



October 1, 2013–March 31, 2014

SEMIANNUAL REPORT TO CONGRESS

OIG VISION

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

OIG MISSION

The NRC OIG's mission is to independently and objectively audit and investigate programs and operations to promote effectiveness and efficiency, and to prevent and detect fraud, waste, and abuse.

COVER PHOTOS:

Top Left: Donald C. Cook Nuclear Power Station.
Photo courtesy of American Electric Power

Top Right: NRC Inspector at Calvert Cliffs Nuclear Power Station.

Bottom Left: NRC Inspector performing a walk-down at Calvert Cliffs Nuclear Power Station.

Bottom Right: Nuclear generator.

Background: Close-up of nuclear construction assembly bolts.

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, 2013, to March 31, 2014.

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

During this reporting period, the NRC OIG continued its focus on critical NRC programs to include the agency's oversight of its reactor inspection program, its process for addressing the bankruptcy of materials licensees, as well as investigating decommissioning activities concerning a nuclear materials disposal site in Pennsylvania. OIG also focused on legislatively mandated work such as the audit of the agency's financial statements and its information security program as well as two agency work/life programs—"Telework" and "NRC Employee Work Schedule Flexibilities."

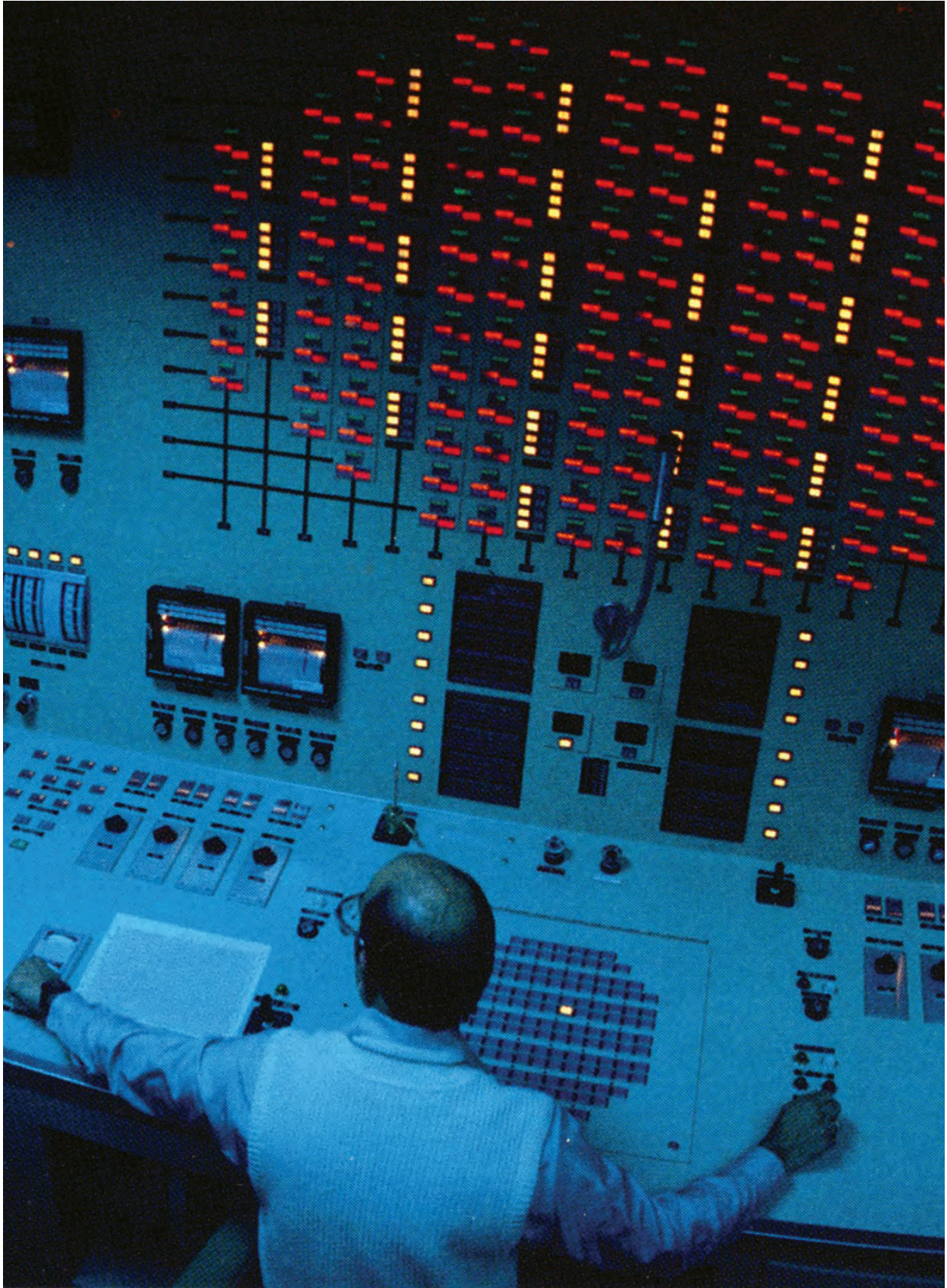
During this semiannual reporting period, we issued 13 audit reports. As a result of this work, OIG made a number of recommendations to improve the effective and efficient operation of NRC's safety, security, and corporate management programs. OIG also opened 9 investigations, and completed 24 cases. Five of the open cases were referred to the Department of Justice, and 15 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. 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 wish to thank them for their dedication and support, and I look forward to their continued cooperation as we work together to ensure the integrity 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



Control panel at a nuclear power station.

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Resident Inspectors perform a walk-down at Calvert Cliffs nuclear power station.

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 U.S. Nuclear Regulatory Commission (NRC) is tasked with examining the regulatory compliance and safety of licensed nuclear facilities. One of the methods that NRC uses to ensure the compliance and safety of nuclear power plants is conducting inspections. The core of the NRC inspection program for nuclear power plants is carried out by Resident Inspectors who provide the major onsite NRC presence for inspection and assessment of licensee performance and conformance with regulatory requirements. The audit objective was to survey the effectiveness of NRC support provided to Resident Inspectors at nuclear power plants, fuel-cycle facilities, and construction sites.
- NRC regulates the civilian use of nuclear materials to protect public health and safety and the environment, and to promote the common defense and security. NRC's regulatory framework applies to domestic licenses for civilian uses of radioactive materials, and these NRC licensees' financial condition (i.e., bankruptcy) could affect the agency's ability to control licensed nuclear materials. Therefore, NRC's primary interest is ensuring that control of nuclear materials is maintained during an NRC licensee's period of bankruptcy. The audit objective was to determine if NRC has reasonable assurance that appropriate measures to protect the public health and safety have been or will be taken during bankruptcies involving materials licensees.
- The National Environmental Policy Act of 1969, as amended (NEPA), established a national policy to encourage productive and enjoyable harmony between man and his environment, promote efforts that will prevent or eliminate damage to the environment and biosphere and stimulate the health and welfare of man, and enrich the understanding of ecological systems and natural resources. NEPA requires Federal agencies, as part of their decisionmaking process, to consider the environmental impacts of actions under their jurisdiction. NEPA is a procedural statute, imposing no substantive requirements on agencies beyond conducting the environmental review. The audit objective was to determine whether NRC implements its environmental review and consultation responsibilities as prescribed by NEPA.
- The U.S. Congress determined "that the use of flexible work schedules has the potential to improve productivity in the Federal Government and provide greater service to the public." NRC has implemented increasingly flexible work schedule initiatives over a number of years. In November 2009, NRC implemented NEWFlex, adding more features to provide an "environment rich in work-life balance." The audit objectives were 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.

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- The Chief Financial Officers Act of 1990, as amended, requires the Inspector General or an independent external auditor, as determined by the Inspector General, to annually audit NRC's financial statements to determine whether the agency's financial statements are free of material misstatement. This 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.
 - The Telework Enhancement Act of 2010 (the Telework Act), was enacted into law with the goal of ensuring that Federal agencies more effectively integrate telework into their management plans and agency cultures. The Telework Act defines telework as a work-flexibility arrangement under which an employee performs the duties and responsibilities of his or her position from an approved worksite other than the location from which the employee would otherwise work. A full-time teleworker is an employee who works 90 percent or more of the time from an alternate worksite, generally their personal residence. The audit objectives were to determine (1) if NRC's full-time telework program complies with applicable laws and regulations, and (2) the adequacy of internal controls over the program.
 - Information Technology (IT) governance is the leadership, structures, and processes that ensure that an organization's IT sustains and extends the organization's strategies and objectives. Its overall objective is to ensure that the organization can sustain its operations and implement strategies required to meet future objectives using IT. IT governance is necessary to manage information and employ IT to improve the productivity, effectiveness, and efficiency of agency programs. The audit objective was to assess the effectiveness of NRC's IT governance structure in meeting the agency's current and future IT needs.
 - On December 17, 2002, the President signed the E Government Act of 2002, which included the Federal Information Security Management Act (FISMA) of 2002. This annual evaluation is required to be performed by the Inspector General or an independent external auditor, as determined by the Inspector General. FISMA outlines the information security management requirements for agencies, which include an annual independent evaluation of an agency's information security program and practices to determine their effectiveness. 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. The objective was to perform an independent evaluation of NRC's implementation of FISMA for fiscal year 2013.

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- The Atomic Energy Act and NRC regulations limit commercial nuclear power reactor licenses to an initial 40 years. Due to this selected period, some components may have been engineered on the basis of an expected 40-year service life. Components degraded due to aging have caused reactor shutdowns, failure of safety-related equipment, and reduction in the safety margin of operating nuclear power plants. Therefore, effective and proactive management of aging of components is a key element for safe and reliable nuclear power plant operation. The audit objective was to determine if NRC is providing effective oversight of industry's aging component programs.
 - On January 24, 2000, Congress enacted the Reports Consolidation Act of 2000, requiring Federal agencies to provide financial and performance management information in a more meaningful and useful format for Congress, the President, and the public. The act requires the Inspector General of each Federal agency to annually summarize what he or she considers to be the most serious management and performance challenges facing the agency and to assess the agency's progress in addressing those challenges.

Investigations

- OIG completed an investigation in response to a letter from Pennsylvania Senator Robert P. Casey, Jr., to OIG requesting answers to seven questions concerning the Shallow Land Disposal Area (SLDA) in Armstrong County, PA. Between 1961 and 1970, the Nuclear Material and Equipment Corporation, an Atomic Energy Commission licensee, buried low-level wastes from its Apollo Fuel Fabrication Facility at SLDA. Apollo operations included small-scale production of high- and low-enriched uranium and thorium fuel for commercial nuclear power plants and U.S. Navy propulsion reactors, scrap recovery, and research and development. Based on official records, Apollo was the only source of the waste buried in SLDA. Senator Casey's questions focused on NRC's past oversight of SLDA to ensure compliance with waste burial and decommissioning requirements and on NRC's involvement in the current SLDA remediation effort.
- OIG completed an investigation into an allegation that the NRC staff took too long in examining and working to mitigate possible flood hazards to the Oconee Nuclear Station in Seneca, South Carolina. The identification of potential flood hazards was identified based on a 2006 inspection finding concerning the Safe Shutdown Facility.
- OIG completed an investigation into an allegation that the NRC staff intentionally mischaracterized safety related information as sensitive security information in an effort to conceal the information from the public in response to a Freedom of Information Act (FOIA) request. The FOIA request pertained to NRC Generic Issue 204, Flooding of U.S. Nuclear Power Plants Following Upstream Dam Failure. According to the allegation, the information redacted from the NRC document was relevant to the safety of U.S. nuclear power plants and should not have been redacted.

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- OIG completed an investigation into allegations pertaining to the handling of safety concerns by NRC management. NRC staff alleged that management's actions related to the handling of safety concerns pertaining to a potential flooding event at Tennessee Valley Authority's (TVA) Watts Bar Nuclear Plant had been retaliatory and had created a chilled and hostile work environment within their division. According to certain NRC staff, they (1) were constantly challenged and obstructed for raising a safety concern, (2) were constrained for having a questioning attitude, and (3) faced hostility and threat of retaliation for their persistence. Another concern was that the NRC branch involved in the TVA Watts Bar flooding issue was dissolved as a result of the disagreement over the handling of the safety concerns.
 - OIG completed an investigation into an allegation that NRC was wasting funds by paying travel related and per diem expenses for an NRC employee to work in NRC headquarters one week per month while the employee was in a full-time telework status in another state.

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, MD; 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 independently and objectively audit and investigate programs and operations to promote effectiveness and efficiency, and to prevent and detect fraud, waste and abuse.

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

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

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

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 October, 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 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 investigating allegations of NRC staff conduct 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. The OIG does not concur or object to the agency actions reflected in the regulatory documents, but rather offers comments.

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

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.

From October 1, 2013, through March 31, 2014, OIG reviewed a variety of agency documents including Commission papers (SECYs), Staff Requirements Memoranda, and Federal Register Notices, Management Directives, regulatory actions, and statutes.

Comments provided on particular matters addressed during this period are described below.

- *NRC Allegations Manual, Revision 1*: This manual was prepared by the agency in parallel with the most recent revision of Management Directive 8.8, *Management of Allegations*, a companion reference document. The *Allegation Manual* revision was developed to provide additional assistance to NRC staff in implementing the allegation program in practice. The *Allegation Manual* is intended for internal use by NRC staff who receive, evaluate, and respond to allegations, and contains instructions, correspondence templates, and reference information to support allegation processing.

OIG comments on the revised draft focused on clarification of terms, including definitions of key phrases, e.g., “chilling effect letter,” “action office,” and “Glomar,” as well as moving the glossary to the beginning of the reference. In addition, suggestions were provided to more fully and correctly identify OIG jurisdiction and conditions for referral.

- Management Directive (MD) and Directive Handbook (DH) 6.4, *Generic Issues Program*, provides guidance for the NRC staff to process generic issues, including Unresolved Safety Issues. It also gives an overview of the Generic

Issues Program (GIP); describes the five GIP stages; covers generic issue tracking and communication, roles, and responsibilities; and contains a glossary of key terms. In 1976, the Commission directed the staff to develop a program plan for resolution of generic issues, and in December 1977, the Energy Reorganization Act of 1974 was amended to include, among other things, a new Section 210, “Unresolved Safety Issues (USIs).” To meet both Commission and congressional directives, the staff developed a GIP that provided for the identification of generic issues, the assignment of priorities, the development of detailed action plans, projections of dollar and manpower costs, continuous high-level management oversight of progress, and public dissemination of information related to the issues as they progressed.

OIG reviewed the most recent revision to this document, and offered comments to enhance its effectiveness, noting that the timeframes identified within the MD, which permit a total time of 15 years for this process, may be excessive. It was also suggested that information be included to clarify when a generic issue is added to NUREG-0933 (*A Prioritization of Generic Safety Issues*) and to reformat an appended reference chart for additional clarity.

- MD and DH 4.X, *Performance Management*, a financial management document, was generally comprehensive and well-constructed. However, OIG noted that concurrent position titles for the Executive Director for Operations as the Chief Operating Officer, and that of the Performance Improvement Officer as the Assistant for Operations, needs to be clarified. In addition, it was noted that OIG has its own performance management plan, and should therefore be excluded from coverage under the MD.
- MD and DH 4.2, *Administrative Control of Funds*, provides guidance to allow the agency to maintain financial control over the allotment, allocation, and obligation of appropriated and apportioned funds to ensure compliance with applicable Federal laws, policies, and practices. The guidance is also intended to ensure that budgetary resources are best utilized to support program requirements to accomplish the agency’s mission. This lengthy directive was generally comprehensive; however, OIG noted that the approving official had no defined role in the administrative control of funds and suggested that the role of the approving official be added. OIG also suggested inclusion of guidance for the “bankcard” as it relates to the administrative control of funds.

OIG also provided comments on issues related to its organizational independence, noting the need for exemption from oversight for its reimbursable agreements and the agency Chief Financial Officer performance evaluation, as well as documenting OIG’s legislative authority to enter into contracts and interagency agreements. Additional clarity was suggested with regard to reporting obligations for Antideficiency Act violations, and definitions of terms including “non-expenditure transfer,” “financial plan line,” “fiscal year,” “IPA,” and “business line.” OIG also noted the need for an additional section on 2-year appropriations.

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- MD and DH 6.8, *Lessons Learned Program*, was originally issued to implement an agencywide program to provide reasonable assurance that major organizational problems identified by lessons learned will not recur and that the knowledge gained from lessons learned is retained and disseminated in a manner that will maximize its benefit and usefulness to the staff. OIG comments focused on adding clarity to the directive. OIG suggested specific identification of the office designated by the Executive Director for Operations to manage the lessons learned program and to clarify if event reports and operational experience are intended to be covered by the scope of the directive. OIG also suggested addition of a new item: to recognize the opportunity to obtain potential lessons learned issues from data collection activities already extant within the agency. NRC has a Lessons-Learned Oversight Board and OIG suggested that the board's membership be identified in the directive handbook. OIG suggested that the offices that are represented should not be limited to technical offices, and noted that administrative offices need to be represented because not all of the past lessons learned have been technical in nature.
 - MD and DH 9.14, *Organization and Functions, Office of International Programs*, is responsible for guidance in administering the agency's International Programs and for providing policy advice and assistance to the Chairman, the Commission, and the NRC staff on international issues. As a preliminary comment, OIG advised that it would be helpful to explain the relationship of this management directive and MD 5.13, *NRC International Activities Practices and Procedures*, particularly with regard to licensing activities. Also, OIG identified the need for additional clarity and detail with regard to two functions: "enhances nuclear safety and security through global information exchange partnerships" and "licensing the import and export of nuclear material and equipment," noting that there was little information on licensing in the directive and handbook. OIG also suggested that the document provide definitions for terms used in the directive.

Other OIG General Counsel Activities

Support of the Inspector General Community in Training

The OIG General Counsel, Maryann Lawrence Grodin, supported the IG Community in training and presentations. The Department of Justice Attorney General guidelines for statutory law enforcement authority for OIG 1811 special agents include the requirement for periodic refresher training on specified legal issues. The Inspector General Criminal Investigator Academy (IGCIA) was tasked with formulating the syllabus for the training and identification of appropriate teaching staff. Ms. Grodin was part of a group of attorneys from several IG offices who constructed a model 3-hour course and participated in training a cadre of attorney-trainers. In addition to coordinating staffing of this training with IGCIA, Ms. Grodin, along with Counsel from the Federal Reserve Board OIG, presented the *Civil and Administrative Remedies* class as part of the *Inspector General Periodic Refresher Training Program* in San Diego, California, to agents from a variety of Federal agencies.

Other OIG Activities

NRC OIG Receives Two CIGIE Awards for Excellence

In October 2013, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) recognized an OIG audit team and an investigations team with the prestigious CIGIE Award for Excellence. The Investigation Team was recognized for exceptional dedication, professionalism, and teamwork in investigating and reporting concerns pertaining to the actions of the former NRC Chairman.



*CIGIE Award
for Excellence in
Investigations
Team.*

The Energy Reorganization Act of 1974 and the Reorganization Plan No. 1 of 1980 authorized the NRC Chairman to direct NRC's response to emergencies. Section 2 of the Reorganization Plan allows the Chairman to direct the agency's response as NRC's principal executive officer and to communicate to the public about the response as the official Commission spokesman. Section 3 of the Reorganization Plan provides special authority for the Chairman to respond to "an emergency concerning a particular facility or materials licensed or regulated by the Commission" without consulting with the Commission on matters that would otherwise require a collegial approach under the Reorganization Plan. Section 3 also gives the Chairman the sole authority to declare the existence of a Section 3 emergency.

Following the March 11, 2011, earthquake off the northeast coast of Japan, a tsunami caused a crisis at the six-unit Fukushima Dai-ichi Nuclear Power Station in Japan, which resulted in explosions, core meltdowns, and the release of radioactive material into the environment. By the evening of March 11, 2011, the former NRC Chairman was actively involved in monitoring events in Japan and leading the agency response via the NRC Headquarters Operations Center (HOC), which became the agency's focal point for international communications and coordination, analysis, and response during the emergency. The former NRC Chairman later asked the Commissioners not to visit the HOC because he viewed it as a distraction.

The investigation team completed this complex investigation, which pertained to the balance of power between the former NRC Chairman and other Commissioners, the impact of the former Chairman's interpersonal interactions on NRC's workplace environment, and the accuracy of the former Chairman's testimony before members of Congress in December 2011. The investigation, initiated at the request of Congress, was of keen interest to members of Congress, who were concerned that the former Chairman's interactions with Commissioners and agency officials, and public reports of such interactions, were undermining the agency's effectiveness and reputation as a competent nuclear regulator.

The investigation team found, in part, that the former NRC Chairman did not exceed his authorities under the Reorganization Plan in leading the agency's response to events in Japan and that the Reorganization Plan does not specifically require the Chairman to declare the existence of a Section 3 emergency. Moreover, the former NRC General Counsel interpreted that the Chairman could have used Section 3 authority to respond to events in Japan, even though the Fukushima Dai-ichi Nuclear Power Station is not licensed or regulated by the NRC.

The former NRC Chairman resigned shortly after the report's issuance in June 2012.



Pictured left to right are Kevin J. Nietmann, Senior Technical Advisor; RK Wild, Team Leader; Timothy Wilson, Senior Management Analyst; David C. Lee, Deputy Inspector General; Hubert T. Bell, Inspector General; Stephen D. Dingbaum, Assistant Inspector General for Audits, and Larry J. Weglicki, Senior Auditor. Not pictured is Jaclyn H. Storch, Audit Manager.

The Nuclear Reactor Safety Audit Team was recognized for exceptional performance in identifying weaknesses in NRC's implementation of a program intended to ensure that new nuclear power plants are constructed in accordance with the licensed design. The team consisted of RK Wild, Team Leader; Kevin J. Nietmann, Senior Technical Advisor; Jaclyn H. Storch, Audit Manager; Timothy Wilson, Senior Management Analyst; and Larry J. Weglicki, Senior Auditor.

Nuclear power plants are being built under the licensing process contained in Title 10, Code of Federal Regulations, Part 52. The process allows a licensee to obtain a combined construction permit and operating license for reactor designs that have been certified by NRC. Approval to operate requires resolution of design and siting issues before the start of construction and throughout the construction process. To ensure that the facility will be constructed and operated in conformity with the license requirements, a series of inspections, tests, analyses, and acceptance criteria (ITAAC) have been developed. Depending upon the specific reactor design, there may be as many as 1,500 individual ITAACs that must be satisfied prior to operation. These ITAACs are performed by the licensee with oversight from NRC.

The agency conducts sample-based inspections throughout the construction period to verify that the licensee is adequately meeting the requirements of each ITAAC. Upon completion of each ITAAC, the licensee submits a closure notification, which indicates that all acceptance criteria have been satisfactorily met. NRC reviews the closure notifications and, when all ITAACs are completed, the Commission will allow the new reactor to begin operating.

The purpose of the audit was to assess NRC's regulatory approach, through the ITAAC review process, to ensure that new nuclear power plants have been constructed and will be operated in conformity with the license, the provisions of the Atomic Energy Act, and the Commission's rules and regulations.

The audit team identified significant opportunities for improvement with regard to (1) guidance, (2) training, (3) IT support, (4) modular components, and (5) agency coordination.

Guidance—Agency staff do not uniformly understand how they should apply guidance documents and procedures. Furthermore, there are inconsistent and ad hoc revisions of guidance. Consequently, all staff members may not be performing the ITAAC reviews in accordance with current guidance. This casts doubt on the agency's ability to ensure that new nuclear power plants have been constructed and will be operated in conformity with the license requirements.

Training—Training for staff is improvised and has not been systematically developed in accordance with the agency’s training development policies or Office of Personnel Management policies. Specifically, training has not been designed based on a completed comprehensive training needs assessment. Additionally, current training is only provided on an ad hoc basis in an uncoordinated manner. Consequently, staff’s understanding of their roles and responsibilities could be incorrect.

IT Support—The development and deployment of an ITAAC database has been significantly delayed due to insufficient oversight. The agency has not consistently applied the policies, principles, and best practices prescribed and endorsed by Federal guidelines and agency policy for information technology system development and investment management. Furthermore, the agency has spent approximately \$2 million over a period of 5 years and still does not have a fully functional database. Consequently, the agency’s ability to verify and track licensees’ satisfactory completion and closure of ITAACs is compromised.

Modular Components—The agency has not developed a formal strategy for evaluating what inspections at modular assembly facilities are necessary to support the ITAAC review process. Consequently, staff find it difficult to determine what systems, structures, and components assembled or manufactured off-site need to be inspected prior to arrival at the construction site. Without a formal strategy to guide the evaluation of modular components, the agency may not be identifying safety-significant problems.

Agency Coordination—The audit team identified a notable lack of sustained coordination among agency staff during the development and revision of guidance documents, the creation of the ITAAC database, and the interaction between agency inspection programs. Consequently, isolated and potentially ill-informed decisions are being made and actions taken that have the potential to further misalign the ITAAC process, thereby impacting the degree to which new plants are safely constructed and operated.

Ultimately, these report findings identify risks in the agency’s ability to gain assurance that a new nuclear power plant has been constructed and will be operated in conformity with the license requirements. Public trust in the agency’s ability to achieve its mission to protect public health and safety and the environment is also jeopardized.

MANAGEMENT AND PERFORMANCE CHALLENGES

Most Serious Management and Performance Challenges Facing NRC as of October 1, 2013* *(as identified by the Inspector General)*

Challenge 1 *Management of regulatory processes to meet a changing environment in the oversight of nuclear materials.*

Challenge 2 *Management of NRC security programs.*

Challenge 3 *Management of regulatory processes to meet a changing environment in the oversight of nuclear facilities.*

Challenge 4 *Management of regulatory processes associated with high-level radioactive waste.*

Challenge 5 *Management of information technology.*

Challenge 6 *Administration of all aspects of financial management and procurement.*

Challenge 7 *Management of human capital.*

**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 13 audits, 10 of which are summarized here that resulted in numerous recommendations to NRC management. In addition, the Defense Contract Audit Agency completed 2 contract audits for OIG.

Audit Summaries

Survey of NRC's Support Provided to Resident Inspectors

OIG Strategic Goal: Safety

NRC is tasked with examining the regulatory compliance and safety of licensed nuclear facilities. One of the methods that NRC uses to ensure the compliance and safety of nuclear power plants is conducting inspections. The core of the NRC inspection program for nuclear power plants is carried out by Resident Inspectors who provide the major onsite NRC presence for inspection and assessment of licensee performance and conformance with regulatory requirements.

NRC assigns at least two Residents to each operating nuclear power reactor site. Residents are also assigned to Category I fuel cycle facilities, gaseous diffusion plants, and new reactor construction sites. As of October 2013, there were approximately 148 Residents stationed at 67 nuclear facilities. From their remote duty locations, NRC Resident Inspectors report to assigned regional offices (regions I-IV).

The audit objective was to survey the effectiveness of NRC support provided to Resident Inspectors at nuclear power plants, fuel-cycle facilities, and construction sites.

Audit Results:

OIG found that the agency generally provides Residents with sufficient support to enable them to adequately perform their roles and responsibilities. However, there is a perception among Residents that support from headquarters and the regions is, at times, inconsistent. By means of a survey instrument,¹ OIG learned of a perception among Residents that headquarters and regional offices are sometimes viewed as disengaged and unresponsive to Residents' needs and concerns. These specific areas of concern span both non-technical and technical types of support.

These perceptions among the Resident staff exist because the agency has not identified a formal mechanism for obtaining, reviewing, and responding to Residents' perspectives regarding the type and level of support they are currently provided. If Residents' perspectives regarding support-related needs and concerns are not consistently and appropriately addressed in a timely manner, their ability to perform assigned duties

¹ OIG developed and administered a survey designed to assess Residents' perspectives on various types of support provided to them by the agency. At the time of the survey (March 11-29, 2013), OIG invited 144 Residents to participate in the survey. A total of 79 Residents completed the survey for an overall survey response rate of approximately 55 percent. Of the 79 completed surveys, 35 Residents also provided multiple written comments.

could be affected. Furthermore, because Residents work remotely, inconsistent and insufficient support also has the potential to perpetuate the feeling among Residents of being disconnected or isolated from the larger NRC. As a result, the morale and level of engagement within the Resident population could be negatively affected.

(Addresses Management and Performance Challenge #3)

Audit of NRC’s Process for Addressing Bankruptcy of Materials Licensees

Bankruptcy Code

Chapter of Bankruptcy Code	Definition
Chapter 7	Provides for "liquidation" (i.e., the sale of a debtor's nonexempt property and the distribution of the proceeds to creditors). The debtor may enter Chapter 7 bankruptcy voluntarily or be forced by creditors to enter it involuntarily.
Chapter 11	Generally used to reorganize a business and allows the debtor to continue its business operations by a plan of reorganization with the goal of returning it to a viable state.

Source: OIG

OIG Strategic Goal: Safety

NRC regulates the civilian use of nuclear materials to protect public health and safety and the environment, and to promote the common defense and security. NRC's regulatory framework applies to domestic licenses for civilian uses of radioactive materials, and these NRC licensees' financial condition (i.e., bankruptcy) could affect the agency's

ability to control licensed nuclear materials. Therefore, NRC's primary interest is ensuring that control of nuclear materials is maintained during an NRC licensee's period of bankruptcy.

Federal regulations require that NRC materials licensees immediately notify NRC of a voluntary or involuntary filing of bankruptcy by or against the licensee, or an entity controlling the licensee. Licensees must notify NRC when they file for bankruptcy so NRC can have reasonable assurance that appropriate measures to protect public health and safety have been or will be taken.

Once agency staff become aware of a bankrupt materials licensee, an NRC Bankruptcy Review Team (BRT) member will take the lead for the bankruptcy action. Some NRC staff serve as members of the BRT where they review and act on bankruptcy notifications as they occur. The member will keep the appropriate staff informed of the bankruptcy status, and ensure that licensed nuclear material is controlled while a licensee is in bankruptcy status. If appropriate, NRC will conduct a special inspection, use enforcement discretion for issuing enforcement actions, and/or request emergency assistance from other Federal agencies if there is an immediate threat to public health and safety.

The audit objective was to determine if NRC has reasonable assurance that appropriate measures to protect the public health and safety have been or will be taken during bankruptcies involving materials licensees.

Audit Results:

Although NRC licensees are required to report bankruptcies to the agency, most do not and NRC's alternate ways for discovering bankrupt licensees fall short. Therefore, it is incumbent upon NRC to use effective and efficient methods to identify its bankrupt licensees. NRC has not (1) identified and used comprehensive sources of

bankrupt entities, and (2) developed guidance on staff's role in identifying bankrupt NRC materials licensees. Consequently, if NRC does not know about bankrupt materials licensees, the risk increases for nuclear materials to become uncontrolled and cause harm to the public. Additionally, without formal guidance, NRC staff are duplicating efforts, thereby wasting valuable agency resources.

(Addresses Management and Performance Challenge #1)

Audit of NRC's Implementation of Its National Environmental Policy Act Responsibilities

OIG Strategic Goal: Safety

The National Environmental Policy Act of 1969, as amended (NEPA), established a national policy to encourage productive and enjoyable harmony between man and his environment, promote efforts that will prevent or eliminate damage to the environment and biosphere and stimulate the health and welfare of man, and enrich the understanding of ecological systems and natural resources. NEPA requires Federal agencies, as part of their decisionmaking process, to consider the environmental impacts of actions under their jurisdiction. NEPA is a procedural statute, imposing no substantive requirements on agencies beyond conducting the environmental review.

NRC's regulations require preparation of an environmental impact statement for a license to possess and use source material for uranium milling or production of uranium hexafluoride. An environmental impact statement is also required to license a uranium enrichment facility.

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

Audit Results:

NRC conducts environmental reviews and prepares environmental impact statements for certain licensing actions, as required by NEPA. However, for two types of licensing actions, fuel cycle facilities and uranium recovery facilities, the licensing process lacks clarity regarding the purpose of the NEPA review. Further, the agency faces challenges to complete legislatively required consultations regarding historic and cultural resources. NRC's ability to overcome these challenges is difficult because the requirements and definitions for the extent and content of consultations have been established outside NRC.

NRC imposes license conditions for fuel cycle and uranium recovery facilities that do not meet the intent of the Atomic Energy Act. NRC should impose only license conditions that are appropriate and necessary to meet the intent of the act. Some license conditions are imposed because NRC does not have adequate guidance for staff preparing licenses. When NRC ties these license conditions to the license, licenses contain conditions for which NRC cannot hold licensees accountable.

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

Audit of NRC’s Oversight of Active Component Aging

OIG Strategic Goal: Safety

Three NRC Maintenance Rule Citations, 2007–2011

Date	Plant	Type of Age-Related Failure	Cause
2011	Waterford	Electronic control components for cooling towers failed after operating for 25 years.	Aging. The maintenance to replace the components was deleted from preventive maintenance activities.
2009	Catawba	Auxiliary feed water sump valves important to plant safety failed.	Aging. No maintenance was performed on the valves since plant startup in 1985.
2007	Brunswick	A relay for controlling an emergency diesel generator failed.	Aging. The relay's coil failed due to the deferral of maintenance.

Source: NRC

The Atomic Energy Act and NRC regulations limit commercial nuclear power reactor licenses to an initial 40 years. Due to this selected period, some components may have been engineered on the basis of an expected 40-year service life. However, components that have aged during the 40-year period can have impacts on both the safety and the performance of nuclear power plants. Components degraded due to aging have caused reactor shutdowns, failure of safety-related equipment, and reduction in the safety margin of operating nuclear power plants. Therefore, effective and proactive management of aging of components is a key element for safe and reliable nuclear power plant operation.

NRC has established commercial nuclear power reactor industry requirements that exclude some components—referred to as active components—from a license renewal aging management review. Active components are those that perform their intended functions with moving parts or a change in state. Examples of active components include power supplies, motors, diesel generators, cooling fans, batteries, relays, and switches. According to NRC, active components are not subject to review as part of NRC’s review of license renewal applications because of the existing regulatory process and existing licensee programs and activities.

The NRC Office of Nuclear Reactor Regulation and the regional offices provide regulatory oversight of industry’s active component aging activities. NRC addresses aging active component issues through a number of different regulations and guidance, to include Title 10 Code of Federal Regulations (CFR), Part 50.65, Requirements for monitoring the effectiveness of maintenance at nuclear power plants (the Maintenance Rule, as amended), 10 CFR Part 50, Appendix B, Quality Assurance Criteria for Nuclear Power Plants and Fuel Reprocessing Plants, and 10 CFR 50.36, Technical specifications.

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

Audit Results:

Oversight of licensees’ activities, including active component aging, should be structured and coordinated. However, NRC’s approach for oversight of licensees’ management of active component aging is not focused or coordinated. This approach includes staff-initiated projects and inspection activities using regulations to cite licensees for age-related degradation of active components that are not specific to aging. This challenge is compounded by agency senior managers who are not aware of these uncoordinated activities.

This has occurred because NRC has not conducted a systematic evaluation of program needs for overseeing licensees’ aging management for active components since the

establishment of the Reactor Oversight Process (ROP) in 2000, and does not have mechanisms for systematic and continual monitoring, collecting, and trending of age-related data for active components.

Since the ROP was initiated in 2000, NRC has not conducted an evaluation and analysis that would systematically determine whether the need exists for a formal active aging component oversight program. The most recent evaluation of the agency's regulatory oversight of active component aging was in 1996—which pre-dates the ROP—and stressed the importance of aging studies as an important part of efforts to identify and solve potential aging problems. In addition, nuclear plants have aged almost 20 years since the most recent evaluation of the agency's regulatory oversight of active component aging in 1996.



*Brunswick Nuclear
Power Plant.
Source: Progress Energy*

Moreover, NRC has not developed and incorporated within policy and guidance the existing mechanisms used for systematic and continual monitoring, collecting, and trending of age-related data for active components. Age-related studies have emphasized the importance of continual monitoring, collecting, and trending of age-related data for active components in an ever changing environment. Yet, NRC has not systematically and continually collected or evaluated age-related data to determine if a specific oversight program is needed or what type of program would be necessary. Currently, NRC may identify data on active component aging intermittently during ROP inspections, but not through any methods of systematic data collection, analysis, and trending.

Despite NRC management's belief that active component aging issues are being satisfactorily addressed, NRC is not in a position to draw any conclusions one way or the other. If NRC's unfocused and uncoordinated approach for oversight of licensees' active component aging activities continues, NRC will not be fully assured that it is effectively overseeing licensees' aging active component programs.

(Addresses Management and Performance Challenge #3)

Independent Evaluation of NRC's Implementation of the Federal Information Security Management Act for Fiscal Year 2013

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. FISMA outlines the information security management requirements for agencies, which include an annual independent evaluation of an agency's information security program and practices to determine their effectiveness. 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 or by an independent external auditor.

The objective was to perform an independent evaluation of NRC's implementation of FISMA for FY 2013.

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, the independent evaluation identified the following information system security program weaknesses.

- The agency's contractor system oversight program is not consistently implemented.
- There are two repeat findings from previous FISMA evaluations: (1) configuration management procedures are still not consistently implemented, and (2) the NRC plan of action and milestone program still needs improvement.

(Addresses Management and Performance Challenges #2 and 5)

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

OIG Strategic Goal: Corporate Management

On January 24, 2000, Congress enacted the Reports Consolidation Act of 2000, requiring Federal agencies to provide financial and performance management information in a more meaningful and useful format for Congress, the President, and the public. The act requires the Inspector General (IG) of each Federal agency to annually summarize what he or she considers to be the most serious management and performance challenges facing the agency and to assess the agency's progress in addressing those challenges.

Congress left the determination and threshold of what constitutes a most serious management and performance challenge to the discretion of the IGs. NRC OIG has defined serious management and performance challenges as mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals.

Based on this definition, the NRC Inspector General identified the following as the most serious management and performance challenges facing NRC as of October 1, 2013:

**Most Serious Management and Performance Challenges
Facing NRC as of October 1, 2013***
(as identified by the Inspector General)

Challenge 1 *Management of regulatory processes to meet a changing environment in the oversight of nuclear materials.*

Challenge 2 *Management of NRC security programs.*

Challenge 3 *Management of regulatory processes to meet a changing environment in the oversight of nuclear facilities.*

Challenge 4 *Management of regulatory processes associated with high-level radioactive waste.*

Challenge 5 *Management of information technology.*

Challenge 6 *Administration of all aspects of financial management and procurement.*

Challenge 7 *Management of human capital.*

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

The seven challenges are distinct, yet are interdependent to accomplishing NRC's mission. For example, the challenge of managing human capital affects all other management and performance challenges.

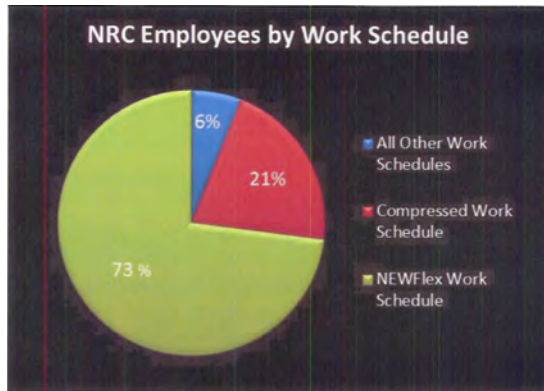
The agency's continued progress in taking actions to address the challenges presented should facilitate achievement of the agency's mission and goals

(Addresses All Management and Performance Challenges)

Audit of NRC's Use of the NEWFlex Program

OIG Strategic Goal: Corporate Management

The U.S. Congress determined "that the use of flexible work schedules has the potential to improve productivity in the Federal Government and provide greater service to the public." Congress and the President signaled their support for flexible work-life programs by passing the Federal Employees Flexible and Compressed Work Schedules Act of 1982. Congress amended the act to incorporate a 1994 presidential memorandum that directed executive agencies to implement work-life balance initiatives, including flexible work schedules. The memorandum stated, "Broad use



Distribution of NRC Employees by Work Schedule for Calendar Year 2012.
Source: OIG

of flexible work arrangements ... can increase employee effectiveness and job satisfaction, while decreasing turnover rates and absenteeism.”

NRC has implemented increasingly flexible work schedule initiatives over a number of years. The agency began flexible work schedule pilot programs in 1977. In 1989, the agency added the compressed work schedule option to provide additional alternative work schedule choices. In November 2009, NRC implemented the NRC Employee Work Schedule Flexibilities (NEWFlex) program, adding more features to provide an “environment rich in work-life balance.”

The agency tracks employee schedules and biweekly time and attendance reporting through the NRC Human Resources Management System.

The audit objectives were 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.

Audit Results:

OIG compared applicable laws and regulations to NRC management directives, tested program internal controls, and reviewed internal procedures related to unique situations. OIG determined that, overall, NRC’s administration of NEWFlex complies with applicable laws and regulations, management applies generally adequate internal controls related to NEWFlex time and attendance reporting, and internal procedures adequately address unique situations.

However, OIG identified three areas where management could improve administration of the NEWFlex program: (1) NEWFlex information on the intranet site is outdated, (2) NEWFlex training is inadequate, and (3) NEWFlex performance measures are lacking.

Without reliable information, some staff lack understanding of certain NEWFlex features and procedures. OIG interviewed 25 employees regarding training and understanding of NEWFlex features and learned that not all supervisors and staff interviewed have received training. For example, 11 of 25 respondents either did not receive or do not recall receiving formal training related to NEWFlex and 6 of 25 respondents stated that they lack a good understanding of some NEWFlex features. Without clear NRC Human Resources Management System training, some staff are unsure of the correct format to enter split work schedules (which include non-contiguous hours), resulting in inconsistent and inaccurate entry of such schedules.

Furthermore, without up-to-date specific program metrics, the agency cannot determine whether NEWFlex is meeting the goals of enhancing work-life balance and improving recruitment and retention efforts. As a result, not all employees fully understand basic NEWFlex features because they lack mandatory training, and management is unable to monitor the NEWFlex program effectively.

(Addresses Management and Performance Challenge #7)

Results of the Audit of the United States Nuclear Regulatory Commission's Financial Statements for Fiscal Years 2013 and 2012

OIG Strategic Goal: Corporate Management

The Chief Financial Officers Act of 1990, as amended, requires the Inspector General or an independent external auditor, as determined by the Inspector General, to annually audit NRC's financial statements to determine whether the agency's financial statements are free of material misstatement. The audit, conducted by CliftonLarsonAllen, LLP, under a contract with OIG, 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.

Audit Results:

Financial Statements

The auditors expressed an unqualified opinion on the agency's FY 2012 and FY 2013 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)

Audit of NRC's Full-Time Telework Program

OIG Strategic Goal: Corporate Management

The Telework Enhancement Act of 2010 (the Telework Act), was enacted into law with the goal of ensuring that Federal agencies more effectively integrate telework into their management plans and agency cultures. The Telework Act defines telework as a work-flexibility arrangement under which an employee performs the duties and responsibilities of his or her position from an approved worksite other than the location from which the employee would otherwise work. A full-time teleworker is an employee who works 90 percent or more of the time from an alternate worksite, generally their personal residence.

The Telework Act requires the head of each executive agency to ensure that employees eligible to telework and managers of teleworking employees receive training on



*NRC Full-Time
Teleworkers' Residential
Work Sites*
Source: OIG

telework before the employee enters into a written telework agreement. However, an employee may be exempted from the training requirement by the agency head.

The Work Life and Benefits Branch within NRC's Office of the Chief Human Capital Officer develops, coordinates, and implements work-life and benefits policies, including full-time telework. Annual full-time equivalent usage associated with the administration of the agency's full-time telework program for fiscal years 2013-2014 is less than one full-time equivalent (.26) per year.

As of May 9, 2013, NRC had 3,832 total staff with 45 employees engaged in full-time telework.

The audit objectives were to determine (1) if NRC's full-time telework program complies with applicable laws and regulations, and (2) the adequacy of internal controls over the program.

Audit Results:

While NRC's full-time telework program provides a benefit to the agency and its employees, OIG identified an area of non-compliance with the Telework Act and an internal control weakness.

The Agency Is Not Fully Compliant With Training Requirements

According to the Telework Act, teleworking employees and their managers must be trained before telework begins unless there is an exemption from the head of the agency. However, NRC is not in full compliance with training requirements in the Telework Act because (1) full-time teleworkers and their managers were not required by the agency to complete mandatory training, (2) the head of the agency did not issue training exemptions, and (3) the agency does not have adequate policy and procedures related to telework training. As a result, staff may not fully understand the telework program and, subsequently, there may be an increased potential for fraud, waste, and abuse.

Recordkeeping Internal Controls Need Improvement

NRC's full-time telework records are inconsistent and not maintained in accordance with Federal Government standards or existing agency policies and procedures. Federal Government standards state that agencies should create and maintain records that provide evidence of execution of activities and those records should be readily available for examination. In addition, the agency has guidelines for developing a full-time telework package. However, full-time telework records are inconsistent because agency desk procedures are inadequate and the electronic filing system is not fully implemented. As a result, there is increased potential for fraud, waste, and abuse regarding improper execution of full-time telework agreements.

(Addresses Management and Performance Challenge #7)

Audit of NRC's Information Technology Governance

OIG Strategic Goal: Corporate Management

IT governance is the leadership, structures, and processes that ensure that an organization's IT sustains and extends the organization's strategies and objectives. Its overall objective is to ensure that the organization can sustain its operations and implement strategies required to meet future objectives using IT. IT governance is necessary to manage information and employ IT to improve the productivity, effectiveness, and efficiency of agency programs.

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

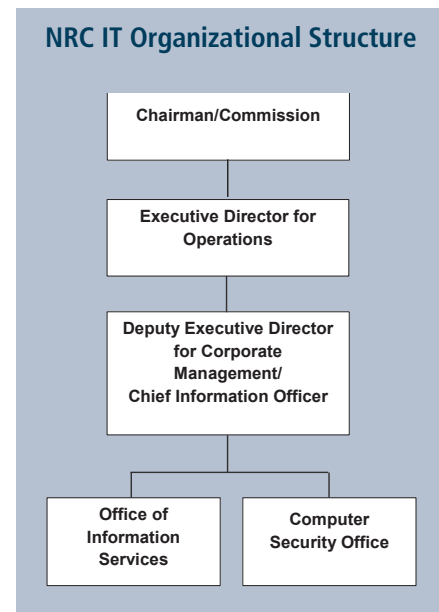
Audit Results:

NRC's IT governance is not fully meeting stakeholder needs. Federal guidance states that proper guidance documentation and communication are important factors in the success of agency programs. However, NRC's IT governance framework and processes have not been effectively documented and communicated.

During this audit, OIG interviewed 42 of NRC's management and staff, many of whom expressed concerns with several areas of NRC's IT governance process. OIG found that the most prevailing issue area that stakeholders communicated was a general lack of confidence in the Office of Information Services' (OIS) ability to deliver an acceptable level of customer service. Additionally, confusion surrounding reassignment of OIS staff roles exists.

NRC may not be able to fully meet the agency's future IT needs without comprehensive and communicated documentation of NRC's IT governance framework and processes. Specifically, there is a lack of assurance that IT services and management can be adequately provided to the agency. Some stakeholders believe that OIS has not provided sufficient customer service and have yet to be convinced that OIS can be counted upon to deliver an acceptable level of service. As a result, some stakeholders have been circumventing OIS and the governance process by approving or creating their own shadow IT systems. This, in turn, creates a less effective IT governance process which may result in possible IT security breaches, compliance issues, and investment waste. As a result, NRC may not be able to fully meet the agency's future IT needs

(Addresses Management and Performance Challenges #2 and 5)



Source: OIG

Audits in Progress

Audit of NRC's Method for Retaining and Documenting Information Supporting the Yucca Mountain Licensing Process

OIG Strategic Goal: Safety

In March 2010, the Department of Energy filed a motion with NRC to withdraw its license application for the Yucca Mountain High Level Waste repository. Subsequently, the former NRC Chairman directed staff to take actions to facilitate an orderly closeout of the Yucca Mountain review process, prior to the decision to terminate the agency's review of the Yucca Mountain application, including documenting material reviewed to date for retention purposes and potential future review in accordance with agency policy.

It is the policy of the NRC that all official records made or received by the NRC in the course of its official business comply with the regulations governing Federal records management issued by the National Archives and Records Administration and the General Services Administration. Specifically, agency policy on the retention of records and information states that records are to be maintained and preserved as evidence of the NRC's organization, functions, policies, decisions, procedures, operations, or other activities. Additionally, agency records are to be maintained in such a way that all information can be stored safely and retrieved easily when necessary.

Given the uncertainty and public interest surrounding the issue of high-level waste storage, it is important that NRC maintain agency records related to the review of the Yucca Mountain High Level Waste repository in accordance with Federal requirements and agency policy.

The audit objective is to determine if agency policy and procedures on document management are compliant with Federal requirements and provide reasonable assurance that documentation related to the review of the Yucca Mountain facility has been appropriately managed and retained.

(Addresses Management and Performance Challenge #4)

Audit of NRC's Task Interface Agreement Process

OIG Strategic Goal: Safety

The Task Interface Agreement (TIA) process is used to address questions or concerns raised within the NRC regarding nuclear reactor safety and the related regulatory and oversight programs. The process should ensure that the concerns are resolved in a timely manner and that Office of Nuclear Reactor Regulation (NRR) responses are appropriately communicated.

A TIA is a written request for technical assistance to NRR from a regional or program office. A TIA contains questions on subjects involving regulatory or policy interpretations, specific plant events, or inspection findings. The requesting organization may use a TIA to obtain information on specific plant licensing basis; applicable staff positions for an issue, policy, or regulatory requirements interpretation; NRR technical positions; or the safety/risk significance of plant configurations or plant operating practices.

Ensuring that adequate, appropriate, and timely feedback is provided to NRC staff is central to the agency's mission to protect public health and safety and the environment.

The audit objective is to determine if the agency's Task Interface Agreement process facilitates effective, efficient, and timely responses.

(Addresses Management and Performance Challenge #3)

Audit of NRC's Oversight of Reciprocity Licensees

OIG Strategic Goal: Safety

In accordance with Section 274 of the Atomic Energy Act, as amended, States may enter into an agreement with NRC to become Agreement States and assume some regulatory authority from NRC. Currently, there are 37 Agreement States. These States must first demonstrate that their regulatory programs are adequate to protect public health and safety and are compatible with NRC's program. NRC and Agreement States regulate the use of nuclear materials for industrial, academic, and medical purposes within the United States, the District of Columbia, territories and certain "areas of exclusive Federal jurisdiction" within the Agreement States, and offshore waters.

Some uses of nuclear materials include equipment or services that are mobile, such as mobile medical equipment, portable gauges, radiography devices, and well logging equipment. Agreement State licensees that do not also maintain an NRC license can apply for reciprocity to use nuclear materials in areas of NRC jurisdiction. NRC recognizes Agreement State licensees to do work in NRC jurisdiction. The agency also conducts inspections of these licensees according to standards established in Inspection Manual 1220. Additionally, the agency takes enforcement sanctions against Agreement State licensees who fail to request reciprocity and violate NRC regulations while conducting activities in NRC jurisdiction.

The audit objective is to determine whether NRC provides adequate oversight to materials licensees operating under reciprocity.

(Addresses Management and Performance Challenge #1)

Audit of NRC’s Cyber Security Inspection Program for Reactors

OIG Strategic Goal: Security

NRC has required all nuclear power plant licensees to have a cyber security plan to protect their digital computer and communication systems associated with safety, security, and emergency preparedness related functions. Title 10, of the Code of Federal Regulations, Section 73.54, “Protection of Digital Computer and Communication Systems and Networks,” provides licensees with the specific requirements. Additionally, both NRC and the Nuclear Energy Institute have issued supplemental guidance documents to assist licensees in understanding and complying with the cyber security requirements.

NRC initiated inspections of licensee compliance with cyber security requirements beginning in January 2013. NRC finalized the inspection guidance and significance determination process for evaluating any potential violations.

The audit objective is to determine the adequacy of NRC’s cyber security inspection program for reactors.

(Addresses Management and Performance Challenge #2)

Audit of NRC’s Communications Security (COMSEC) Program

OIG Strategic Goal: Security

NRC relies upon secure systems to protect agency communications against breaches that might compromise sensitive information. Communications security (COMSEC) systems include secure telephones, facsimile machines, and video-teleconference networks that process classified or sensitive but unclassified information. COMSEC equipment is used at NRC headquarters, regional offices, and resident inspector offices, and select personnel are delegated responsibility for managing this equipment. COMSEC management entails accountability for sensitive items, as well as maintenance tasks such as system testing and encryption updates.

The audit objective is to determine whether NRC staff manage COMSEC systems in accordance with NRC and higher-level Federal Government COMSEC policies.

(Addresses Management and Performance Challenge #2)

Audit of NRC’s Process for Revising Management Directives

OIG Strategic Goal: Corporate Management

The NRC Management Directives (MD) System is the official vehicle used by the agency to communicate agency policy, objectives, responsibilities, authorities, requirements, guidance, and related information to NRC employees. MDs do not propose new policy; rather, they reflect policy decisions already made and provide the process and guidance for implementing that policy. NRC issues MDs, as well as revisions, to meet the requirement that all Federal agencies have an internal MD system. Currently, there are 163 MDs covering 14 areas of agency operations.

MD 1.1, *NRC Management Directives System*, addresses the requirements for maintenance of MDs. This MD provides that, at least every 5 years, MDs must be reviewed and reissued or certified as still relevant.

The Office of Administration provides oversight for and develops and administers the MD system, including the issuance of approved policies and procedures, the provision of advice and guidance, and the review of its operation and effectiveness.

The audit objective is to evaluate the adequacy of NRC’s compliance with MD 1.1, particularly in the areas of keeping MDs accurate and up-to-date, and whether opportunities exist to improve the process.

(Addresses Management and Performance Challenge #7)

Audit of NRC’s Freedom of Information Act Process

OIG Strategic Goal: Corporate Management

The Freedom of Information Act (FOIA) of 1966 protects the rights of the public to information and makes provisions for individuals to obtain information from Federal agencies.

Enacted on July 4, 1966, and taking effect 1 year later, FOIA provides that any person has a right, enforceable in court, to obtain access to Federal agency records, except to the extent that such records (or portions of them) are protected from public disclosure by one of nine exemptions or by one of three special law enforcement record exclusions.

The act explicitly applies only to executive branch Government agencies. These agencies are under several mandates to comply with public solicitation of information. Along with making public and accessible all bureaucratic and technical procedures for applying for documents from that agency, agencies are also subject to penalties for hindering the process of a petition for information.

In 2009, President Obama issued a memorandum for the heads of executive departments and agencies stating that Government should be transparent and urging

agencies to harness new technologies to make information about their operations and decisions readily available to the public and to solicit public feedback to identify information of greatest use to the public.

The audit objective is to determine whether the FOIA process is efficient and complies with the current laws.

(Addresses Management and Performance Challenge #7)

Audit of NRC's Process for Prioritizing Technical Contract Work Under Sequestration

OIG Strategic Goal: Corporate Management

To meet its mission, NRC enters into a wide variety of agreements each year with commercial firms, non-profit organizations, and universities. NRC buys a broad range of products and services, including technical assistance and research in nuclear fields, information technology, facility management, and administrative support.

In March 2013, President Obama issued a sequestration order canceling approximately \$85 billion in budgetary resources across the Federal Government for the remainder of the fiscal year. The same month, the President signed Public Law 113-6—The Consolidated and Further Continuing Appropriations Act, 2013—which provided NRC appropriations for the remainder of FY 2013 at the FY 2012 levels subject to a 5 percent (\$52 million) reduction imposed by the sequestration order and a 0.2 percent (\$2 million) rescission imposed by the Office of Management and Budget. In response to the order and law, NRC notified some current service providers of the possibility that the work being performed for NRC may be cancelled, modified, or postponed.

The audit objective is to evaluate the process NRC uses to determine which technical contracts and agreements are subject to sequestration.

(Addresses Management and Performance Challenges #3 and 6)

Audit of NRC's Fee Invoicing and Internal Reconciliation Processes

OIG Strategic Goal: Corporate Management

The Chief Financial Officer's Act (CFO Act) of 1990, as amended, aimed to bring more effective financial management to the Federal Government and provide decisionmakers with complete, reliable, and timely financial information. The Independent Offices Appropriation Act requires NRC to charge fees to cover the costs of specific goods and services provided to the public. The Omnibus Budget

Reconciliation Act of 1990, as amended, requires that NRC recover approximately 90 percent of its budget authority by collecting fees from its applicants and licensees.

Numerous NRC Management Directives support fee analysis, assessment, and collection requirements.

The audit objective is to determine whether NRC has established and implemented an effective system of internal control over the recordation and reconciliation of fee revenue.

(Addresses Management and Performance Challenge #6)

Audit of NRC's FY 2014 Financial Statements

OIG Strategic Goal: Corporate Management

Under the Chief Financial Officers Act and the Government Management and Reform Act, OIG is required to audit the financial statements of the NRC. The report on the audit of the agency's financial statements is due on November 15, 2014. In addition, OIG will issue reports on:

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

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 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)

INVESTIGATIONS

During this reporting period, OIG received 103 allegations, initiated 21 investigations, and closed 36 cases. In addition, OIG made 15 referrals to NRC management and 5 to the Department of Justice.

Investigative Case Summaries

NRC Oversight of Decommissioning Activities at the Shallow Land Disposal Area Consistent with U.S. Army Corps of Engineers Memorandum of Understanding

OIG Strategic Goal: Safety

OIG conducted an investigation in response to a letter from Pennsylvania Senator Robert P. Casey, Jr., to OIG requesting answers to seven questions concerning the Shallow Land Disposal Area (SLDA) in Armstrong County, PA. Between 1961 and 1970, the Nuclear Material and Equipment Corporation (NUMEC), an Atomic Energy Commission (AEC)² licensee, buried low-level wastes from its Apollo Fuel Fabrication Facility at SLDA. Apollo operations included small-scale production of high- and low-enriched uranium and thorium fuel for commercial nuclear power plants and U.S. Navy propulsion reactors, scrap recovery, and research and development. Based on official records, Apollo was the only source of the waste buried in SLDA.

SLDA is undergoing remediation under the Formerly Utilized Sites Remedial Action Program (FUSRAP).³ Under this arrangement, the U.S. Army Corps of Engineers (USACE) is currently in charge of the site, with cooperation from NRC and other Federal partners. A July 5, 2001, Memorandum of Understanding (MOU) describes how NRC and USACE are to work together to meet their respective statutory responsibilities at SLDA and several other sites. With regard to SLDA, USACE's role is to administer and execute cleanup at the SLDA site to meet NRC decommissioning requirements of 10 CFR 20.1402, "Radiological Criteria for Unrestricted Use," and NRC is responsible for ensuring the cleaned up site meets its decommissioning requirements before terminating SLDA's license.

Per the MOU, for USACE to initiate remediation work on an NRC-licensed FUSRAP site, NRC needs to suspend the license while remediation is underway. Although NRC accepted USACE's Work Plans for remediating SLDA in July 2011 and issued a confirmatory order to suspend the SLDA license in August 2011 – and USACE assumed physical possession of the site on August 22, 2011,

² Prior to NRC's establishment, the AEC had responsibility for the development and production of nuclear weapons and for the development and safety regulation of civilian uses of nuclear materials. The Energy Reorganization Act of 1974 split these functions, assigning to one agency, now the Department of Energy, the responsibility for the development and production of nuclear weapons, promotion of nuclear power, and other energy-related work, and assigning to NRC regulatory authority over civilian uses of radioactive materials.

³ The AEC established FUSRAP to clean up residual radioactivity from the early years of the Nation's atomic energy program.

and subsequently began remediation activities – cleanup efforts were halted on September 30, 2011, and have yet to resume.

Senator Casey's questions focused on NRC's past oversight of SLDA to ensure compliance with waste burial and decommissioning requirements and on NRC's involvement in the current SLDA remediation effort.

Investigative Results:

OIG's investigation into Senator Casey's questions did not identify evidence from available AEC inspection reports suggesting SLDA was non-compliant with AEC burial requirements⁴ in effect during the time SLDA was being used as a low level waste burial site. However, OIG found indirect evidence through review of other official documents and burial records that indicated noncompliance with 10 CFR 20.304 (Disposal by Burial in Soil) may have occurred.

OIG found that missing and/or incomplete AEC inspection records and incomplete burial records preclude (1) a definitive assessment of whether SLDA burials were compliant with disposal requirements, (2) an assessment of AEC's oversight of SLDA's compliance with disposal requirements, and (3) the Government's ability to know with certainty what is buried on the SLDA site and in what precise locations. Moreover, according to the president and founder of NUMEC, the company that buried materials at the SLDA site, the documents used as a basis for the current FUSRAP remediation effort grossly underestimate the material buried there.

With regard to decommissioning of SLDA, OIG found that while the decommissioning process for SLDA was not initiated until 1993 – roughly 23 years after the site reportedly stopped being used for burial – this far exceeded the 2-year goal set by NRC's current decommissioning regulations. Additionally, the licensee has demonstrated compliance with evolving decommissioning requirements since 1988 when NRC promulgated its first comprehensive decommissioning regulations. Based on a review of available records, OIG found that NRC provided oversight of SLDA decommissioning from the point at which SLDA burials were reportedly stopped in 1970 to the suspension of SLDA's licensee in 2011 for USACE to initiate site remediation.

With regard to the current FUSRAP remediation effort, OIG found that the remediation of SLDA, which began in August 2011, was halted within 1 month because the USACE contractor did not follow the remediation procedures, resulting in a safety concern. This was followed by the discovery of unexpected "complex material" that needed to be characterized and removed from the site before remediation could resume. Although the "complex material" was characterized and

⁴ *Burials at SLDA were required to comply with the provisions of AEC regulation Title 10, Code of Federal Regulations, 20.304 (10 CFR 20.304), "Disposal by Burial in Soil," which provided general authority to licensees to dispose of radioactive materials by burial in soil. 10 CFR 20.304 permitted burial of specific quantities of licensed and other radioactive materials at any one location and time. The only disposal standards specified were (1) burial at a minimum depth of 4 feet, (2) successive burials separated by at least 6 feet, and (3) not more than 12 burials per year.*

removed by June 2012, remediation efforts remain halted while the Federal agencies involved in the cleanup coordinate a new remediation approach.

OIG found that NRC does not have performance metrics to facilitate timely remediation of SLDA, and it is NRC staffs' understanding that the agency lacks regulatory enforcement authority while SLDA is under USACE's purview for remediation. However, NRC staff said they have informal goals and methods for keeping track of NRC actions relative to the remediation effort. Moreover, they said, the ultimate "performance measure" will be NRC's verification that SLDA has been cleaned up to meet the agency's regulatory standards for unrestricted use.

OIG did not identify any evidence suggesting the agency has not fulfilled its obligations under the 2001 MOU between NRC and USACE for the cleanup of SLDA and found that NRC reviewed and accepted USACE's SLDA Work Plans pertinent to criticality safety, physical security, and material control and accounting of special nuclear material prior to initiation of the cleanup effort. In hindsight, however, an NRC staff member told OIG that the Work Plans that NRC accepted in July 2011 could not address the complex material encountered as it was beyond the scope of the USACE contractor's equipment, laboratory capabilities, and expertise. The staff member anticipates that a supplemental MOU and significantly revised Work Plans will need to be developed before remediation is resumed. Although NRC's Web site anticipates the closure date for SLDA will be 2020, the staff member did not think this was still a valid date. The staff member did not estimate when remediation activities might be complete, but thought the supplemental MOU would be signed in 2014.

(Addresses Management and Performance Challenge #1)

NRC Staff Handling of Regulatory Action in Examining and Mitigating Possible Flood Hazards at the Oconee Nuclear Station

OIG Strategic Goal: Safety

OIG completed an investigation into whether NRC staff took too long in examining and working to mitigate possible flood hazards to the Oconee Nuclear Station (ONS) in Seneca, South Carolina. OIG interviewed multiple NRC staff and examined staff actions since 2006 to identify and mitigate possible flood hazards at ONS. OIG found that the identification of potential flood hazards came from a 2006 inspection finding concerning the Safe Shutdown Facility. In response to this inspection finding, the NRC issued a 10 CFR 50.54(f) letter in August 2008 requesting information from ONS' operator, Duke Energy. OIG learned that NRC staff requested additional analysis from the company multiple times to provide a more accurate estimate of flooding at ONS caused by any potential dam failure. In response to these regulatory requests, Duke provided 15 interim compensatory measures (ICMs) to mitigate possible flood hazard, with implementation dates.

OIG also learned that the NRC issued a Confirmatory Action Letter to Duke in June 2010, confirming the ICMs, and required the licensee to submit a list of all necessary modification to mitigate flood hazards. Duke provided the list as required and committed to a timeline of 30 months plus the regulatory review period after NRC approves the use of Federal Energy Regulatory Commission (FERC) design standards for proposed flood walls. In September 2012, the NRC approved the use of FERC standards for flood walls.

Investigative Results:

OIG found that concurrent to this regulatory process concerning ONS, NRC staff initiated Generic Issue (GI) 204 concerning the effect of dam failures on nuclear plants. Additionally, in March 2011, NRC responded to the Fukushima nuclear plant incident by reexamining certain vulnerabilities at all U.S. nuclear plants. Accordingly, the GI-204 issue was merged with the Fukushima response required of all plants. Since ONS was required to submit a flooding hazard report to the NRC by March 2013 under the regulatory framework arising from Fukushima, NRC gave Duke the option to initiate the agreed upon 30-month timeline following the submittal of that report, with all essential modification completed no later than June 2016.

OIG determined that multiple Federal agencies have regulatory responsibilities for ONS and the surrounding energy structures. NRC primarily coordinated with FERC, who has regulatory responsibility for the Oconee and Jocassee dams, concerning all actions proposed by Duke to ensure that both agencies' regulatory standards were being met. OIG also determined that even after NRC completes its scientific evaluation of Duke's responses to mitigate flooding hazards under the Fukushima regulatory framework, NRC's analyses will need to be presented to other affected Federal partners and the Interagency Committee on Dam Safety for review and approval.

Accordingly, OIG found no administrative wrongdoing or substantial regulatory delay in how the NRC staff examined flood hazards to ONS or in the regulatory framework put in place to require ONS to mitigate the scientifically-accepted flood hazard at the plant.

(Addresses Management and Performance Challenge #3)

Misuse of FOIA Exemption Rules by NRC

OIG Strategic Goal: Corporate Management

OIG conducted an investigation into an allegation that the NRC staff intentionally mischaracterized safety related information as sensitive security information in an effort to conceal the information from the public in response to a Freedom of Information Act (FOIA) request. The FOIA request pertained to NRC Generic Issue 204, Flooding of U.S. Nuclear Power Plants Following Upstream Dam Failure. According to the allegation, the information redacted from the NRC

document was relevant to the safety of U.S. nuclear power plants and should not have been redacted.

Investigative Results:

OIG interviewed the NRC staff who authored the report, managers responsible for deciding what information in the report was determined to be sensitive, and FOIA branch staff familiar with the FOIA request. The NRC manager responsible for deciding what information in the report would be determined sensitive communicated with internal staff as well as the licensee and other Federal entities that provided criteria as to what information they viewed as security sensitive and warranting redaction.

OIG did not identify any misuse of the FOIA processes or exemptions, or efforts to withhold information from the public. OIG found that NRC staff redacted the GI 204 report for security-based reasons after considering the views of various parties within NRC and external entities that contributed to the report. OIG found that the FOIA exemptions used to justify the redactions were consistent with an Office of the General Counsel (OGC) interpretation of the use of FOIA exemptions to protect security related information and that OGC reviewed and concurred with the exemptions used in the GI 204 report.

(Addresses Management and Performance Challenge #7)

Alleged Chilled Work Environment and Retaliation by NRC Management Due to Technical Disagreements Pertaining to TVA Plants

OIG Strategic Goal: Corporate Management

OIG conducted an investigation into allegations pertaining to the handling of safety concerns by NRC management. NRC staff alleged that NRC management's actions related to the handling of safety concerns pertaining to a potential flooding event at Tennessee Valley Authority's (TVA) Watts Bar Nuclear Plant had been retaliatory and had created a chilled and hostile work environment within their division. According to certain NRC staff members, they (1) were constantly challenged and obstructed for raising a safety concern, (2) were constrained for having a questioning attitude, and (3) faced hostility and threat of retaliation for their persistence. Also, another concern was that the NRC branch involved in the TVA Watts Bar flooding issue was dissolved as a result of the disagreement over the handling of the safety concerns.

OIG learned that on March 12, 2012, a document referred to as the Fukushima letter was sent to all nuclear power plant licensees and holders of construction permits in active or deferred status. The letter informed them that NRC would be issuing 10 CFR 50.54(f) letters to all licensees requesting that they reevaluate the seismic and flooding hazards at their sites using updated seismic and flooding

hazard information and present daily regulatory guidance and methodologies and, if necessary, that they perform a risk evaluation.

Between April 6 and May 29, 2012, NRC management and staff were trying to resolve an issue of whether a supplemental 50.54(f) letter to the “Fukushima letter” was needed to obtain information from TVA regarding hydrology issues for the Watts Bar Unit 1. NRC management felt that whatever information NRC staff sought from TVA could be obtained through the Fukushima letter. However, NRC staff had authored a supplemental draft 50.54(f) letter to TVA that was being circulated for concurrence without management’s knowledge. NRC staff notified management on April 6, 2012, that their supplemental letter was in concurrence. An NRC manager subsequently told staff to take the supplemental letter out of concurrence because management was not in alignment with the view that a supplemental 50.54(f) letter was needed.

Investigative Results:

OIG did not substantiate that NRC management retaliated against the staff for raising safety concerns. Two of the seven staff members interviewed by OIG disagreed with and expressed concerns related to NRC management’s handling of their safety concerns relative to a potential flooding event at TVA plants; a third (a supervisor) reported being denied another branch chief position because he could not control his staff; and four stated they did not perceive any retaliation or a chilled working environment.

OIG found that the NRC manager instructed the NRC staff not to send a 50.54(f) letter to TVA after learning that there was no immediate safety concern. OIG also found that NRC management decided to dissolve the branch involved in the TVA Watts Bar issue when the effort on the project reduced significantly in scope, at which point the staff members were transferred to other NRC divisions or branches, and that the decision to dissolve the branch preceded the disagreement over the 50.54(f) letter.

(Addresses Management and Performance Challenge #7)

Potential Abuse of Telework and Travel Procedures by NRC Employee

OIG Strategic Goal: Corporate Management

OIG completed an investigation into an anonymous concern that NRC was wasting funds by paying travel related and per diem expenses for an NRC employee to work in NRC headquarters one week a month while the employee was in full-time telework status in another state.

The NRC telework program has a provision that allows employees to work from home or remote locations on a full time basis. In accordance with this allowance,

the employee's duty station is then changed to reflect his or her telework location. The employee receives a pay rate based on his or her locality and the employee is entitled to receive travel and per diem when returning to NRC offices for work purposes. Employees must submit a completed telework package through their supervisor to be approved for telework. The NRC Chief Human Capital Officer makes the final determination to allow an employee to be a full-time telework employee.

Investigative Results:

OIG reviewed travel vouchers submitted by the employee and identified more than \$17,000 in travel related expenses for a one year period for the employee to come to NRC headquarters while in full time telework status. OIG reviewed the employee's full-time telework agreement, which was approved by NRC and found that the employee was approved to telework from August 2011 – August 2018. Under the agreement, the employee was to work at NRC headquarters one or two weeks per month, with additional time at NRC headquarters at the discretion of his supervisor. Subsequently, following an interview with OIG, the employee terminated the telework agreement and returned to NRC headquarters.

During the investigation, OIG reviewed 50 full-time telework agreements that were processed from 2005 through January 2013, to identify potential abuse or issues regarding the NRC Full-Time Telework Program. OIG also compared the agreements to the employees' official travel records to determine the amount of travel employees incurred traveling from their residence (full-time telework location) to their NRC office while in the NRC Full-Time Telework Program.

Review of the full-time telework agreements disclosed the following issues:

- There was no consistent format for the telework agreement memorandums.
- Twenty-one of the 50 full-time telework agreements did not have a length of agreement listed.
- Three agreements listed "indefinite" for length of agreement.

OIG reviewed the travel vouchers of the full-time telework employees to identify travel back to the employee's assigned headquarters office or region while in a full-time telework status. OIG noted that two full-time telework employees spent more than \$6,000 and \$8,000, respectively, in NRC funds to travel back to NRC headquarters from May 2012 to January 2013. A third employee spent more than \$8,000 to travel back to NRC headquarters from April 2012 to January 2013, while in full-time telework status. A fourth employee, who has been on full-time telework status since November 2011, has spent more than \$15,000 in travel funds to travel to NRC Headquarters for official work.

While OIG did not identify misconduct associated with this investigation, this matter was referred to OIG Audits, which initiated an audit into the NRC full-time telework program.

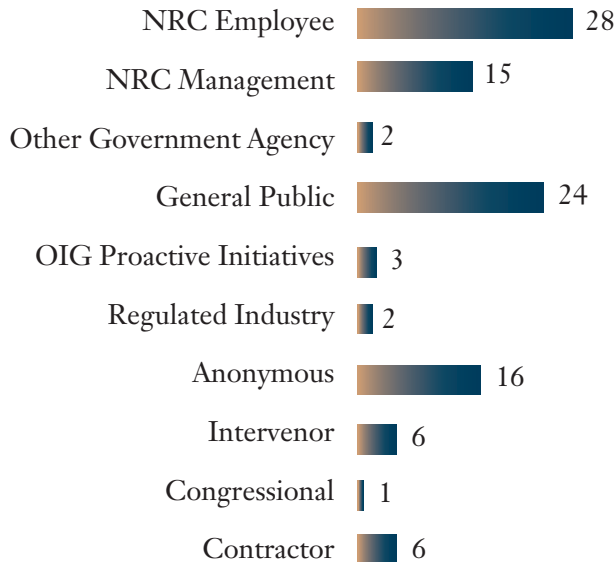
(Addresses Management and Performance Challenge #7)

SUMMARY OF OIG ACCOMPLISHMENTS

October 1, 2013, through March 31, 2014

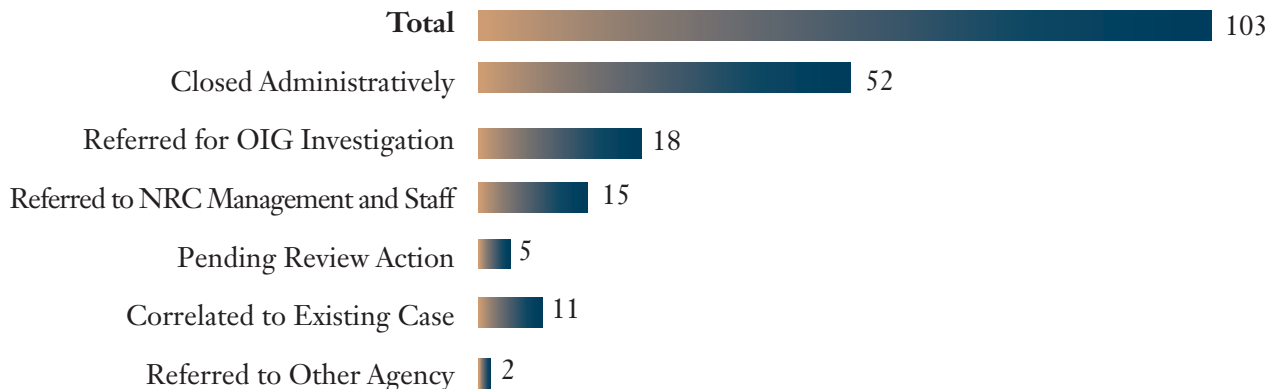
Investigative Statistics

Source of Allegations



Allegations resulting from Hotline calls: 45 **Total: 103**

Disposition of Allegations



Status of Investigations

DOJ Referrals	5
DOJ Acceptance	0
DOJ Pending	0
DOJ Declinations	5
Criminal Convictions.	0
Criminal Penalty Fines	0
NRC Administrative Actions:	
Counseling and Letter of Repremand	2
Terminations and Resignations	2
Suspensions and Demotions.	1
Other (Letter from Chairman and Review of Policy)	2
State Referrals.	2
State Declinations.	2
State Accepted.	0
PFCRA ⁵ Referral	4
PFCRA Acceptance.	0
PFCRA Declanations.	4

Summary of Investigations

Classification of Investigations	Carryover	Opened Cases	Closed Cases	Cases in Progress
Employee Misconduct	27	9	24	12
Event Inquiry	2	0	2	0
External Fraud	6	0	0	6
False Statements	2	1	0	3
Management Misconduct	17	7	7	17
Miscellaneous	2	1	0	3
Proactive Initiatives	10	0	1	9
Technical Allegations	4	2	2	4
Theft	0	1	0	1
Grand Total	70	21	36	55

⁵ Program Fraud Civil Remedies Act.

Audit Listings

Date	Title	Audit Number
10/02/2013	Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing NRC	OIG-14-A-01
10/28/2013	Audit of NRC's Oversight of Active Component Aging	OIG-14-A-02
11/22/2014	Independent Evaluation of NRC's Implementation of the Federal Information Security Management Act for Fiscal Year 2013	OIG-14-A-03
12/09/2013	Audit of NRC's Information Technology Governance	OIG-14-A-04
12/11/2013	Audit of NRC's Full-Time Telework Program	OIG-14-A-05
12/09/2013	Results of the Audit of the United States Nuclear Regulatory Commission's Financial Statements for Fiscal Years 2013 and 2012	OIG-14-A-06
12/17/2013	Independent Auditors' Report on the U.S. Nuclear Regulatory Commission's Closing Package Financial Statements as of September 30, 2013 and 2012, and for the Years then Ended	OIG-14-A-07
12/19/2-13	Audit of NRC's Use of the NEWFlex Program	OIG-14-A-08
12/24/2013	Audit of NRC's Implementation of Its National Environmental Policy Act Responsibilities	OIG-14-A-09
01/16/2014	Audit of NRC's Process for Addressing Bankruptcy of Materials Licensees	OIG-14-A-10
02/25/2014	Audit of NRC's Implementation of the Federal Managers' Financial Integrity Act for Fiscal Year 2013	OIG-14-A-11
03/18/2014	Survey of NRC's Support Provided to Resident Inspectors	OIG-14-A-12
03/21/2014	Transmittal of the Independent Auditor's Report on Condensed Financial Statements	OIG-14-A-13

Contract Audit Reports

OIG Issued Date	Contractor/Title/ Contract Number	Questioned Costs	Unsupported Costs
03/19/2014	Southwest Research Institute Independent Audit of Adequacy and Compliance of Southwest Research Institute's Disclosure Statement, Revision 4, Effective October 1, 2010 NRC-02-04-014 NRC-02-06-018 NRC-02-06-021 NRC-02-07-006 NRC-03-09-070 NRC-03-10-066 NRC-03-10-070 NRC-03-10-078 NRC-03-10-081 NRC-04-07-108 NRC-04-10-144 NRC-41-08-004 NRC-41-09-011 NRC-HQ-11-C-03-0047 NRC-HQ-11-C-03-0058	0	0
03/19/2014	Southwest Research Institute Independent Audit of Adequacy and Compliance of Southwest Research Institute's Disclosure Statement, Revision 5, Effective October 1, 2011 NRC-02-04-014 NRC-02-06-018 NRC-02-06-021 NRC-02-07-006 NRC-03-09-070 NRC-03-10-066 NRC-03-10-070 NRC-03-10-078 NRC-03-10-081 NRC-04-07-108 NRC-04-10-144 NRC-41-08-004 NRC-41-09-011 NRC-HQ-11-C-03-0047 NRC-HQ-11-C-03-0058	0	0

Audit Resolution Activities

TABLE I

OIG Reports Containing Questioned Costs⁶

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

⁶ 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 Use⁷

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

⁷ 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 Recommendation 1: Conduct periodic inspections to verify that material licensees comply with material control and accountability (MC&A) requirements, including, but not limited to, visual inspections of licensees' special nuclear material (SNM) inventories and validation of reported information. Recommendation 3: Develop and implement a quality assurance process that ensures that collected enforcement data is accurate and complete.	OIG-03-A-15
7/12/2012	Audit of NRC's Inspections, Tests, Analyses, and Acceptance Criteria Process Recommendation 10: Develop and implement a change management process to address future change in the ITAAC process that can create barriers to effective communication and coordination.	OIG-12-A-16

ABBREVIATIONS AND ACRONYMS

AEC	Atomic Energy Commission
CFR	Code of Federal Regulations
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DH	Directive Handbook
DOJ	Department of Justice
EDO	Executive Director for Operations (NRC)
FERC	Federal Energy Regulatory Commission
FISMA	Federal Information Security Management Act of 2002
FOIA	Freedom of Information Act
FUSRAP	Formerly Utilized Sites Remedial Action Program
FY	fiscal year
GIP	Generic Issues Program
HOC	Headquarters Operations Center (NRC)
IAM	Issue Area Monitor
ICM	interim compensatory measures
IG	Inspector General
IGCIA	The Inspector General Criminal Investigator Academy
IT	Information Technology
ITAAC	Inspections, Tests, Analyses, and Acceptance Criteria
MD	Management Directive
MOU	Memorandum of Understanding
NEPA	National Environmental Policy Act of 1969, as amended
NEWFlex	NRC Employee Work Schedule Flexibilities
NRC	U.S. Nuclear Regulator Commission
NRR	Office of Nuclear Reactor Regulation (NRC)
NUMEC	Nuclear Material and Equipment Corporation
OGC	Office of the General Counsel (NRC)
OIG	Office of the Inspector General (NRC)
OIS	Office of Information Services (NRC)
ONS	Oconee Nuclear Station
SLDA	Shallow Land Disposal Area
SNM	special nuclear material
TIA	Task Interface Agreement
TVA	Tennessee Valley Authority
USACE	U.S. Army Corps of Engineers
USI	Unresolved Safety Issues

REPORTING REQUIREMENTS

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

Citation	Reporting Requirements	Page
Section 4(a)(2)	Review of Legislation and Regulations	6–8
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	13–23, 30–36
Section 5(a)(2)	Recommendations for Corrective Action	13–23
Section 5(a)(3)	Prior Significant Recommendations Not Yet Completed	43
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	38
Section 5(a)(5)	Information or Assistance Refused	None
Section 5(a)(6)	Listing of Audit Reports	39
Section 5(a)(7)	Summary of Significant Reports	13–23, 30–36
Section 5(a)(8)	Audit Reports — Questioned Costs	41
Section 5(a)(9)	Audit Reports — Funds Put to Better Use	42
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
 <i>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.</i>		
Section 989C.	Peer Review Information	46

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 Corporation for National and Community Service Office of Inspector General. The peer review final report, dated September 16, 2013, reflected that the NRC OIG is in compliance with the quality standards established by the Council of the Inspectors General on Integrity and Efficiency and the Attorney General Guidelines for Offices of Inspectors General with Statutory Law Enforcement Authority.

OIG STRATEGIC GOALS

1. **Safety:** Strengthen NRC's efforts to protect public health and safety and the environment.
2. **Security:** Enhance NRC's efforts to increase security in response to an evolving threat environment.
3. **Corporate Management:** 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
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