of the NRC. OIG will measure the agency's improvements by assessing corrective action taken on prior audit findings. The report on the audit of the agency's financial statements is due on November 15, 2013. In addition, the OIG will issue reports on:

- Special Purpose Financial Statements.
- Implementation of the Federal Managers' Financial Integrity Act.
- Summary of Performance and Financial Information.
- Agency compliance with the Improper Payments Elimination and Recovery Act of 2010.

#### **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 Office of Management and Budget 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)*

---

## 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 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 areas of nuclear plant licensing 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 Challenge #3)*

## Audit of NRC's Compliance with 10 CFR 51 Relative to Environmental Impact Statements

### *OIG Strategic Goal: Safety*

NEPA directs that before Federal agencies make decisions, they must consider the effects of their actions on the quality of the human environment. Section 102(2) of NEPA requires that for a major Federal action significantly affecting the quality of the human environment, Federal agencies must prepare an EIS, which is a detailed statement on environmental impacts and effects and provides alternatives to the action, and irreversible commitments of resources involved in the action.

10 CFR Part 51 contains NRC's regulations that implement section 102(2) of NEPA. In Part 51, NRC has identified a number of licensing actions that require the preparation of an EIS, including issuance of a permit to construct a nuclear power reactor, a uranium recovery facility, or a fuel-cycle facility. Part 51 sets forth regulations regarding the EIS process, including the stages of the process, public involvement, contents of the EIS, and publication of the EIS.

---

The audit objective is to determine whether NRC complies with the regulations in 10 CFR Part 51, relative to the preparation of Environmental Impact Statements.

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

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

### *OIG Strategic Goal: Corporate Management*

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 minimum NRC security requirements cover the security-related areas for protecting the confidentiality, integrity, and availability of Federal information systems and the information processed, stored, and transmitted by those systems. Starting on October 1, 2011, the Office of Information Services became the system owner for SLES and assumed operations and maintenance responsibility for the system.

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

*(Addresses Management and Performance Challenge #5)*

---

## Audit of NRC's Oversight of Equipment Aging

### *OIG Strategic Goal: Safety*

The U.S. fleet of commercial nuclear power plants is aging, with an average age of more than 29 years. Additionally, approximately 90 percent of the 104 currently operating plants have either received, are awaiting approval for, or intend to seek a 20-year license extension. This presents emergent challenges as previously unseen equipment failures occur. Aging failures can affect major components such as unit transformers, reactor coolant/recirculation pumps, and other large motors, and present material challenges, such as the alloy 600 issue, and related equipment degradation. Failures of these components can result in plant transients and degraded safety equipment, both affecting nuclear safety.

The audit objective is to determine if NRC is providing effective oversight of industry's aging component programs.

*(Addresses Management and Performance Challenge #3)*

## Audit of NRC's Support for Resident Inspectors

### *OIG Strategic Goal: Safety*

The core of the NRC inspection program for nuclear power plants and fuel-cycle facilities is carried out by resident (onsite) inspectors. These inspectors provide an onsite NRC presence for direct observation and verification of licensees' ongoing activities. Generally, the NRC regions manage resident inspector assignments, which include at least two inspectors that are assigned to each site for a period of up to 7 years.

Resident inspector guidance stems from various sources. For example, for operating reactors, Inspection Manual Chapter 1202, *Senior Resident and Resident Inspector Site Turnover*, provides guidelines to ensure that resident inspectors new to a site have the necessary knowledge and site familiarity to successfully implement the reactor oversight process (including allegations and enforcement) and emergency response duties.

During the course of their assignment, the resident inspectors variously also require additional types of support for such areas as telecommunications, human resources, technical review, and legal counsel. Furthermore, the ability to communicate effectively and efficiently with the regional offices, NRC headquarters, and other resident inspectors is vitally important to their ability to meet the expectations of NRC management and the public.

The audit objectives are to evaluate the effectiveness of NRC support provided to the resident inspectors at nuclear power plants, fuel-cycle facilities, and construction sites.

*(Addresses Management and Performance Challenge #3)*

---

## Audit of NRC's Implementation of the Reducing Over-Classification Act

### *OIG Strategic Goal: Security*

According to the President, protecting national security information and demonstrating our commitment to open Government through the proper application of classification standards are equally important and compatible priorities.

The 9/11 Commission concluded that over-classification and inadequate information sharing contributed to the Government's failure to prevent the attacks of 9/11. As Commissioner Richard Ben-Veniste testified before Congress in 2005:

The Commission found, however, that the failure to share information was the single most important reason why the United States government failed to detect and disrupt the 9/11 plot. ... Information has to flow more freely. Much more information needs to be declassified. A great deal of information should never be classified at all.

The Reducing Over-Classification Act (H.R. 553) takes specific action to implement these lessons by establishing procedures to promote information sharing with State, local, tribal, and private sector entities, and by providing training and incentives to promote accurate classification of information by Federal employees.

Section 6 of H.R. 553 directs Federal IGs, in consultation with the National Archives and Records Administration's Information Security Oversight Office, to assess the effectiveness of agency classification policies through at least two evaluations. The first evaluation is to be completed by September 30, 2013, and the second evaluation is to be completed by September 30, 2016.

The act requires each IG to: (1) submit a report on each evaluation to specified congressional committees, the agency head, and the Director of the Information Security Oversight Office, and (2) coordinate with other IGs and with the Information Security Oversight Office to ensure that evaluations follow a consistent methodology that allows for cross-agency comparisons.

The audit objectives are to (1) assess whether applicable classification policies, procedures, rules, and regulations have been adopted, followed, and effectively administered and (2) identify policies, procedures, rules, regulations, or management practices that may be contributing to persistent misclassification of material.

*(Addresses Management and Performance Challenge #2)*



---

## Audit of NRC's Process for Assessing Eligibility for Continued Access Authorization

### *OIG Strategic Goal: Security*

MD 12.3, NRC *Personnel Security Program*, establishes a personnel security program to ensure that determinations are made in accordance with pertinent laws, executive orders, management directives, and applicable directives of other Federal agencies for an NRC access authorization. MD 12.3 gives managers the responsibility to report any situation that could impact an employee's trustworthiness. Further, the MD outlines the individual employee's responsibility to report information about situations that arise between reinvestigations.

The audit objective is to determine if NRC has processes in place to ensure that individuals comply with personnel reporting responsibilities for continued access authorization eligibility.

*(Addresses Management and Performance Challenge #2)*

## Audit of NRC's Information Technology Governance

### *OIG Strategic Goal: Corporate Management*

IT governance pertains to stewardship of IT resources in order to most efficiently and effectively attain agency vision, mission, goals, and objectives.

NRC has two IT governance boards – the Information Technology/Information Management Board (ITB) and the Information Technology/Information Management Portfolio Executive Council (IPEC). The ITB is a review body created to make recommendations on the agency's IT architecture, perform portfolio analyses, and review technologies and standards. The IPEC is an executive management body established to provide strategic direction and to set fiscal year priorities, among other things. NRC also performs other types of management control activities that are overseen by these governance boards.

The audit objective is to assess the effectiveness of NRC's current IT governance in meeting the agency's current and future IT needs.

*(Addresses Management and Performance Challenge #5)*

---

## Audit of NRC's Use of the NEWFlex Program

### *OIG Strategic Goal: Corporate Management*

Federal agencies must determine (1) whether to establish alternative work schedule programs, (2) how to administer the programs efficiently, (3) how to comply with the spirit of the President's memoranda of July 11, 1994, and June 21, 1996, on providing family-friendly work arrangements, and (4) how to ensure that the programs do not cause an adverse agency impact. Agencies wishing to establish flexible or compressed work schedules permitted under 5 U.S.C. 6122 and 5 U.S.C. 6127 do not need Office of Personnel Management approval.

NRC established a program named NEWFlex that offers expanded work schedule and additional credit hour options to help employees balance their work/life activities while at the same time assuring that each NRC office is able to execute its mission. This program is available to almost all NRC staff. NEWFlex is optional to employees, and the schedule is subject to supervisory approval. The program offers a flexible (variable) schedule that includes, but is not limited to, an extension of hours, schedules that can vary day-to-day, and core hours. NEWFlex also applies to employees while working at home, and supports the agency's telework initiative.

The audit objectives are to assess (1) NRC's adherence to applicable laws and regulations (2) the adequacy of NRC's internal controls associated with the program and (3) whether the program adequately addresses unique situations such as drug testing, official travel, and other events.

*(Addresses Management and Performance Challenge #6)*

## Audit of NRC's Process for Addressing Bankruptcy of Materials Licensees

### *OIG Strategic Goal: Safety*

A materials licensee's financial condition could affect its ability to control licensed material. Provisions of the Atomic Energy Act and 10 CFR regulations require that NRC licensees notify NRC in the case of bankruptcy. These provisions are in place to assure that appropriate measures to protect the public health and safety have been or will be taken. These measures include:

- Maintaining security of licensed material and contaminated facilities.
- Assuring that licensed material is transferred only to properly authorized NRC or Agreement State licensees.
- Assuring that properly trained and experienced personnel are retained to implement appropriate radiation safety measures.

---

NRC's Bankruptcy Review Team was formed to review and act on bankruptcy notifications as they occur. The team is expected to assess the current public health and safety condition at the licensee's facility and any impacts that bankruptcy could have on licensed operations. NRC staff are then required to address any concerns identified.

The audit objective is to determine if NRC assures that appropriate measures to protect the public health and safety have been or will be taken during bankruptcies involving byproduct, source, or special nuclear materials licensees.

*(Addresses Management and Performance Challenge #3)*

---

# Investigations

*During this reporting period, OIG received 108 allegations, initiated 26 investigations, and closed 24 cases. In addition, the OIG made 11 referrals to NRC management and 9 to the Department of Justice.*

## Investigative Case Summaries

### Potential Mischaracterization of Colorado Department of Public Health and the Environment Positions by NRC

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

OIG conducted an investigation into an allegation that the NRC Office of Federal and State Materials and Environmental Programs (FSME) had, in official correspondence, materially mischaracterized positions taken by the Colorado Department of Public Health and the Environment (CDPHE), the State level nuclear regulator in the NRC Agreement State<sup>7</sup> of Colorado. According to the allegation, the FSME correspondence implied that CDPHE and/or the NRC had determined that “corrective action” was required regarding CDPHE’s implementation of the Atomic Energy Act of 1954, relating to the regulation of uranium mills.

The FSME correspondence at issue was distributed to the media and allegedly had the potential to interfere with ongoing litigation in Colorado State court regarding the recently licensed Piñon Ridge uranium mill.

OIG learned that FSME sent out two letters referencing the January 2011 CDPHE issuance of a new license for the construction and operation of the Piñon Ridge uranium mill. The first letter, sent February 27, 2012, was to CDPHE, and requested CDPHE assistance in “addressing an inquiry” into “concerns” about the sufficiency of public notice, public comment, and public hearing opportunities that CDPHE provided regarding this licensing action. It also indicated that CDPHE staff had “proposed... corrective actions,” including modification of a State regulation and the conduct of a public hearing regarding the Piñon Ridge license. The second letter, sent March 6, 2012, was to a local environmental activist, and referenced the February 27 letter, which was included as an enclosure and presented to the environmental activist to illustrate NRC’s responsiveness to his concerns. This letter was then referenced in a local news story on March 13, 2012, that negatively characterized CDPHE and its handling of the Piñon Ridge matter.

On March 16, 2012, CDPHE responded to both FSME letters and stated that the communication of FSME concerns about CDPHE to third parties prior to obtaining any CDPHE response to those concerns was not appropriate. CDPHE further stated that FSME’s March letter to the environmental activist contradicted the

---

<sup>7</sup> *Agreement States, through agreements with the NRC, have assumed regulatory authority over radioactive materials, and can issue licenses for the use of nuclear materials in certain medical and industrial applications. six Agreement States, including Colorado, can license uranium mills.*

---

February letter to CDPHE in that the letter to CDPHE requested a response from CDPHE within 30 days, yet the letter to the environmental activist did not treat the issues as unresolved inquiries pending CDPHE response, but rather as “concluded.”

A FSME manager told OIG that FSME had taken the position that the public meeting held by CDPHE prior to the issuance of the Piñon Ridge license did not constitute a sufficient public hearing under Colorado law and regulation. This view was supported by the NRC Office of the General Counsel and was presented to CDPHE in October 2011. The FSME manager acknowledged that the February 27 and March 6 letters should have been handled differently, either by (1) delaying the March 6 letter until CDPHE had the opportunity to address the issue and respond to FSME, or (2) by informing CDPHE in advance that the hearing issue was an area of concern and the subject of inquiries from third parties, or through both courses of action.

OIG found that while the two FSME letters incorrectly implied that FSME had drawn conclusions about the adequacy of CDPHE’s compliance with its legal requirements, FSME subsequently provided clarifying correspondence to address the concerns of CDPHE officials on April 4, 2012. During FSME officials’ followup with CDPHE officials, the CDPHE officials expressed satisfaction with the FSME response.

The Piñon Ridge litigation was subsequently resolved, whereby CDPHE would convene an additional public hearing on the licensing action. Hearings were conducted in November 2012. The final state licensing decision is expected at the end of April 2013.

*(Addresses Management and Performance Challenge #3)*

## NRC OI Investigation Allegedly Did Not Address Concerns Raised at San Onofre Nuclear Generating Station

### *OIG Strategic Goal: Corporate Management*

OIG initiated this investigation based on a letter to the office of U.S. Representative Darrell Issa (R-CA) from a former San Onofre Nuclear Generating Station (SONGS) employee who alleged that the NRC Office of Investigations (OI) did not address his retaliation concern. According to the allegor, SONGS management lowered his performance appraisal because he refused to alter internal industry reports.

OIG learned that the former SONGS employee’s allegation, regarding cause evaluations and nuclear notifications, was received and assessed by staff of the NRC Region IV Allegation Review Board, which reviews all allegations received by the NRC region. As a result of the review, OI opened an investigation concerning the retaliation complaint by the former employee against SONGS.

---

OIG compared OI's investigative case file and report against the alleged retaliation outlined in the former SONGS employee's letter to Representative Issa and concluded that OI addressed the former SONGS employee's issues during its investigation by interviewing relevant personnel, reviewing relevant documents, and giving the former SONGS employee an opportunity to present specific concerns about his allegation. OIG learned that SONGS conducted an independent review of the former employee's performance appraisal and found that the former SONGS employee's lowered appraisal was unwarranted but not intentional. As a result, SONGS management corrected the error and the former SONGS employee was compensated with backdated compensation that had been lost due to the error. OI did not substantiate that SONGS retaliated against the former SONGS employee for raising safety concerns.

OIG interviewed the former SONGS employee, who admitted that he was not aware of the full details of the OI investigation. The former SONGS employee told OIG that his letter to Representative Issa's office was based on the NRC closure letter and not a review of OI's report of investigation. The former SONGS employee stated that he was unaware that the letter was a synopsis of the overall NRC findings and only presented a brief summary of the OI investigation.

*(Addresses Management and Performance Challenge #3)*

## Fraud by NRC Contractor

### *OIG Strategic Goal: Corporate Management*

OIG conducted an investigation into an allegation that a major U.S. university performing contract work for NRC improperly billed NRC, through the professor serving as Principal Investigator (PI) for the contract, for work under the contract and failed to provide adequate deliverables and a final deliverable. OIG initiated this proactive review based on reports that the PI was under Federal investigation for submitting fraudulent contract proposals, theft of Federal funds, and money laundering in connection with the PI's research activities outside of the university.

OIG learned that NRC had awarded the university a contract to research local heat transfer phenomena in a reactor cavity cooling system for the period August 2007 through February 2009, and the professor under Federal investigation for other matters was listed as the PI on the contract. The contract had five tasks, four of which required deliverables in the form of reports. The fifth task was to provide technical support to the NRC. OIG learned that NRC spent nearly \$279,000 on the contract, but that the staff felt the deliverables were not acceptable and did not meet contract requirements, and that the final deliverable was never received.

---

OIG found that a university associate research scientist and two other university employees did not perform work on the NRC contract as claimed by the PI and their hours were improperly billed to the NRC contract.

The U.S. Department of Justice (DOJ) accepted this contract fraud case for civil litigation and, in October 2012, a settlement agreement between DOJ and the university was executed in which the university agreed to pay single damages (\$278,674.03) plus investigative costs (\$192,395.63) for a total \$471,069.66.

*(Addresses Management and Performance Challenge #6)*

## Malicious E-Mail Bearing the Name of the NRC OIG

### *OIG Strategic Goal: Security*

OIG conducted an investigation into an allegation from a private citizen that he received an e-mail from an AOL Inc. e-mail account, nrc.nrc@aol.com, to his personal e-mail account containing a malicious software program (i.e., malware) purporting to be from the NRC OIG.

The e-mail subject line stated that a report from OIG had been completed and was attached to the e-mail. The attachment to the e-mail was in a .zip extension format and was identified by the private citizen's e-mail provider as containing malware. OIG's Cyber Crime Unit (CCU) was unable to obtain a copy of the malware for analysis from the private citizen's e-mail provider because the system identified the attachment as malware and removed it from the e-mail to prevent its further propagation.

OIG found that the perpetrator masked his/her identity by surreptitiously taking control of another entity's computer to launch the e-mail containing malware from the compromised computer while effectively masking their true location and activities. CCU determined that the perpetrator utilized a compromised server in California to access the nrc.nrc@aol.com account. The internet protocol address account information revealed the account belonged to a California medical center; however, the Internet service provider did not maintain any connection logs for the medical center to assist in identifying a possible subject.

*(Addresses Management and Performance Challenge #5)*

---

## Concerns Regarding the NRC’s “Open Door” Policy and Differing Professional Opinion Process

### *OIG Strategic Goal: Safety*

OIG conducted an investigation into an anonymous allegation that questioned NRC’s Open, Collaborative Work Environment (OCWE) and Differing Professional Opinion (DPO) process. The anonymous allegor indicated that the process sounded fair, “but when the rubber meets the road, the programs fall apart.” The allegor did not provide any specific examples to support the allegation. However the allegor wrote that (1) OCWE does not mean management has to listen, but just provides a mechanism for subordinates to say something, and (2) people do not raise concerns due to fear of retribution.

NRC defines OCWE as a work environment that encourages all employees and contractors to promptly raise concerns and differing views without fear of reprisal.

NRC describes the DPO program as a formal process that allows all employees and contractors to have their differing views on established, mission-related issues considered by the highest level managers in their organizations, i.e., office directors and regional administrators. The process also provides managers with an independent, three-person review of the issue (one person chosen by the employee). After a decision is issued to an employee, he or she may appeal the decision to the Executive Director for Operations (EDO) or the Chairman for those offices reporting to the Commission.

OIG learned that a listing and summary of all 21 DPOs that have been received, processed, and completed since the DPO Program was revised in May 2004 is posted on the NRC internal DPO Web site. The Web site reflected the agency has closed nine cases that were submitted in 2005, six submitted in 2006, two submitted in 2008, one submitted in 2009, one submitted in 2010, and two submitted in 2011. OIG reviewed the summaries for the three most recent DPO closures (filed in 2010 and 2011) and noted that in all three cases, the review panel agreed with at least some of the issues raised in the DPOs and made recommendations intended to address these matters. In addition, the cognizant office director agreed with the panel’s conclusions and recommendations.

Due to lack of specific examples in the anonymous allegation, OIG interviewed National Treasury Employees’ Union (NTEU) representatives at NRC and the NRC DPO program manager as to their perceptions of the program. The NTEU representatives were interviewed because they potentially would have knowledge of NRC staff who filed DPOs and perceived retaliation for using the DPO program. None of the NTEU members interviewed could provide specific examples of retaliation by management against a DPO submitter, but they agreed that because there is a perception by NRC staff that filing a DPO leads to retaliation, many staff are unwilling to use the program.



---

The DPO Program Manager was aware of the negative perceptions of the DPO program from employees (including staff and management) who have used the process, employees who have participated in focus groups on internal safety culture and the 2009 Safety Culture Climate Survey (e.g., only 54 percent thought it was effective). These sources identified multiple issues that could result in negative perceptions, including fear of retaliation. The program manager, however, stated that some of the measures that make the program fair and useful are having an independent panel of NRC employees review the issues (one panel member selected by the employee), having the option of appealing the decision to the EDO, and allowing the employee to ask for the discretionary release of the DPO records. The DPO Program Manager stated that NRC Office of Enforcement, which oversees the program, is aware of employee concerns and is taking actions to address these concerns as part of its efforts to revise the DPO Management Directive.

*(Addresses Management and Performance Challenge #3)*

## Alleged Intimidation of an NRC Office Director by an NRC Commissioner

### *OIG Strategic Goal: Corporate Management*

OIG conducted an investigation into an anonymous allegation that an NRC Commissioner raised his voice during a one-on-one interaction with an NRC office director in the director's office, and forcibly shut the director's office door. It was further alleged that the Commissioner attempted to physically intimidate the office director. This incident was allegedly overheard by others on the office director's staff. OIG interviews concerning this allegation disclosed the names of two additional office directors who may have had intimidating interactions with the Commissioner. OIG interviewed the two office directors to determine whether such interactions occurred.

OIG learned in an interview with the first office director that it is routine practice for office directors to have periodic meetings with Commissioners to discuss significant activities within their offices. OIG found that in the instant case, during a periodic meeting in the director's office, the Commissioner raised his voice when questioning the rationale for an activity being carried out by the office. The investigation found that during the discussion, the Commissioner shut the office door in a manner that was described by those nearby as forceful or slamming. The Commissioner explained to the office director that a similar activity was being carried out by another program office and that it was a waste of resources to be duplicating that effort. The office director explained to the Commissioner the reasons for their particular activity and the conversation then moved onto different topics.

Further, during its investigation, OIG did not develop any information to suggest that any direction was provided by the Commissioner to the director or in other

---

higher level management venues to stop or otherwise interfere with the activity at issue. Additionally, OIG interviewed the two other office directors and neither viewed their interactions with the Commissioner to be intimidating.

OIG did not substantiate that the NRC Commissioner engaged in physically or otherwise intimidating behavior toward the office director or two other office directors identified during the investigation as possibly having had intimidating interactions with the Commissioner.

*(Addresses Management and Performance Challenge #7)*

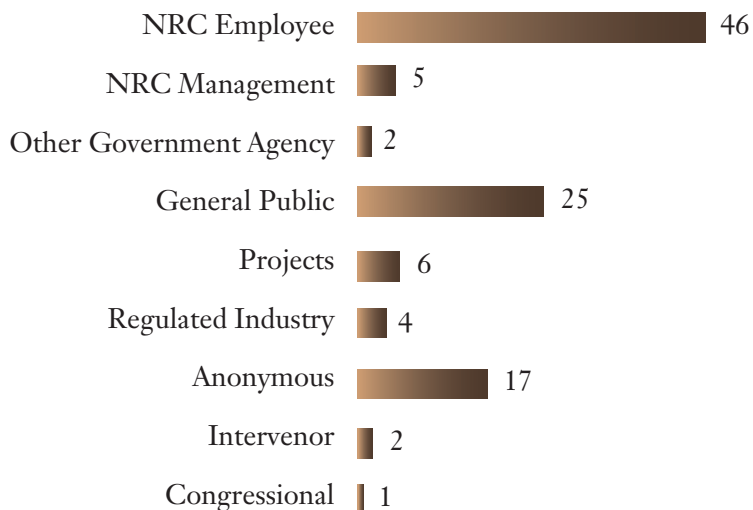
---

# Summary of OIG Accomplishments

October 1, 2012, through March 31, 2013

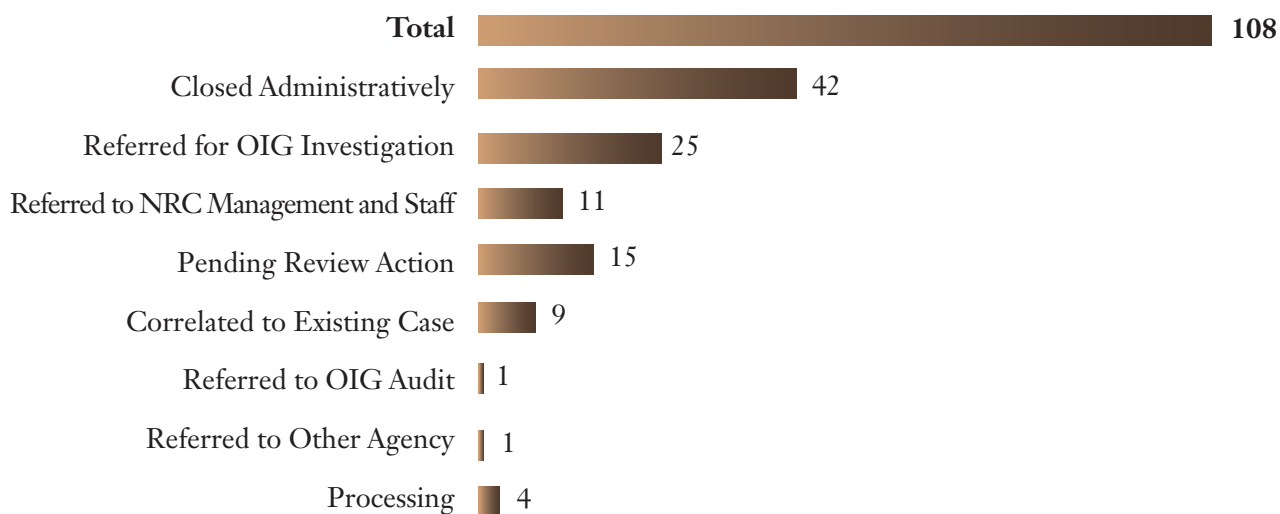
## Investigative Statistics

### Source of Allegations



Allegations resulting from Hotline Program: 58  
**Total: 108**

### Disposition of Allegations



## Status of Investigations

DOJ Acceptance . . . . .	1
DOJ Referrals . . . . .	9
DOJ Pending . . . . .	2
DOJ Declinations . . . . .	6
Criminal Information Pleas . . . . .	5
Civil Recovery (\$471,069.66) . . . . .	1
NRC Administrative Actions:	
Terminations and Resignations . . . . .	1
Suspensions and Demotions. . . . .	2
Counseling . . . . .	0
Recoveries (\$7,514.59) . . . . .	4
Other (Letter of Reprimand) . . . . .	1
State Referrals. . . . .	0
State Pending . . . . .	0
State Accepted. . . . .	0
PFCRA Referral . . . . .	0
PFCRA Acceptance. . . . .	0
PFCRA Recovery. . . . .	0
PFCRA Pending . . . . .	2

## Summary of Investigations

Classification of Investigations	Carryover	Opened Cases	Closed Cases	Cases in Progress
Employee Misconduct	24	12	9	27
Event Inquiry	2	0	0	2
External Fraud	6	1	1	6
False Statements	5	0	1	4
Management Misconduct	12	7	7	12
Miscellaneous	5	0	2	3
Proactive Initiatives	8	3	1	10
Technical Allegations	6	2	3	5
Theft	1	0	0	1
Whistleblower Reprisal	0	1	0	1
<b>Grand Total</b>	<b>69</b>	<b>26</b>	<b>24</b>	<b>71</b>

---

## Audit Listings

Date	Title	Audit Number
10/01/2012	Inspector General's Assessment of the Most Serious Management Challenges Facing the NRC	13-A-01
10/24/2012	Audit of NRC's Process for Calculating License Fees	13-A-02
11/08/2012	Independent Evaluation of NRC's Implementation of the Federal Information Security Management Act (FISMA) for Fiscal Year 2012	13-A-03
11/14/2012	Results of the Audit of the United States Nuclear Regulatory Commission's Financial Statements for Fiscal Years 2012 and 2011	13-A-04
11/16/2012	Independent Auditors' Report on the U.S. Nuclear Regulatory Commission's Special-Purpose Financial Statements as of September 30, 2012 and 2011, and for the Years then Ended	13-A-05
12/20/2012	Information Security Risk Evaluation of Region I – King of Prussia, PA	13-A-06
12/20/2012	Information Security Risk Evaluation of Region IV – Arlington, TX	13-A-07
01/23/2013	Independent Evaluation of NRC's Use and Security of Social Media	13-A-08
01/23/2013	Audit of NRC's Progress in Carrying Out the "25 Point Implementation Plan to Reform Federal Information Technology Management"	13-A-09
01/30/2013	Review of NRC's Implementation of the Federal Managers Financial Integrity Act for Fiscal Year 2012	13-A-10
01/30/2012	Information Security Risk Evaluation of NRC's Technical Training Center – Chattanooga, TN	13-A-11
02/08/2013	Independent Auditors' Report on the Condensed Financial Statements	13-A-12
02/26/2013	Audit of NRC's Fiscal Year 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010	13-A-13
03/14/2013	Audit of NRC's Safety Training and Development for Technical Staff	13-A-14
03/29/2013	2012 NRC Safety Culture and Climate Survey	13-A-15

---

## Contract Audit Reports

OIG Issued Date	Contractor/Title/ Contract Number	Questioned Costs	Unsupported Costs
10/23/2012	<b>Southwest Research, Inc.</b> Audit Report on Southwest Research, Inc.'s Actions to Correct Deficiencies Related to Compliance with DFARS 242.242-7006(c)(8) NRC-02-06-018 NRC-02-06-021 NRC-41-09-011 NRC-03-09-070 NRC-03-10-066 NRC-03-10-070 NRC-03-10-081 NRC-04-10-144 NRC-HQ-11-C-03-0047 NRC-HQ-11-C-03-0058	0	0
10/23/2012	<b>Safeware Engineering Corporation</b> Independent Audit of Safeware Engineering Corporation Preaward Accounting System Survey NRC-HQ-12-C-04-0100	0	0
03/18/2013	<b>Safeware Engineering Corporation</b> Independent Audit of Safeware Engineering Corporation's Accounting System Design Audit Follow Up NRC-HQ-12-C-04-0100	0	0

# Audit Resolution Activities

## TABLE I

### OIG Reports Containing Questioned Costs<sup>8</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	1	\$540,637	0
B. Which were issued during the reporting period	0	0	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

<sup>8</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.

## TABLE II

### OIG Reports Issued with Recommendations That Funds Be Put to Better Use<sup>9</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	0	0
C. For which a management decision was made during the reporting period:		
(i) dollar value of recommendations that were agreed to by management	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision had been made by the end of the reporting period	0	0

<sup>9</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.



---

## 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  <b>Recommendation 1:</b> Conduct periodic inspections to verify that material licensees comply with material control and accountability (MC&A) requirements, including, but not limited to, visual inspections of licensees' special nuclear material (SNM) inventories and validation of reported information.  <b>Recommendation 3:</b> Develop and implement a quality assurance process that ensures that collected enforcement data is accurate and complete.	OIG-03-A-15

---

## TABLE IV

### Summary of Audit Reports Without Management Decision for More Than Six Months

Date	Report Title	Number
7/12/2012	<p>Audit of NRC's Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) Process</p> <p><b>Summary:</b> OIG made 10 recommendations to the Executive Director for Operations of which one is unresolved.</p> <p><b>Recommendation 10:</b> Recommended that the Executive Director for Operations develop and implement a change management process to address future change in the ITAAC process that can create barriers to effective communication and coordination.</p> <p><b>Reason Unresolved:</b> NRC staff stated agreement with the recommendation, yet the agency's actions do not meet the intent of OIG's recommendation. Instead, the staff pointed to a September 2010 "Leading Change" training session that introduced Office of New Reactors (NRO) managers to a process focused on eight steps to transformational change. The staff then organized actions that had already been taken during the development and implementation of the ITAAC process under the eight steps in their recommendation followup response to OIG. OIG notes that this is not the same as the development and implementation of a change management process. Moreover, agency staff have not committed to implementing a change management process to address future changes that may impact the ITAAC process, which is the essence of the recommendation. The agency's potential response to any future change would not benefit from NRO having organized past actions for ITAAC implementation into the eight change management steps. As a result, this recommendation remains unresolved. OIG expects to receive an updated response from NRC by August 15, 2013.</p>	OIG-12-A-16

---

# Abbreviations and Acronyms

10 CFR	Title 10, Code of Federal Regulations
ADDIE	Analysis, Design, Development, Implementation, and Evaluation
AOL	AOL Inc.
CCU	Cyber Crime Unit
CDPHE	Colorado Department of Public Health and the Environment
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DOJ	U.S. Department of Justice
DPO	Differing Professional Opinion
EDO	Executive Director for Operations (NRC)
EIS	environmental impact statement
E-Safe	Electronic Safe
FISMA	Federal Information Security Management Act
FSME	Office of Federal and State Materials and Environmental Management Programs (NRC)
FY	fiscal year
IAM	Issue Area Monitor
IG	Inspector General
IPEC	Information Technology/Information Management Portfolio Executive Council
IT	information technology
ITAAC	Inspections, Tests, Analyses, and Acceptance Criteria
ITB	Information Technology/Information Management Board
MC&A	material control and accountability
MD	Management Directive
MML	Master Materials Licenses
NEPA	National Environmental Policy Act of 1969
NRC	U.S. Nuclear Regulatory Commission
NRO	Office of New Reactors (NRC)
NTEU	National Treasury Employees Union
OBRA-90	The Omnibus Budget Reconciliation Act of 1990, as amended
OCHCO	Office of the Chief Human Capital Officer
OI	Office of Investigations
OIG	Office of the Inspector General (NRC)
OMB	Office of Management and Budget
OWCE	Open, Collaborative Work Environment
PI	Principal Investigator
SGI	Safeguards Information
SGI LAN	Safeguards Information Local Area Network
SLES	Safeguards Local Area Network and Electronic Safe
SONGS	San Onofre Nuclear Generating Station
TTC	Technical Training Center
URL	Uniform Resource Locator

---

# 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	12-24, 34-40
Section 5(a)(2)	Recommendations for Corrective Action	12-24
Section 5(a)(3)	Prior Significant Recommendations Not Yet Completed	47
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	42
Section 5(a)(5)	Information or Assistance Refused	None
Section 5(a)(6)	Listing of Audit Reports	43
Section 5(a)(7)	Summary of Significant Reports	12-24, 34-40
Section 5(a)(8)	Audit Reports — Questioned Costs	45
Section 5(a)(9)	Audit Reports — Funds Put to Better Use	46
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

*Sec. 989C. of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203) requires Inspectors General to include the results of any peer review conducted by another Office of Inspector General during the reporting period; or if no peer review was conducted, a statement identifying the date of the last peer review conducted by another Office of Inspector General.*

Section 989C.	Peer Review Information	51
---------------	-------------------------	----

---

# Appendix

## *Peer Review Information*

The OIG Audit and Investigative Programs undergo a peer review every 3 years.

## *Audits*

The NRC OIG Audit Program was peer reviewed most recently by the National Archives and Records Administration Office of Inspector General on September 27, 2012.

## *Investigations*

The NRC OIG Investigative Program was peer reviewed most recently by the U.S. Department of State Office of Inspector General on July 6, 2010.



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

## Ways To Contact the OIG



**Call:**  
**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