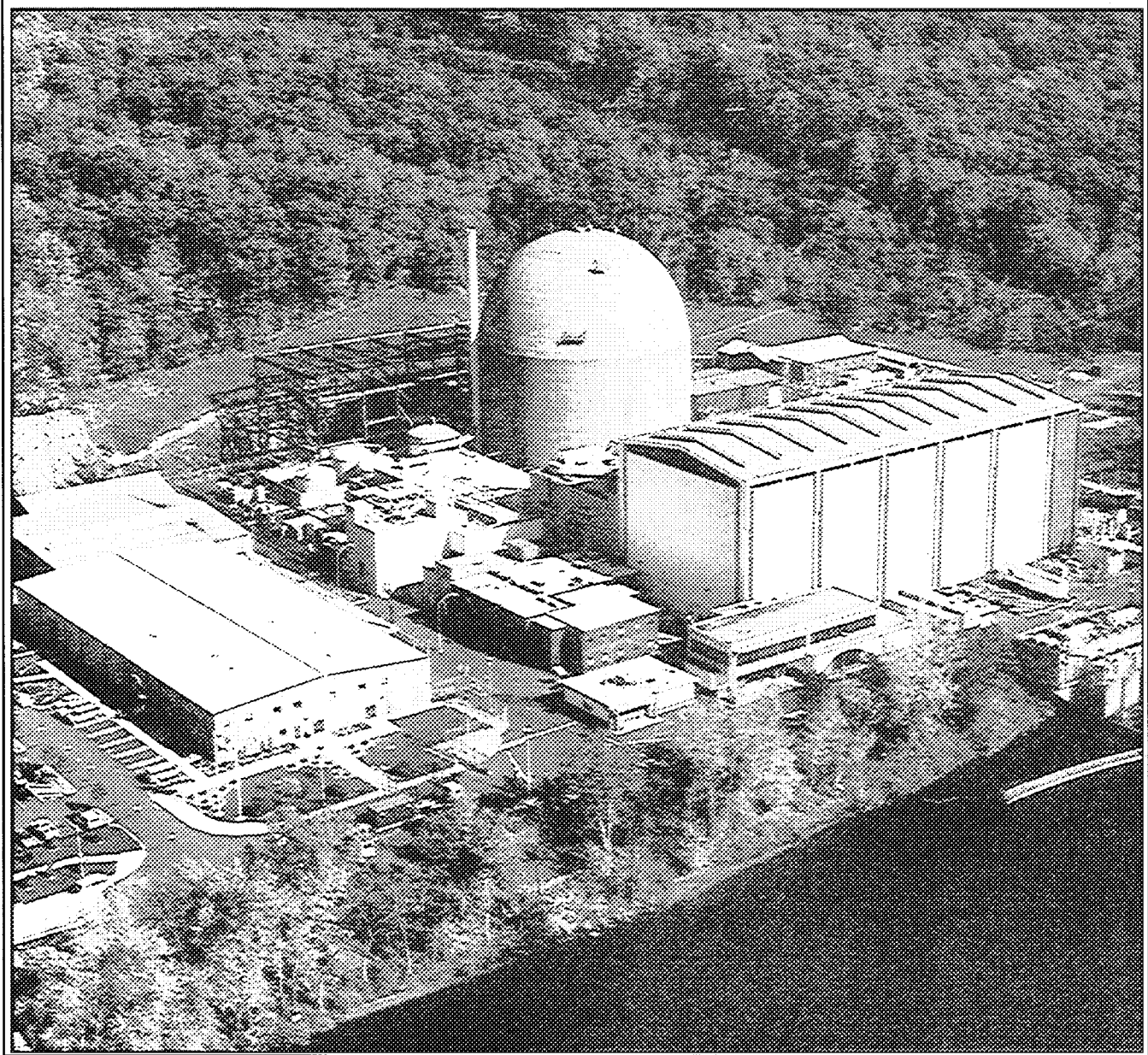




Office of the Inspector General

U.S. Nuclear Regulatory Commission



Semiannual Report

April 1, 1996 - September 30, 1996

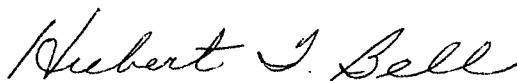
MEMORANDUM TO THE CHAIRMAN

Enclosed is the Office of Inspector General's Semiannual Report to Congress for the six-month period beginning April 1, 1996 and ending September 30, 1996.

During this reporting period, the Office of the Inspector General (OIG) completed 8 audits of the Nuclear Regulatory Commission's (NRC's) programs and operations and analyzed 27 contract audit reports as issued by the Defense Contract Audit Agency. The contract audit work resulted in questioning \$170,914 in costs and identifying \$214,598 of funds that could be put to better use. As a result of the audits performed on NRC's programs, OIG made 17 recommendations to agency managers. OIG also completed 42 investigations and 5 event inquiries.

The continued cooperation of NRC managers and staff was a significant factor in allowing us to successfully complete our work. The agency provided valuable insights into program operations and decision-making while providing unrestricted access to agency records. This allowed our staff to focus on problematic areas and to recommend reasonable corrective actions. We look forward to our continued work together as we strive for excellence in NRC's programs and operations.

Sincerely,



Hubert T. Bell
Inspector General



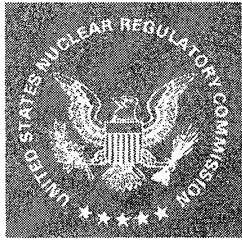


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REPORTING REQUIREMENTS INDEX

The Inspector General Act of 1978, as amended (1988), specifies reporting requirements for semiannual reports. The requirements are listed and indexed to their applicable pages.

Citation	Reporting Requirements	Page
<i>Section 4(a)(2)</i>	<i>Review of Legislation and Regulations</i>	<i>19</i>
<i>Section 5(a)(1)</i>	<i>Significant Problems, Abuses, and Deficiencies</i>	<i>5-7, 11-13</i>
<i>Section 5(a)(2)</i>	<i>Significant Recommendations for Corrective Action</i>	<i>5-7</i>
<i>Section 5(a)(3)</i>	<i>Prior Significant Recommendations Not Yet Completed</i>	<i>8, 9</i>
<i>Section 5(a)(4)</i>	<i>Matters Referred to Prosecutive Authorities</i>	<i>11, 13</i>
<i>Section 5(a)(5)</i>	<i>Information or Assistance Refused</i>	<i>None</i>
<i>Section 5(a)(6)</i>	<i>Listing of Audit Reports</i>	<i>21-24</i>
<i>Section 5(a)(7)</i>	<i>Summary of Significant Reports</i>	<i>5-7, 11-13</i>
<i>Section 5(a)(8)</i>	<i>Audit Reports—Questioned Costs</i>	<i>25</i>
<i>Section 5(a)(9)</i>	<i>Audit Reports—Funds Put to Better Use</i>	<i>26</i>
<i>Section 5(a)(10)</i>	<i>Audit Reports Issued Before Commencement of the Reporting Period for Which No Management Decision Has Been Made</i>	<i>25</i>
<i>Section 5(a)(11)</i>	<i>Significant Revised Management Decisions</i>	<i>None</i>
<i>Section 5(a)(12)</i>	<i>Significant Management Decisions With Which OIG Disagreed</i>	<i>None</i>

EXECUTIVE SUMMARY

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

AUDITS

- While most commercial nuclear power plants must either prepay decommissioning costs, provide a surety guarantee, or establish an external sinking fund, the U.S. Nuclear Regulatory Commission (NRC) allows Federal Government licensees to use a statement of intent to meet these requirements. We found that NRC's assumption that the Federal Government would pay the financial obligations of Federal licensees should the licensee be unable to do so was questionable. Therefore, the Office of the Inspector General (OIG) recommended that NRC re-evaluate its basis for allowing Federal licensees to use a statement of intent to meet their decommissioning funding assurance requirements.
- OIG reviewed NRC's videoconferencing capabilities and utilization. Our review found that the agency was taking an office-level rather than an agency-wide approach to videoconferencing. We concluded that NRC's individualized, office approach could be more costly and less efficient than using a centralized, agency-wide approach for providing videoconferencing services. OIG made three recommendations to address videoconferencing issues.
- Our review of NRC's information resources management (IRM) activities disclosed that the agency lacked adequate management controls to systematically provide NRC management with information to assess the status of IRM projects. OIG found that (1) the agency does not manage significant systems development activities from an agency-wide approach, and (2) for selected projects, ineffective communication between NRC offices and adding requirements during development delayed system implementation and drove costs up. OIG also found that NRC needs to address certain aspects of its planned implementation of the Information Technology Management Reform Act of 1996. OIG made six recommendations to improve NRC's management of information resources management projects.
- Our review of NRC's warehouse operations found that opportunities exist for NRC to achieve economies and efficiencies through eliminating (1) unneeded inventories of supplies and property, and (2) unnecessary warehouse space. OIG also found that the management controls over the agency's supplies inventory need strengthening. OIG made two recommendations to minimize the cost of warehouse operations and to strengthen controls over supplies inventories.
- NRC has been planning and developing an integrated payroll/personnel system since early 1992. OIG found that (1) the Office of Personnel does not believe that its needs

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will be met when the system becomes operational, (2) the current March 1997 planned implementation date may be optimistic, (3) one module has been indefinitely deferred and the eventual cost of the module and total system is unknown, and (4) the system testing process needs improvement. We also found that the coordination and communication was inadequate between the user office and the developing office. OIG made two recommendations to address coordination issues and improve system testing.

- We found that inadequate guidance and training were the primary "root" causes for past unbilled NRC inspections amounting to \$8.1 million. Although OIG found that recent billings were generally accurate, some of the same conditions that led to unbilled inspections in the past continue and may result in future billing problems if not corrected. OIG made three recommendations to address these issues.

INVESTIGATIONS

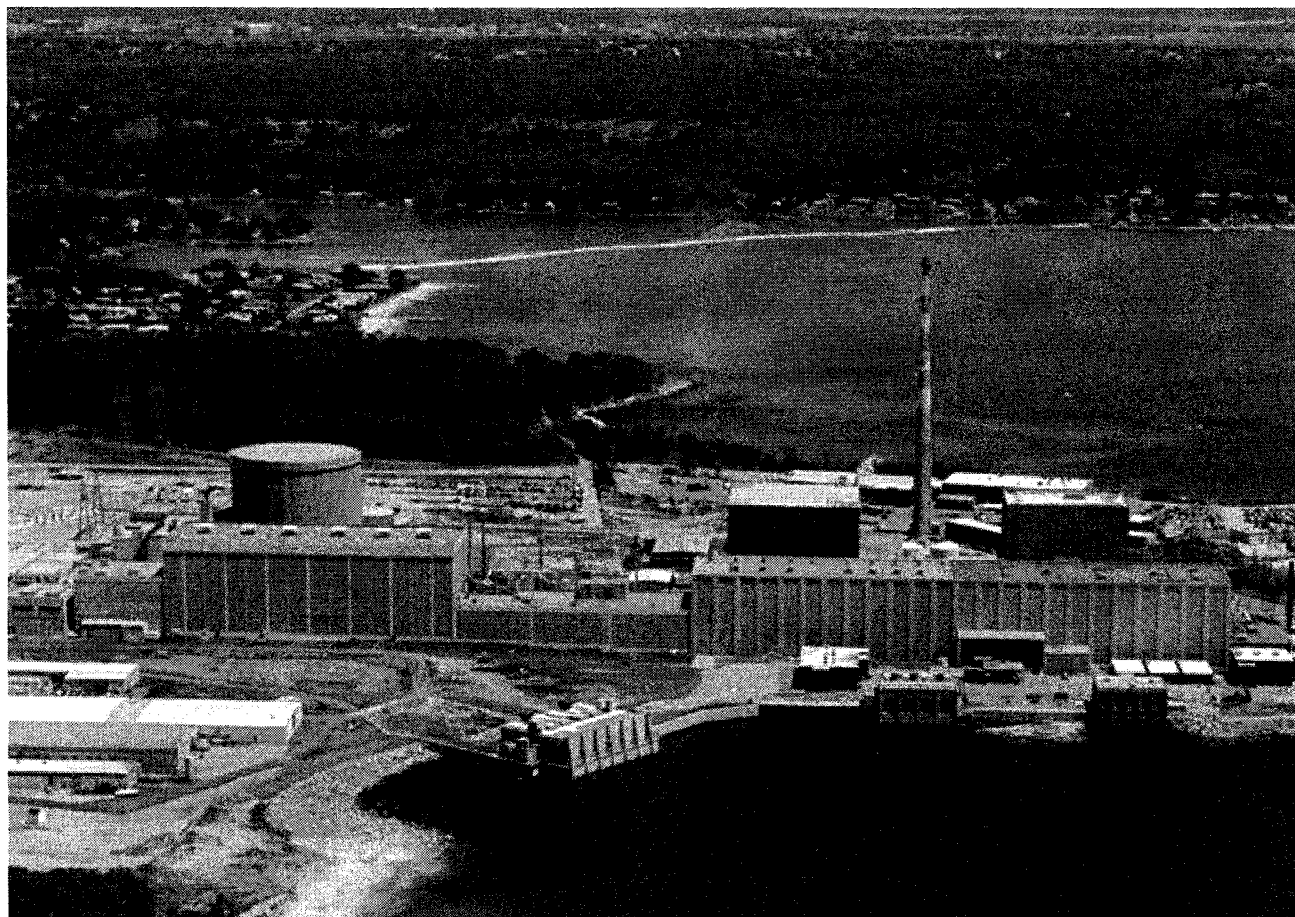
- The OIG conducted an Event Inquiry into an anonymous allegation that Maine Yankee Atomic Power Company intentionally submitted inadequate analysis to the NRC in support of two license amendments to increase power at the Maine Yankee Nuclear Power Plant. The inquiry identified a number of deficiencies in the NRC staff's handling of certain regulatory and licensing matters associated with Maine Yankee Nuclear Power Plant.
- The OIG investigated an allegation that a former employee of an NRC contractor had stolen government property valued at more than \$1,700. The investigation substantiated the allegation, the property was recovered, and the case was referred to the U.S. Department of Justice. The individual was charged with three counts of theft of government property by the U.S. Attorney's Office for the District of Maryland. The case is currently pending trial at U.S. District Court.
- The OIG initiated an inquiry to address allegations regarding the NRC staff's actions with respect to certain self-assessments conducted by Northeast Utilities (NU) in 1991, which were highly critical of licensed activities at the Millstone site. The OIG determined that in spite of increased regulatory scrutiny, the NRC staff has continued to document a general declining level of performance at the Millstone site since 1991. Several NRC managers advised OIG that NRC should have taken more aggressive action, including placing the site on the NRC watch list, as early as 1993.
- The OIG initiated an inquiry to address allegations regarding the NRC staff's handling of information associated with NU's practice of conducting full core offloads during refueling outages at Millstone Unit 1. The inquiry found deficiencies in the NRC's initial technical reviews of NU's practice regarding full core offloads during refueling outages. Also, the inquiry determined that the NRC technical staff did not interview the NU employee who reported problems associated with NU's refueling practices until after the NRC's Office of Investigations became involved in the matter.
- The OIG received an allegation that an NRC appointed Independent Review Group (IRG) team leader released to NU the identities of individuals who were participating in an NRC study without their knowledge

or consent. The IRG had selected former NU whistleblowers to interview in order to obtain information regarding how the NRC and NU had handled their concerns and allegations. The investigation by OIG confirmed this allegation that the IRG team leader improperly released the names of the allegers to NU without first obtaining permission from the individuals to do so.

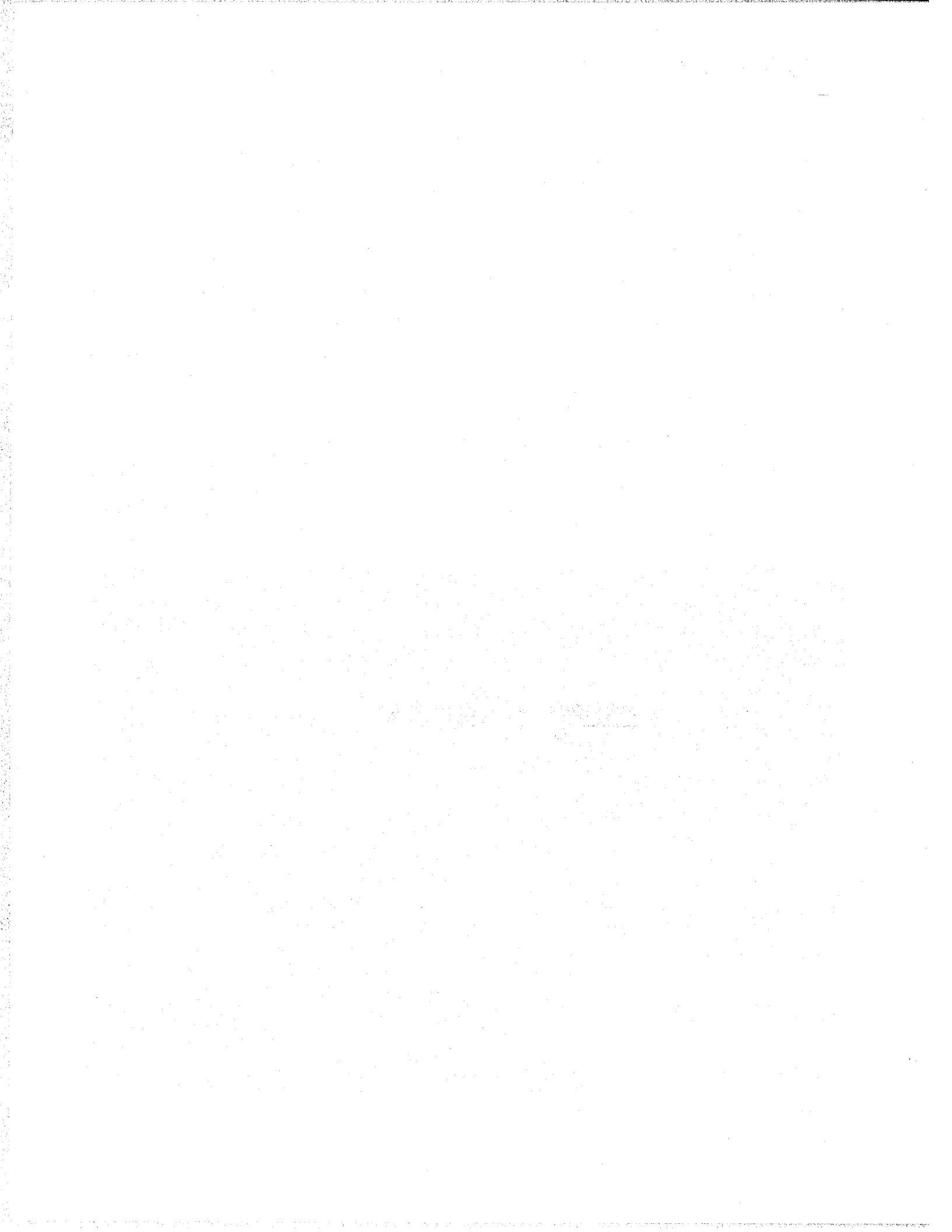
- The OIG received an allegation that an NRC contractor “padded” the number of overtime hours charged to a contract. After several technicians admitted to OIG that they padded their overtime hours, the OIG referred the matter to the NRC Office of the General Counsel (OGC) for consideration under the provisions of the Program

Fraud Civil Remedies Act (PFCRA). Subsequently, the OGC obtained the largest single PFCRA settlement for the agency to date.

- OIG investigated a Senior Resident Inspector’s alleged violation of government-wide ethics regulations relating to soliciting employment. OIG found that the inspector asked a senior licensee official for assistance in preparing a résumé and for the names of several executive search firms. In addition, the inspector had several discussions with licensee managers relating to possible future employment. OIG determined that the inspector failed to seek appropriate ethics guidance from the NRC’s ethics counselors.



Millstone Commercial Nuclear Power Station.



THE U.S. NUCLEAR REGULATORY COMMISSION

The NRC was established as an independent Federal agency by the Energy Reorganization Act of 1974, as amended. This act, along with the Atomic Energy Act of 1954, as amended, provides the framework for regulating the Nation's commercial nuclear power industry and use of nuclear materials.

NRC's scope of responsibility is diverse and complex. Its mission is to ensure that civilian uses of nuclear materials in the United States—in activities ranging from the operation of nuclear power plants to medical, industrial, or research applications—are accomplished with appropriate regard for the protection of the public health and safety, the environment, and national security.

The NRC fulfills these responsibilities through a system of licensing and regulatory activities. Some of its major activities include –

- licensing the construction and operation of nuclear power reactors and other nuclear facilities, such as nuclear fuel cycle facilities and nonpower test and research reactors, and overseeing their decommissioning
- licensing the possession, use, processing, handling, and export of nuclear material
- licensing the siting, design, construction, operation, and closure of low-level radioac-

tive waste disposal sites under NRC jurisdiction and the construction, operation, and closure of the geologic repository for high-level radioactive waste

- licensing the operators of nuclear power and nonpower test and research reactors
- inspecting licensed facilities and activities; and
- investigating nuclear incidents

The NRC is headed by five Commissioners appointed by the President and confirmed by the Senate for 5-year terms. One of them is

designated by the President to be the Chairman who serves as the principal executive officer and official spokesperson of the Commission. The staff, headed by the Executive Director for Operations (EDO), carries out the policies and decisions made by the Commission.

During fiscal year (FY) 1996, the NRC employed approximately 3,160 full-time equivalent staff in the Washington, D.C., commuting area and in four regional offices. NRC's total budget authority for FY 1996 was \$472.6 million, which includes the Office of the Inspector General's (OIG's) appropriation of \$5 million.





THE OFFICE OF THE INSPECTOR GENERAL

In 1978, the U.S. Congress passed the Inspector General Act to ensure integrity and efficiency within the Federal Government and its programs. In 1988, an amendment to this act established an independent OIG within the NRC. The OIG's primary mission is to assist the agency by identifying ways to improve NRC's programs and operations through the prevention and detection of fraud, waste, and abuse. The OIG accomplishes its mission by performing audits, special evaluations, investigations, and event inquiries.

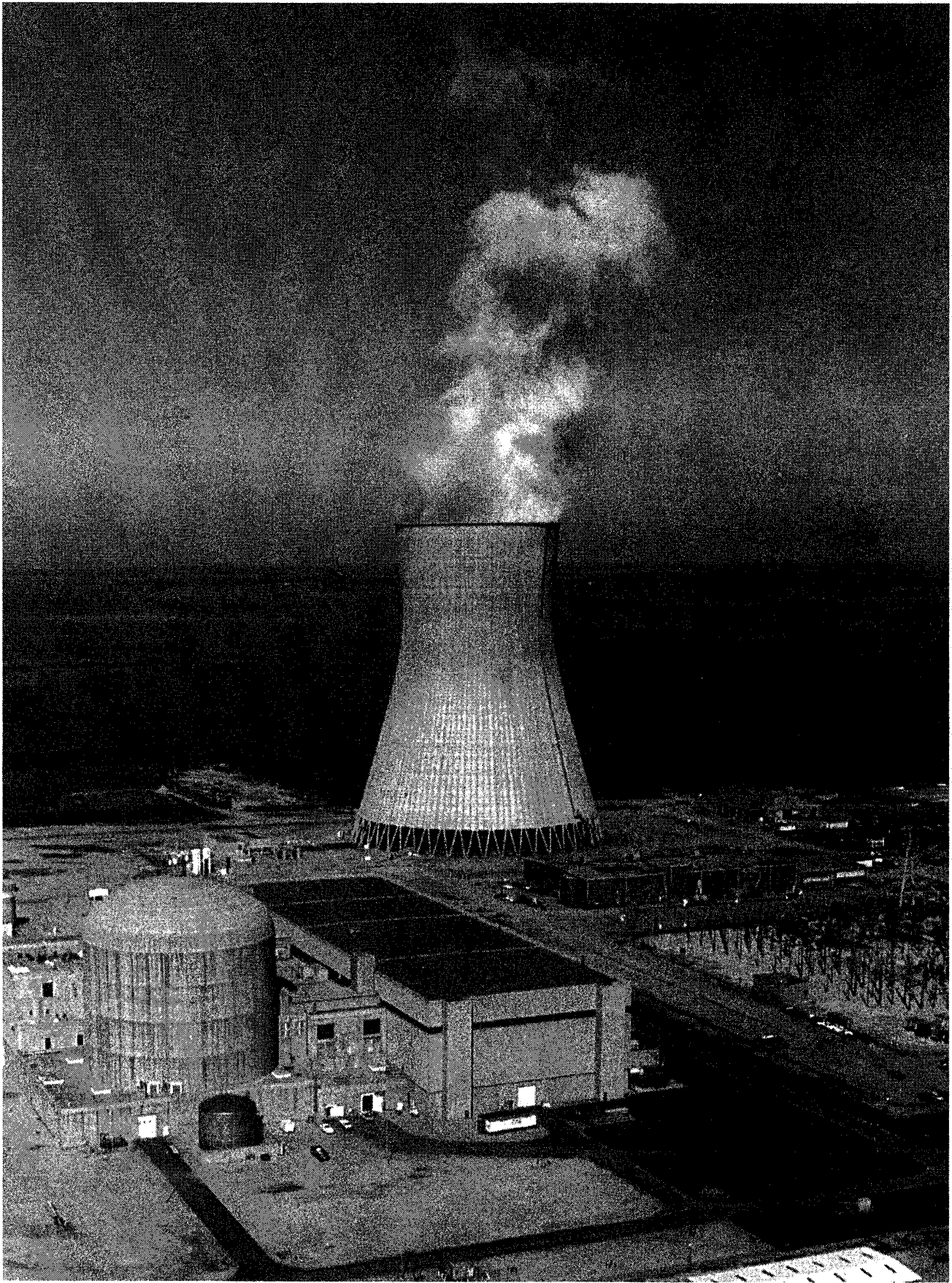
The OIG's audit staff conducts performance and financial audits, as well as special evaluations. Performance audits focus on NRC's administrative and programmatic operations. Through financial audits, OIG reviews NRC's internal control systems, transaction processing, and financial systems. The OIG conducts special evaluations to examine the implications of NRC's programs that affect national issues.

The OIG's investigative staff conducts investigations and event inquiries. The staff investigates violations of law or misconduct by NRC employees and contractors and allegations of fraud, waste, or abuse affecting NRC programs and operations. The event inquiry is an investigative report documenting the examination of events or agency actions that do not focus specifically on individual misconduct. These reports identify institutional weaknesses that led to or allowed a problem to occur.

The OIG shares in NRC's responsibility to provide adequate assurance to the public for the protection of its health and safety in the commercial use of nuclear materials and in the operation of nuclear facilities. The OIG assists the agency by assessing and reporting on NRC's efforts to ensure that its safety-related programs are operating effectively.

Of additional importance is the NRC's responsibility for ensuring that individuals who identify nuclear safety concerns regarding the use of nuclear materials do not suffer adverse job actions as a result of reporting these concerns. The OIG continually evaluates NRC's efforts to combat this type of unlawful discrimination.

The NRC is relatively unique among Federal agencies because it is required by the Omnibus Budget Reconciliation Act of 1990 to recover approximately 100 percent of its budget authority. In FY 1996, the NRC collected approximately \$462 million in fees from the industries that it regulates. Therefore, the agency must employ sound financial practices to fully comply with its legislative mandates. OIG's financial audits help the agency to meet these objectives.



Hope Creek Commercial Nuclear Power Plant.

THE AUDIT PROGRAM

*the goal of helping the agency improve its effectiveness, the OIG
performance and financial audits and analyzed 27 contract audit re-
ference Contract Audit Agency (DCAA). The performance audits
recommendations to NRC managers.*

Financial Assurance for Nuclear Licensees May Not Program)

costs associated with de-
commissioning plants—estimated to
amount to \$700 million per
NRC's basis for allowing
plants to operate nuclear power
plants without a statement of intent to meet
decommissioning requirements for de-

commissioning commercial nuclear
plants to "decommission"
plants in service. To ensure
adequate sufficient funding to
operate power plants, the NRC
must provide some form of fi-
nancial assurance. While most commercial
plants must either prepay de-
commissioning or provide a surety guar-
antee, or an external sinking fund,
government licensees to
meet these require-

NRC's assumption that the
plants should pay the financial
assurances should the li-
censes be questionable. There-

fore, OIG recommended that NRC re-evaluate
its basis for allowing Federal licensees to use
a statement of intent to meet their decommis-
sioning funding assurance requirements.

Survey of NRC's Contract Administration Activities (Management and Support)

This survey focused on determining the
status of NRC actions to strengthen the ad-
vance procurement process given the impor-
tance of this process to overall financial
management. In our 1994 audit report, the
OIG pointed out that NRC's advance procure-
ment process was inadequate and that it con-
tributed to the agency not meeting its financial
goals.

We found that NRC has not completed
actions to implement OIG's recommendation
to revise Management Directive 11.1, "NRC
Acquisition of Supplies and Services", to
strengthen the advance procurement process.

Selecting, Managing, and Utilizing the M- Cubed Contract (Management and Support)

This special evaluation, which NRC re-
quested, assessed the agency's performance
in selecting, managing, and utilizing a systems
development contract with M-Cubed Informa-
tion Systems.

(continued on next page)

Audit Program (continued)

The evaluation identified several lessons the agency can learn to more effectively develop systems and oversee contracts in the future. It also identified what can happen when control processes do not work as intended. More specifically, our work disclosed that, during the contractor selection process, the NRC did not pay sufficient attention to potential warning signs of problems and made hasty decisions due to organizational pressures. OIG also identified instances of communication breakdowns in the processes for overseeing work specifications and contracts.

Review of Videoconferencing Capabilities and Utilization (Management and Support)

OIG reviewed NRC's videoconferencing capabilities and utilization. The review disclosed that the agency was taking an office-level rather than agency-wide approach to implementing videoconferencing.

We concluded that NRC's individualized, office approach could be more costly and less efficient than using a centralized, agency-wide approach to videoconferencing. OIG recommended that NRC (1) consider shifting to an agency-wide approach for implementing videoconferencing, (2) develop an agency-wide policy statement and administrative procedures to address providing videoconferencing services, and (3) determine other potential uses of videoconferencing technology.

Improvements Needed in Agency Oversight of Information Resources Management Activities (Management and Support)

NRC information technology activities represent significant agency investments amounting to several million dollars annually for computer hardware, software, and communications equipment and services. Because

several key projects were behind schedule and over budget, OIG reviewed selected projects to determine the causes for these conditions and to assess NRC's oversight of information resources management projects.

Our review disclosed that NRC lacked adequate management controls to systematically provide NRC management with information to assess the status of IRM projects. OIG found that (1) the agency does not manage significant systems development activities from an agency-wide approach, and (2) for selected projects, ineffective communication between NRC offices and added requirements during development delayed system implementation and drove costs up.

OIG also found that NRC needs to address certain aspects of its planned implementation of the Information Technology Management Reform Act of 1996. OIG made six recommendations to improve NRC's management of IRM projects.

Opportunities for Savings Available Through Improved Management of Warehouse Operations (Management and Support)

The OIG reviewed the efficiency and economy of NRC's warehouse operations, including the adequacy of management controls.

OIG found that opportunities exist for NRC to achieve economies and efficiencies in its warehouse operations through eliminating (1) unneeded inventories of supplies and property, and (2) unnecessary warehouse space. We also found that the management controls over the agency's supplies inventory need strengthening. OIG made two recommendations to ensure that NRC minimizes the cost of warehouse operations and strengthens controls for safeguarding warehouse assets.

Review of NRC's Progress in Developing and Implementing an Integrated Payroll/Personnel System (Management and Support)

NRC has been planning and developing an integrated payroll/personnel system since early 1992. OIG reviewed the agency's development and implementation of this system to determine whether user needs were being met, whether implementation schedules and cost ceilings were being adhered to, and whether the system internal controls for time and attendance were adequate.

OIG found that (1) the Office of Personnel believes that its needs will not be met when the system becomes operational, (2) the current March 1997 planned implementation date may be optimistic, (3) one module has been indefinitely deferred and the eventual cost of the module and total system is unknown, and (4) the system testing process needs improvement. We also found that the coordination and communication was inadequate between the user office and the developing office. OIG made two recommendations to address these issues.

Review of NRC's Part 170 License Fee Billing System (Management and Support)

OIG audits of NRC's financial statements for fiscal years 1992 through 1995 disclosed problems with the agency's Part 170 (of Title 10 of the Code of Federal Regulations) license fee billing system. For example, inspection hours and contractor costs were not always properly billed. This OIG review determined the accuracy and reliability of recent billings, the effectiveness of related management controls, and the causes for certain past inspections not being identified and billed timely.

We found that inadequate guidance and training were the primary "root" causes for past

unbilled NRC inspections amounting to \$8.1 million. Although OIG found that recent billings were generally accurate, some of the same conditions that led to unbilled inspections in the past continue and may result in future billing problems if not corrected. OIG made three recommendations to address these issues.

AUDITS IN PROGRESS

Review of NRC's Implementation of Management Directive 11.7

OIG is conducting an audit of the agency's effectiveness in implementing its Management Directive (MD) 11.7, "NRC Procedures for Placement and Monitoring Work with the Department of Energy." MD 11.7 was intended to bring about greater accountability and control over work placed with the Department of Energy (DOE). In addition to the work performed at NRC Headquarters, OIG met with DOE Headquarters officials and DOE and laboratory officials at four DOE laboratories to obtain their experiences in implementing this directive.

Review of NRC's Use of Value Engineering

OIG is reviewing NRC's use of value engineering (VE) as a management tool to reduce program and acquisition costs as required by Office of Management and Budget (OMB) Circular A-131. VE is a technique for reducing costs, increasing productivity, and improving quality in various Federal operations. OIG is assessing NRC's implementation of OMB's guidance and the agency's policies, procedures, and use of VE.

(continued on next page)

Audit of NRC's FY 1996 Financial Statements

The Chief Financial Officers Act of 1990 requires that NRC issue audited financial statements annually. OIG's objective for this audit is to render an opinion on (1) whether the FY 1996 financial statements fairly present the agency's financial position, (2) management's assertion about NRC's internal controls, and (3) NRC's degree of compliance with laws and regulations.

Special Evaluation: Capturing and Tracking Employee Hours for Management and Financial Reporting

The purpose of this evaluation will be to alert NRC management to the diverse and ongoing agency efforts to revise and develop management information systems to capture and report employee hours. Building on recent related work, we will address the need for effective coordination to minimize costs, comply with financial reporting requirements, and ensure that all user needs are met.

Special Evaluation of NRC's Initiatives to Implement the Maintenance Rule

The recently implemented Maintenance Rule represents a major effort by NRC to implement risk-informed and performance-based regulations. This evaluation addresses the agency's efforts to implement this rule.

SIGNIFICANT RECOMMENDATIONS NOT YET COMPLETED

■ When OIG issued its last semiannual report, NRC had not yet completed action on one recommendation from its November 1990 report entitled, "NRC's Management of Report-

ing Requirements Under 10 CFR Part 21." The recommendation addressed the agency's need to revise Part 21 of Title 10 Code of Federal Regulations (CFR) to accommodate reporting requirements for materials licensees. This revision was initially determined to be necessary to comply with Section 206 of the Energy Reorganization Act of 1974, as amended.

Subsequent to our November 1990 report, NRC's Office of the General Counsel determined that the agency had no legal authority to require 10 CFR Part 21 reports from Agreement State licensees. Also, NRC staff conducted a study to determine which material licensees could experience a component failure that could create a substantial safety hazard. NRC staff had expected to initiate a proposed rulemaking in late 1995. However, in November 1995, after reviewing the results of the study and performing an in-depth review of NRC Part 21 reporting statistics, the NRC staff determined that it was more appropriate to terminate the proposed rulemaking. At the time of our last semiannual report, the NRC staff was developing a Commission Paper recommending termination.

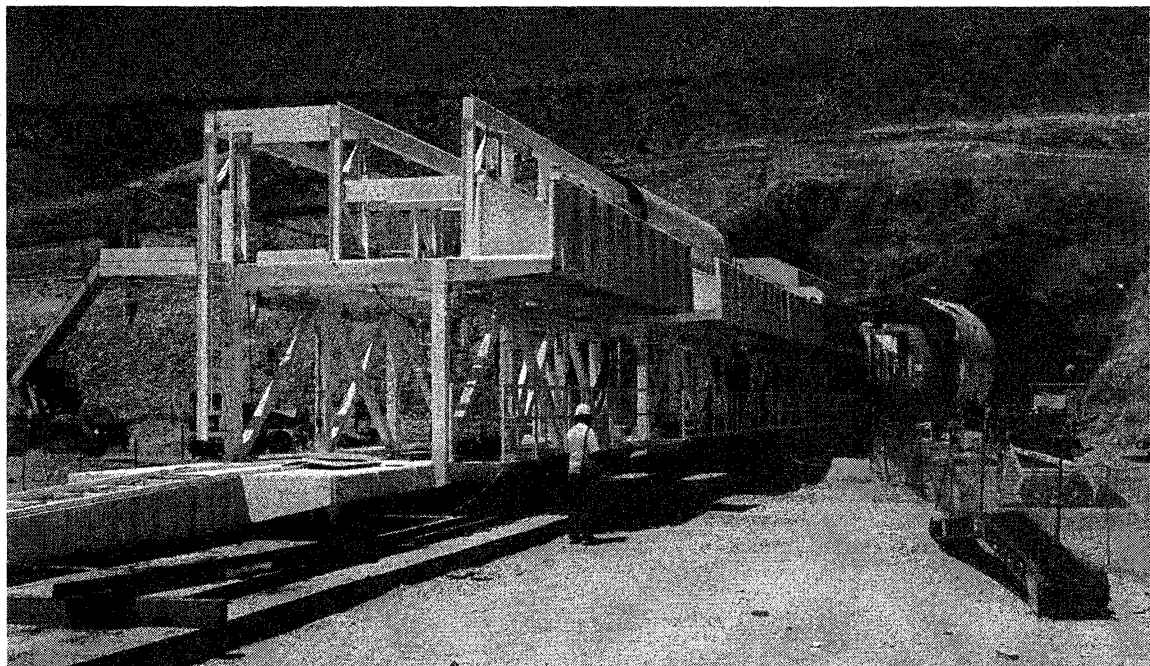
In a March 1996 Commission Paper, the EDO informed the Commissioners of the NRC staff's intent not to proceed with rulemaking on 10 CFR Part 21 regarding reporting requirements for materials licensees. In a staff requirements memorandum of April 12, 1996, the Secretary of the Commission informed the EDO that the Commission did not object to the NRC staff's plans. Finally, in a memorandum of April 15, 1996, the EDO described in detail to the Acting Inspector General the staff's actions to complete this open recommendation and its decision not to revise 10 CFR Part 21. On the basis of our review of these actions, we concur with the agency's decision and have closed this recommendation.

■ In March 1995, OIG issued a report entitled, “*NRC Needs to Provide Strong Direction for the Licensing Support System (LSS)*.” The Nuclear Waste Policy Act of 1982 requires that NRC approve or disapprove the construction of a high-level nuclear waste repository within 3 to 4 years of receiving a DOE construction license application. To meet this deadline, NRC enacted a rule requiring the development of an electronic information management system to reduce the time needed for discovery during the license hearing process. The rule requires that DOE design and develop the system and that NRC operate and maintain it.

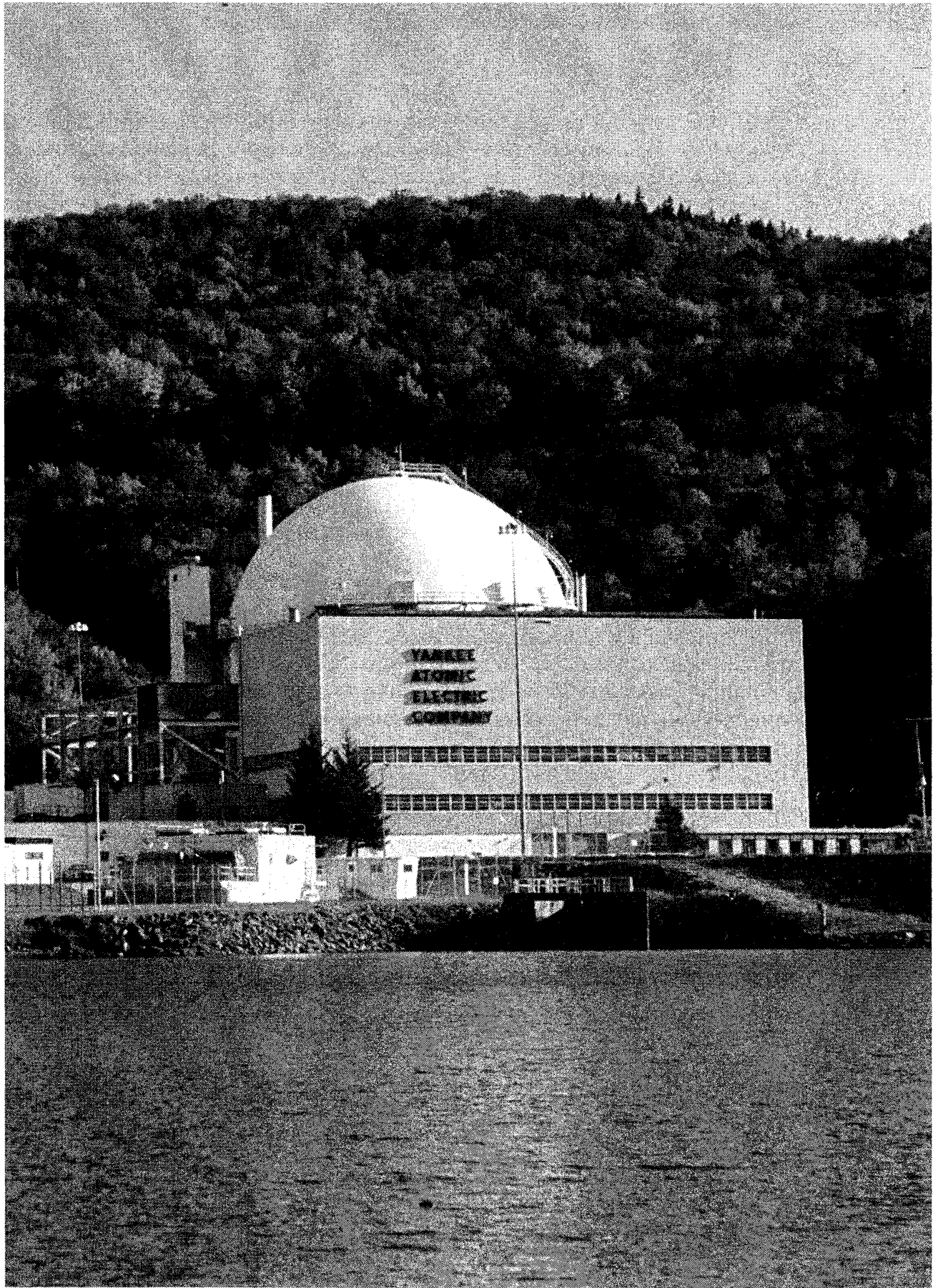
The OIG report stated that the program had stalled for the past 5 years for several reasons. Many of the delays were attributed to an inadequate system definition and agreement on the roles and responsibilities of DOE and NRC. As a result, OIG recommended that NRC obtain a formal commitment from DOE in the form of an Interagency Agreement or Memorandum of Understanding (MOU) on key aspects of the LSS.

In response to the March 1995 OIG report, the EDO appointed a Senior Management Team (SMT) to re-evaluate the purpose and need for the LSS and to address the issues raised by the OIG audit. In a January 1996 status report, the EDO advised the Commission that the SMT would develop an action plan addressing the issues affecting the LSS program. In a subsequent status report issued in July 1996, the EDO said that, due to Congressional budget action related to DOE’s high-level nuclear waste program, “...there was no resumption of any LSS activities and all DOE’s LSS related activities remained stalled.” The EDO reported that this included the finalization of an MOU with DOE.

In August 1996, the EDO provided the SMT’s action plan to address outstanding LSS issues. A final report is to be submitted to the Commission by October 15, 1996. While NRC continues to make progress on our original recommendation, action is not yet completed.



Tunnel boring machine excavates Yucca Mountain.



Maine Yankee Nuclear Power Plant.

THE INVESTIGATIVE PROGRAM

During this reporting period, the OIG received 255 allegations and initiated 33 new investigations and 6 event inquiries. Also during this reporting period, 42 cases and 5 event inquiries were closed. In addition, 77 referrals were made to NRC management.

INVESTIGATIVE CASE SUMMARIES

NRC Staff's Actions Associated with Regulation at Maine Yankee Nuclear Power Plant (Reactor Program)

OIG conducted an Event Inquiry in which OIG evaluated NRC staff actions associated with Maine Yankee Nuclear Power Plant. The inquiry stemmed from allegations contained in an anonymous letter sent to the Union of Concerned Scientists which claimed that the Maine Yankee Atomic Power Company (MYAPCo) intentionally submitted inadequate analyses to the NRC in support of two license amendments to increase the power at which the plant could operate. Additionally, the anonymous complainant alleged that the utility applied for one of the power increases during a holiday period when the NRC was least vigilant.

The OIG inquiry disclosed weaknesses in the NRC staff's review of computer codes submitted by MYAPCo. Additionally, OIG uncovered several irregularities in the manner in which the staff closed out a long-standing licensee action item. The OIG inquiry also disclosed that the NRC staff did not have a formal system for tracking commitments made by licensees and, as a result, the staff relied on the licensee to follow up on the commitments. Staff documentation of conversations and com-

mitments by the licensee was also lacking.

IMPACT: In response to the OIG report, the Commission directed the NRC staff to address the weaknesses in the review of data submitted by the licensee; the role of the NRR project manager in the NRC regulatory program; the role and performance of NRC managerial oversight in the reactor program; the NRC staff's requirements and tools for licensee commitment tracking and for documenting conversations with licensees; and, the authenticity of the staff's tracking of the status of implementation of certain past action items.

Theft of Government Property (Management and Support)

An OIG investigation revealed that a former employee of an NRC contractor stole government property and sold it to a Northern Virginia pawn shop. The stolen property included an answering machine, a facsimile machine, and a video cassette recorder, and was valued at more than \$1,700. The individual was charged with three counts of theft of government property by the U.S. Attorney's Office for the District of Maryland. The property was recovered and the case is currently pending trial at U.S. District Court.

(continued on next page)

NRC Staff Actions to Address Northeast Utilities System 1991 Self-Assessments (Reactor Program)

The OIG initiated an Event Inquiry regarding alleged wrongdoing on the part of the NRC staff with respect to certain self-assessments conducted by Northeast Utilities (NU). Specifically, in 1991, NU submitted to the NRC certain self-assessment reports regarding licensed activities at the Millstone Nuclear Power Station (Millstone) Units 1, 2, and 3 that were highly critical of NU's performance at Millstone. The allegation concerned the adequacy of the NRC staff's review of these self-assessments as well as whether the staff had colluded with NU to conceal extensive and significant safety problems from public disclosure.

The OIG Event Inquiry disclosed that in spite of increased regulatory scrutiny in the form of inspections and evaluations, the staff has continued to document a general declining level of performance at the Millstone site since 1991. Several NRC managers advised OIG that given the indicators of poor performance at Millstone, the NRC should have taken more aggressive action, including placing the site on the NRC watch list, as early as 1993. The inquiry also disclosed that the NRC staff handled the public disclosure of NU's self-assessment documents in accordance with the requirements contained in Section 2.790 of Title 10, Code of Federal Regulations (10 CFR 2.790).

NRC Handling of Issues Related to Refueling Operations At Millstone Unit 1 (Reactor Program)

The OIG initiated an Event Inquiry after receiving information from an NU employee regarding the manner in which the NRC and NU were addressing problems with refueling practices at Millstone Unit 1. In 1993, NU no-

tified the NRC of problems associated with performing full core offloads during refueling outages at Millstone Unit 1. In April 1994, the NU employee contacted the NRC with his allegations related to NU's operation of the spent fuel pool at Millstone Unit 1.

The OIG determined that the NRC's initial technical reviews did not thoroughly address the problems with performing full core offloads that NU reported to the NRC in 1993. Also, the OIG determined that the Region I technical staff did not interview the NU employee regarding his allegations. The only interview of the NU employee, involving a member of the NRC technical staff, took place in May 1995 when the staff participated in an NRC Office of Investigations interview of the allegor.

In addition, the OIG determined that NRC Region I would have closed the NU employee's technical concerns had the employee not pursued his allegations by filing a 10 CFR Part 2.206 petition with the NRC in August 1995.

Improper Release of Identities of Allegers (Reactor Program)

In December 1995, the NRC formed an Independent Review Group (IRG) to conduct an independent evaluation of the history of Northeast Utilities' and the NRC staff's handling of employee concerns and allegations related to licensed activities at Millstone. The IRG selected nine former whistleblowers to interview in order to obtain specific information about how the NRC and NU had handled their concerns and allegations. Subsequently, the OIG received an allegation that the IRG team leader had released to NU the identities of the individuals who were participating in the study, to NU without their knowledge or consent.

The OIG determined that the IRG team leader improperly released the names of the alleged to NU without first obtaining permission from the individuals to do so. Two of the names released to NU were current NU employees who had concerns about being associated with the IRG. One of these individuals had entered into a confidentiality agreement with the NRC.

IMPACT: NRC senior managers appointed a new IRG team leader as a result of the OIG investigation. In addition, training was provided to the NRC staff regarding the handling of allegations that included discussions on avoiding disclosure of alleged identity, and the general care and sensitivity that must be applied when dealing with alleged.

OIG Referrals Under the Program Fraud Civil Remedies Act (Management and Support)

The OIG initiated an investigation after receiving information that an NRC contractor "padded" the number of overtime hours charged to a contract. The NRC contract was a time and materials contract for full technical support services of the data and voice telecommunications cable distribution system at NRC. When interviewed by OIG, several contract employees admitted that they padded the amount of overtime hours they claimed under the NRC contract. These technicians told OIG that they padded their overtime hours at the direction of the contractor onsite manager.

In August 1995, the OIG referred the investigation to the NRC's OGC for consideration under the provisions of the Program Fraud

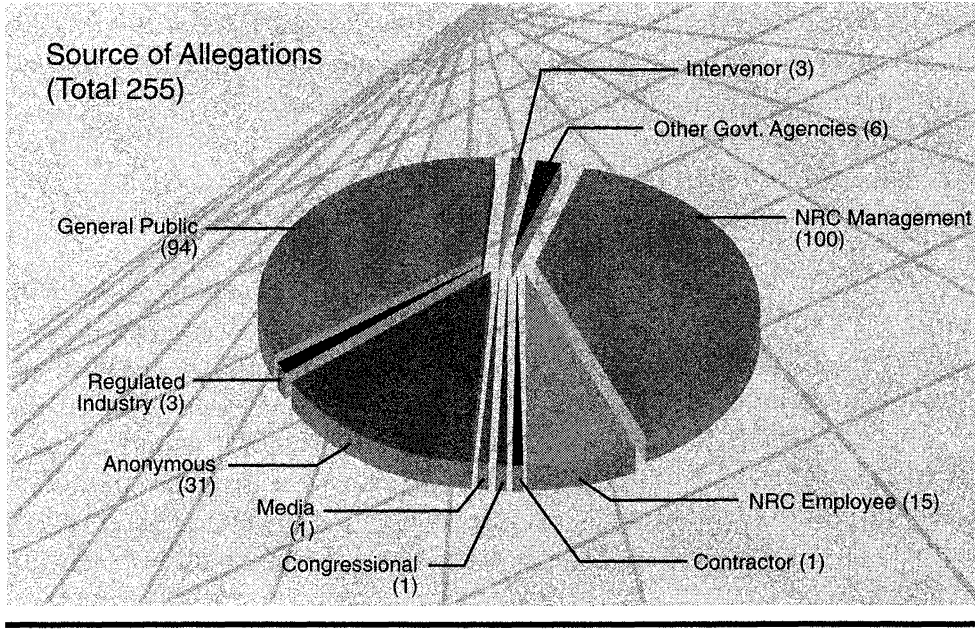
Civil Remedies Act (PFCRA). In July 1996, the OGC and the contractor entered into an agreement that resulted in a settlement of \$36,000 which is the largest single PFCRA case settlement for the agency to date.

Conflict of Interest (Reactor Program)

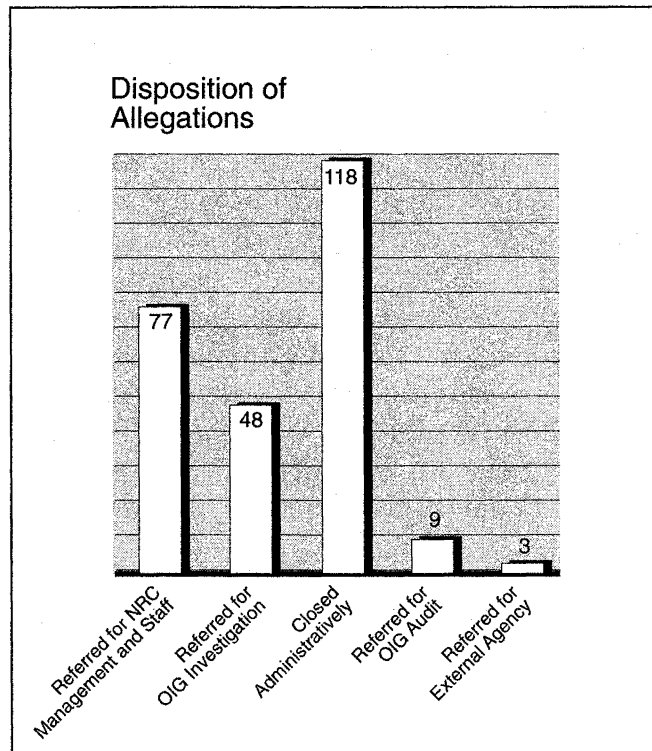
The OIG initiated an investigation of a Senior Resident Inspector's (SRI's) alleged violation of government-wide ethics regulations relating to soliciting employment. The investigation disclosed that the SRI asked the senior licensee official at a nuclear plant for assistance in preparing a résumé. The licensee official also was asked for the names of executive search firms doing business in the nuclear industry. In addition, the SRI had several discussions with this official relating to possible future employment with the licensee. Some of these discussions took place while the NRC and the licensee were concluding activity relating to the Systematic Assessment of Licensee Performance review at the plant.

OIG found sufficient evidence to indicate that the employee violated federal conflict of interest rules. The SRI's requests to a licensee official to assist in efforts to find outside employment and repeated questioning on when potential employment could be discussed were improper. While the SRI claimed he tried to learn the rules governing such conduct beforehand, the inspector failed to seek the proper ethics guidance from NRC counsel. The Department of Justice declined prosecution in this matter and agency action against the employee is pending.

INVESTIGATIVE STATISTICS



Of the 255 allegations, none were carried forward from the previous period, and 43 resulted from hotline calls.



Status of Investigations

DOJ Referrals	12
Pending DOJ Action	2
DOJ Declinations	10
Indictments & Arrests	1
Convictions	1
PFCRA Referrals	2
PFCRA Recovery	\$36,000
Other Recoveries	\$28,406.42

NRC Administrative Actions

Terminations & Resignations	2
Suspensions & Demotions	1
Other Administrative Actions	23
Total	26

INVESTIGATIONS SUMMARY

<i>Classification of Investigations</i>	<i>Carryover</i>	<i>Opened</i>	<i>Closed</i>	<i>In Progress</i>
Conflict of Interest	1	0	1	0
Internal Fraud	2	1	1	2
External Fraud	2	2	2	2
False Statements	1	1	0	2
Theft	1	4	1	4
Misuse of Government Property	2	3	1	4
Employee Misconduct	8	10	8	10
Management Misconduct	6	2	8	0
Technical Allegations-Other	16	10	20	6
TOTAL INVESTIGATIONS	39	33	42	30
TOTAL EVENT INQUIRIES	0	6	5	1

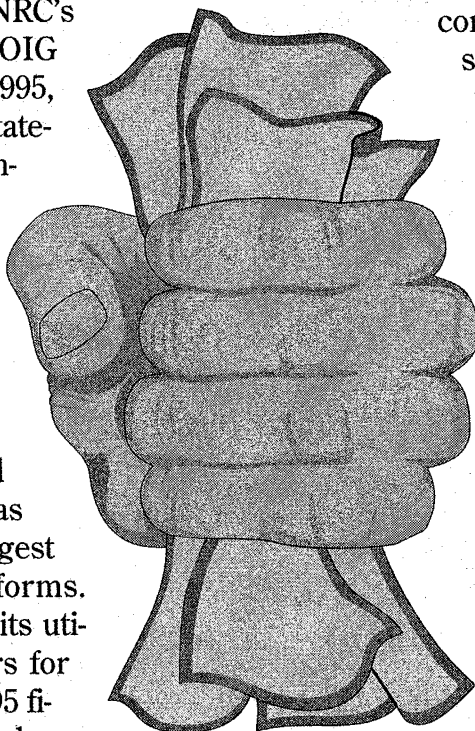
SPECIAL FEATURE

FINANCIAL STATEMENT AUDITING: TEAMWORK SPELLS SUCCESS

The Chief Financial Officers Act of 1990 (CFO Act) gave the Inspectors General for 23 departments and agencies added responsibilities to conduct financial statement audits of Federal trust funds, revolving funds, and commercial activities. Because the NRC is required by law to collect approximately 100 percent of its budget through the assessment of fees, the agency is regarded as a commercial activity. Therefore, the NRC's financial statements are subject to audit.

Before FY 1995, an Independent Public Accountant audited NRC's financial statements, and OIG oversaw the audit. For FY 1995, OIG staff audited these statements. This OIG team, consisting of certified public accountants and other financial auditing professionals, issued the audit report on March 1, 1996. We met this ambitious goal even though the reporting schedule was accelerated one month. The audit was and continues to be the largest team audit that OIG performs. While most NRC OIG audits utilize a team of two auditors for about four months, the 1995 financial statement audit had a complement of five full-time auditors for almost seven months. Other auditors assisted as needed. Although completing the audit required significant effort, the benefits of performing the work in-house soon became apparent.

Two immediate benefits were recognized. First, after only a short time together, the staff began functioning with a true spirit of cooperation and teamwork. While each staff member was assigned a particular audit segment, team members assisted each other and met frequently to discuss planning and transaction testing strategies. These frequent meetings and discussions helped each team member to fully understand the objectives and methodology being pursued. This understanding ultimately led to the timely and successful completion of the audit. The esprit de corps among the team members resulted in a recognition that even the most difficult goals are attainable.



The second benefit was the increased knowledge of the inner workings of the agency's policies and its accounting system. Only by personally (1) examining the control environment, control procedures, and accounting system, (2) interviewing financial management and staff, and (3) testing account balances did we fully comprehend the strengths and weaknesses of the organization and system. We believe that our new insights will enable us to better evaluate NRC's financial management program and provide a basis for continued growth and development in pursuing this work.

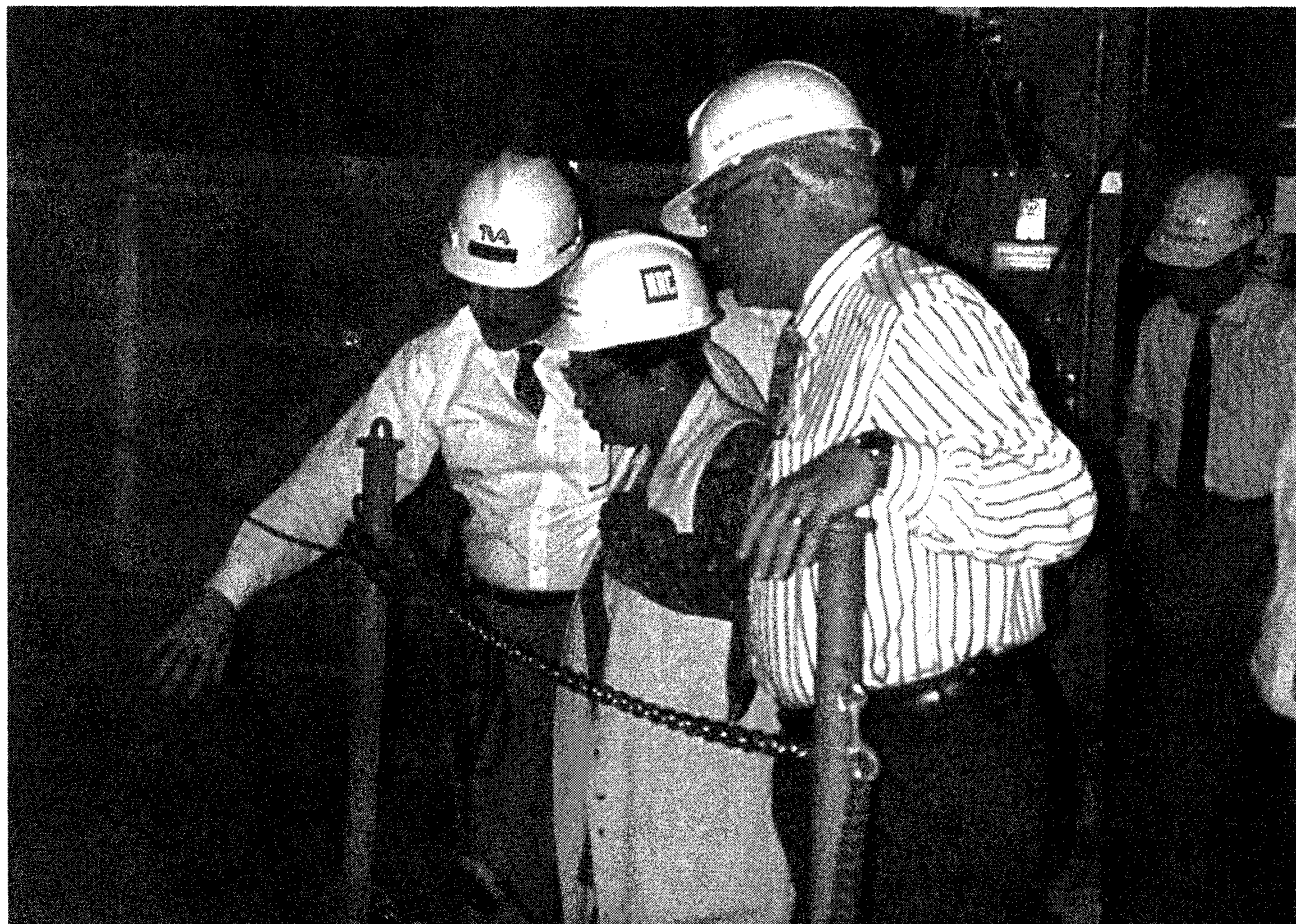
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Financial Statement Auditing (continued)

This year, we plan to achieve additional benefits by expanding the success of teamwork. For 1996, using contractor assistance, we will expand the scope of this audit. We have engaged a contractor to perform electronic data processing control work, which we will use to examine financial systems controls. This examination will help ensure the accuracy and reliability of financial data, which will greatly enhance our knowledge and understanding of NRC's financial systems.

To assist the audit team, we will also use a college accounting student (under a cooperative education program), and an NRC em-

ployee on rotational assignment to OIG. The NRC employee has an accounting background and will be assigned to assist with audit areas outside the employee's regular duties. We believe these actions will increase these individuals' knowledge and appreciation of financial statement auditing, and at the same time, provide an opportunity for financial team members to expand their focus. We look forward to the continued success of teamwork during the FY 1996 audit and to the added benefits that will be realized through this audit approach that will create "win-win" situations for all parties involved.



Chairman Jackson with NRC and TVA officials looking into the reactor cavity at Watts Bar Unit 1.

OTHER ACTIVITIES

REGULATORY REVIEW

The Inspector General Act, 5 U.S.C. App 3, Section 4(a) (2), requires the OIG to review existing and proposed legislation and regulations and to make recommendations concerning the impact of such legislation or regulations on the economy and efficiency of programs and operations administered by the agency.

From April 1, 1996, through September 30, 1996, OIG reviewed agency documents, including approximately 120 Commission Papers and numerous Federal Register notices, regulatory actions, and statutes.

The OIG Regulatory Commentaries addressed administrative matters and provided programmatic review to improve prevention of fraud, waste, and abuse. Discussion with the agency resolved several policy concerns, and collaborative efforts resulted in improved guidance to the agency staff in other areas.

An example of this work includes the OIG review of an agency directive on public meetings. Our comment on Management Directive 3.5, *"Public Attendance at Certain Meetings Involving the Public,"* focused on provisions relating to meetings typically closed to the public. The draft management directive allowed meetings between, "senior executives of a utility," and the EDO or other senior NRC managers. The language limiting access to utility managers appeared to exclude all others with relevant information who were not employed by utilities. In response to the OIG comments, the agency indicated that the limitation was unintentional and revised the section addressing meetings with all others to eliminate the limiting language.

In addition, the Nuclear Regulatory Commission Fact Sheet is a brochure which explains the NRC's mission and provides summary descriptions of selected agency components, including the OIG. The material about the OIG contains several errors. Incorrect information about the OIG in the pamphlet includes the name of the statute and the mission of the IG as delineated by that statute. The OIG commentary identified these errors, requested that the incorrect version be withdrawn and that a draft of revised editions be forwarded for review prior to publication. The agency declined to withdraw the incorrect edition but agreed to submit later revisions for review.

NRC'S OIG TRAVELS TO THE REGIONS

During this period, the Inspector General, Assistant Inspector General for Audits (AIGA), Assistant Inspector General for Investigations, and Counsel travelled to NRC's Regional Offices and addressed senior managers in each of the regions. These briefings, which are similar to the Management Focus Training conducted for headquarters managers last year, are part of the OIG's ongoing outreach to agency management to provide guidance on prevention of fraud, waste, and abuse. This program was initiated with correspondence to each of the Regional Administrators requesting information about topics of interest to them and their senior managers. In response to this input and input received from other presentations, a syllabus was formulated. The resulting presentations included introductory remarks by the IG reflecting the philosophy

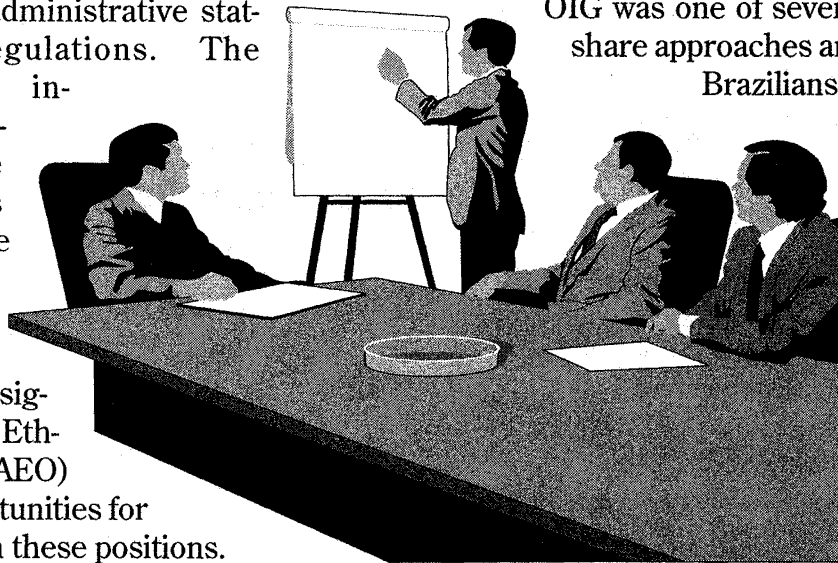
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Other Activities (continued)

and mission of the office and personal insights into agency strengths and vulnerabilities. In addition, each Assistant IG and Counsel provided information as to their organizational functions and the current issues in their respective areas of responsibility. Each of the presentations included case examples and closed with a question and answer period.

ETHICS SEMINAR

The Counsel to the Inspector General was a speaker at the annual Office of Government Ethics Conference. The presentation addressed the role of the Inspector General in the enforcement of ethics violations under administrative statutes and regulations. The presentation included a discussion of the distinctions between the roles of the Inspector General and that of the Designated Agency Ethics Official (DAEO) and the opportunities for cooperation in these positions. Information was provided on the differences between criminal prosecution and administrative processes and how OIG investigative reports may be used to support the government's position in each. The presentation concluded with a dialogue identifying areas where IGs and DAEOs can provide support to their respective missions.



AN AUDIT BRIEFING FOR BRAZILIAN OFFICIALS

The AIGA and his managers briefed a delegation of six auditors from the Brazilian Federal Audit Office. The Brazilian auditors came to the United States for a training program to enable them to better evaluate the efficiency and effectiveness of their government programs and to ensure accountability for government performance. The nine-day auditor training program focused on successfully applied approaches by the U.S. General Accounting Office, Inspector General Offices, executive agency internal auditing departments, and private organizations. NRC's OIG was one of several organizations to share approaches and insights with the Brazilians.

The OIG managers provided information on OIG's organizational structure, the government-wide standards governing audit conduct, and our relations with the NRC and

Congress. OIG also shared our approach on various aspects of our work, including annual audit planning and individual audit planning, execution, reporting, and followup. This exchange of ideas and thoughts proved to be a rewarding experience for both OIG and the Brazilians.

APPENDICES

AUDIT LISTINGS

Internal Program Audit Reports

Date	Title	Number
04/03/96	NRC's Decommissioning Financial Assurance Requirements for Federal Licensees May Not Be Sufficient	OIG/95A-20
04/10/96	Survey of NRC's Contract Administration Activities	OIG/96A-04
04/17/96	Selecting, Managing, and Utilizing the M-Cubed Contract	OIG/96E-13
05/21/96	Review of Videoconferencing Capabilities and Utilization	OIG/96A-12
09/24/96	Improvements Needed in Agency Oversight of Information Resources Management Activities	OIG/96A-11
09/13/96	Opportunities for Savings Available Through Improved Management of Warehouse Operations	OIG/96A-16
09/30/96	Review of NRC's Progress in Developing and Implementing an Integrated Payroll/Personnel System (PAY/PERS)	OIG/96A-15
09/13/96	Review of NRC's Part 170 License Fee Billing System	OIG/96A-09

Contract Audit Reports

OIG Issue Date	Contractor/ Contract Number	Questioned Costs (Dollars)	Funds Put To Better Use (Dollars)
4/4/96	Creare, Inc./Scientech, Inc. NRC-04-87-398	0	0
4/4/96	Viking Systems International NRC-03-87-028	0	0
4/4/96	Westinghouse Electric Corporation NRC-04-90-085 NRC-04-91-049	0 0	0 0
4/9/96	Graphic Visions Associates, Inc. RS-ADM-96-142	0	0
4/9/96	SC&A, Inc. NRC-04-90-070 NRC-04-90-071 NRC-04-92-057 NRC-04-93-058	0 0 0 0	0 0 0 0
4/9/96	Westinghouse Electric Corporation NRC-04-90-085 NRC-04-91-049	0 0	0 0
5/21/96	Systems Improvement, Inc. NRC-04-90-078	0	0
7/8/96	Enercorp Federal Services Corp. RS-NMS-96-002	0	0
7/8/96	Enercorp Federal Services Corp. RS-NMS-96-002	0	0
7/24/96	Global Management Systems, Inc. RS-IRM-95-175	0	0

Contract Audit Reports (Continued)

OIG Issue Date	Contractor/ Contract Number	Questioned Costs (Dollars)	Funds Put To Better Use (Dollars)
7/24/96	Parameter, Incorporated NRC-03-93-026	0	0
8/5/96	Applied Management Systems, Inc. NRC-33-89-132	98,450	0
8/5/96	Southwest Research Institute NRC-02-88-005	0	0
	NRC-02-91-002	0	0
	NRC-02-93-005	0	0
8/6/96	Battelle Columbus Laboratories NRC-04-87-066	0	0
8/7/96	Risk Engineering, Incorporated NRC-04-96-037	0	0
8/7/96	Simulation, Systems, & Services RS-AED-96-265	0	214,598
8/7/96	STD Associates, Inc./Bauer Associates NRC-03-93-034	0	0
8/8/96	Southwest Research/Adrian Brown NRC-02-85-009	10,533	0
	NRC-02-88-005	2,560	0
8/8/96	Southwest Research/Adrian Brown NRC-02-85-009	20,515	0
	NRC-02-88-005	9,217	0

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Contract Audit Reports (Continued)

OIG Issue Date	Contractor/ Contract Number	Questioned Costs (Dollars)	Funds Put To Better Use (Dollars)
9/18/96	USDA Graduate School NRC-38-88-364	29,639	0
9/18/96	Science Applications International Corp (SAIC) NRC-02-90-009	0	0
9/18/96	Science & Engineering Associates (SEA) NRC-03-93-036	0	0
	NRC-04-87-086	0	0
	NRC-04-89-051	0	0
	NRC-04-91-066	0	0
	NRC-04-91-071	0	0
	NRC-26-93-290	0	0
	NRC-33-83-500	0	0
	NRC-33-84-407	0	0
	NRC-33-86-261	0	0
9/18/96	Science & Engineering Associates (SEA) NRC-04-89-051	0	0
9/18/96	Sonalysts, Inc. NRC-03-89-031	0	0
9/23/96	Massachusetts Institute of Technology NRC-03-85-055	0	0
9/23/96	Westinghouse Electric Corporation NRC-04-85-103	0	0
9/30/96	I-Net, Inc. NRC-33-89-166	0	0
	NRC-33-91-203	0	0
	NRC-33-91-219	0	0
	TOTAL	170,914	214,598

AUDIT TABLES

The NRC's dependence on commercial contract activity is relatively small. Thus, questioned costs and savings are inherently smaller

than those reported by most other agencies.

During this reporting period, the OIG analyzed 27 contract audit reports issued by the DCAA. The following tables depict the cost savings from this work.

TABLE I

*Office of the Inspector General
Reports Containing Questioned Costs*

<i>Reports</i>	<i>Number of Reports</i>	<i>(Dollar Value)</i>	
		<i>Questioned Costs</i>	<i>Unsupported Costs</i>
A. For which no management decision had been made by the commencement of the reporting period	6	76,551	396,971
B. Which were issued during the reporting period	4	170,914	0
Subtotals (A+B)	10	247,465	396,971
C. For which a management decision was made during the reporting period:			
(i) dollar value of disallowed costs	10	247,465	396,971
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision had been made by the end of the reporting period	0	0	0
E. For which no management decision was made within 6 months of issuance	0	0	0

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TABLE II

*Office of the Inspector General Reports Issued
With Recommendations That Funds Be Put to Better Use*

<i>Reports</i>	<i>Number of Reports</i>	<i>Dollar Value of Funds</i>
A. For which no management decision had been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	4*	214,598
Subtotals (A+B)	4	214,598
C. For which a management decision was made during the reporting period:		
(i) dollar value of recommendations that were agreed to by management	4	214,598
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision had been made by the end of the reporting period	0	0
E. For which no management decision was made within 6 months of issuance	0	0

* Three pre-award audit reports reported that zero funds were available for better use.

ABBREVIATIONS

AIGA	Assistant Inspector General for Audits
AIGI	Assistant Inspector General for Investigations
CFR	Code of Federal Regulations
CFO Act	Chief Financial Officers Act
DAEO	Designated Agency Ethics Official
DCAA	U.S. Defense Contract Audit Agency
DOE	U.S. Department of Energy
DOJ	U.S. Department of Justice
EDO	Executive Director for Operations
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
IRG	Independent Review Group
IRM	NRC's Office of Information Resources Management
LSS	Licensing Support System
Millstone	Millstone Nuclear Generating Station, Unit 1, New London County, Connecticut
MD	Management Directive
MOU	Memorandum of Understanding
MYAPCo	Maine Yankee Atomic Power Company
NU	Northeast Utilities
NRC	U.S. Nuclear Regulatory Commission
OGC	NRC's Office of the General Counsel
OIG	NRC's Office of the Inspector General

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Abbreviations (continued)

OMB	U.S. Office of Management and Budget
PAY/PERS	Payroll/personnel system
PFCRA	Program Fraud Civil Remedies Act
SMT	Senior Management Team
SRI	Senior Resident Inspector
VE	Value Engineering

GLOSSARY

Agreement States

A State that has signed an agreement with the NRC allowing the State to regulate the use of radioactive material within the State.

Event Inquiry

The event inquiry is an investigative product documenting examination of events or agency actions that do not focus specifically on individual misconduct. These reports identify institutional weaknesses that led to or allowed a problem to occur. This type of investigative effort was previously referred to as an inspection.

Financial Audit

A financial audit assesses the effectiveness of internal control systems, transaction processing, financial systems, and contracts.

Funds Put To Better Use

Funds identified in audit recommendations that could be used more efficiently by avoiding unnecessary expenses.

Hotline

A toll-free telephone number (1-800-233-3497) available to anyone for reporting incidents of possible fraud, waste, and abuse to the NRC's Office of the Inspector General.

Management Decision

A final decision based on management's response to audit recommendations and findings.

Material Weakness

A specific instance of noncompliance with the FMFIA of sufficient importance to be reported to the President and the Congress. A weakness that would significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use, or misappropriation of funds, property, or other assets; or result in a conflict of interest.

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THE INSPECTOR GENERAL HOTLINE

The OIG established a toll-free number (**1-800-233-3497**) to provide NRC employees, contractors, and others with direct access to OIG's Hotline Program. Hotline procedures and guidelines were carefully developed to ensure the confidentiality of NRC employees wishing to report incidents of possible fraud, waste, and abuse within the NRC. Trained OIG staff are available to answer calls Monday through Friday, between 10 a.m. and 4 p.m. (eastern standard time). Individuals may also provide information to hotline personnel by writing to the following address:

U.S. Nuclear Regulatory Commission
Office of the Inspector General
Hotline Program
Mail Stop T-5 D28
Washington, DC 20555-0001

**HOTLINE NUMBER:
1-800-233-3497**



