



# *Office of the Inspector General*

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*U.S. Nuclear Regulatory Commission*

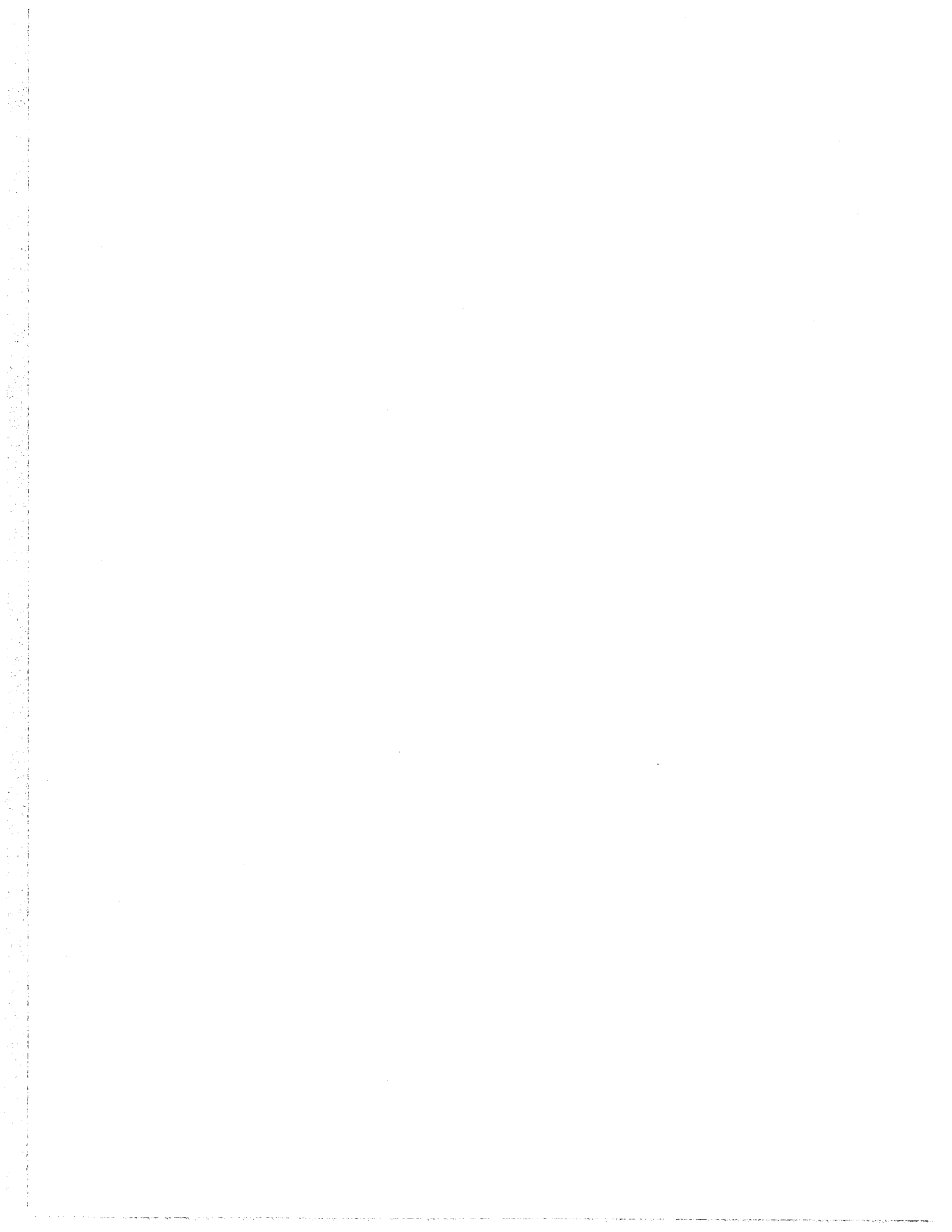


*Calvert Cliffs Commercial Nuclear Power Station*

## *Semiannual Report*

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*October 1, 1996 – March 31, 1997*



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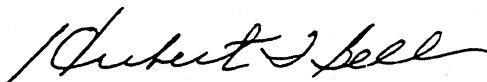
# **MEMORANDUM TO THE CHAIRMAN**

Enclosed is the Office of the Inspector General's Semiannual Report to Congress for the six-month period beginning October 1, 1996, and ending March 31, 1997.

During this reporting period, the Office of the Inspector General (OIG) completed eight audits or special evaluations of the Nuclear Regulatory Commission's (NRC's) programs and operations, and analyzed 25 contract audit reports issued by the Defense Contract Audit Agency. The contract audit work resulted in questioning \$50,737 in costs and identifying \$8,620 of funds that could be put to better use. As a result of the audits performed on NRC programs, the OIG made 17 recommendations or suggestions to agency managers. The OIG also completed 39 investigations and one event inquiry.

The OIG continues to have a supportive and cooperative relationship with NRC managers and staff, which facilitates our ability to successfully complete our mission. We look forward to continuing our work together in achieving the highest level of integrity and accountability for NRC 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.*

<b>CITATION</b>	<b>REPORTING REQUIREMENTS .....</b>	<b>PAGE</b>
Section 4(a)(2)	Review of Legislation and Regulations .....	21–23
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Section 5(a)(4)	Matters Referred to Prosecutive Authorities .....	15, 17, 18
Section 5(a)(5)	Information or Assistance Refused .....	None
Section 5(a)(6)	Listing of Audit Reports .....	24–26
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Section 5(a)(8)	Audit Reports — Questioned Costs .....	27
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Section 5(a)(10)	Audit Reports Issued Before Commencement of the Reporting Period for Which No Management Decision Has Been Made .....	27–28
Section 5(a)(11)	Significant Revised Management Decisions.....	None
Section 5(a)(12)	Significant Management Decisions With Which OIG Disagreed .....	None

## **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**

- The OIG evaluated the NRC's efforts to shift to risk-informed and performance-based regulations using the Maintenance Rule as the primary example of that effort. The NRC needs to define performance-based regulations, develop procedures to implement them, and assess the effect on the NRC's enforcement program. The OIG believes the transition to a risk-informed, performance-based system needs a comprehensive strategy for implementing these regulatory changes, including specific objectives and a means to measure progress toward meeting those objectives. The OIG report made three suggestions to facilitate the NRC's movement toward a risk-informed, performance-based regulatory system.
  
- The NRC Chairman requested that the OIG review the NRC's dry cask storage program and public concerns about a spent fuel storage cask at a nuclear power plant. The OIG evaluation included a review of (1) the loading and unloading techniques, (2) the NRC staff's scope and criteria for completing safety evaluations, (3) the vendor certification and review process, and (4) the interface between NRC staff offices regarding this program. In December 1996, the OIG issued a Special Evaluation Report that contained five suggestions to improve the dry cask storage program and NRC responsiveness to the public.

- The OIG reviewed the NRC's contract to operate and manage all NRC headquarters buildings. The OIG's objective was to identify areas where contract management practices could be improved. The OIG concluded that the NRC can better manage its commercial facilities management services contract by improving four internal processes. The OIG report made four suggestions to improve the NRC's administrative oversight of this contract.
  
- The Chief Financial Officers (CFO) Act requires that the OIG annually audit the Principal Financial Statements of the NRC. On the NRC's Fiscal Year 1996 (FY96) Principal Financial Statements, the OIG issued an unqualified opinion on the Statement of Financial Position, and the Statements of Operations, Cash Flows, and Budget and Actual Expenses. In the OIG's opinion on management's assertions about the effectiveness of internal controls, the OIG identified one new reportable condition and one carried over from prior fiscal years. The OIG report on the NRC's compliance with laws and regulations states that, with respect to the items tested, the NRC was in compliance. The OIG report made two recommendations to improve controls over capitalized software.
  
- The OIG conducted a review to determine (1) the adequacy of the NRC's revised controls over agency-funded property at Department of Energy (DOE) laboratories, and (2) whether NRC project managers were effectively implementing procedures contained in an NRC management directive. The OIG found that NRC project managers made important progress in administering and controlling individual projects contracted to DOE laboratories. However, the OIG reported that project management should be strengthened by implementing a streamlined process to aggregately track and oversee NRC-funded property. The OIG report made three recommendations to strengthen NRC oversight and accountability over agency property at DOE labs.



## **INVESTIGATIONS**

- The OIG initiated an investigation based on an allegation that an NRC Office of Investigations (OI) investigative report had been improperly disclosed to a licensee. The OIG determined that an NRC project manager intentionally provided portions of the report to the licensee. The licensee was the subject of the OI investigation and the matter had been referred to the Department of Justice (DOJ) for prosecutive consideration. The project manager pled guilty in Federal Court to disclosure of confidential information in violation of 18 USC 1905.
  
- The OIG provided investigative assistance to U.S. Customs on a case involving the illegal export of nuclear reactor components from the United States to an unauthorized foreign country. An inspection of the parts at a foreign location confirmed that an NRC export license should have been obtained prior to shipment of the items from the United States. One U.S. citizen pled guilty to a felony count in connection with the investigation.
  
- An NRC employee was investigated by the OIG for providing false documents and making false statements to supervisors in connection with several leave requests. The employee had previously been placed on leave restriction by the agency due to excessive use of unscheduled leave. The OIG investigation revealed significant discrepancies in the employee's description of events surrounding the leave requests. The employee ultimately resigned from the NRC while administrative action was being considered.
  
- The OIG received information that several hundred boxes of computer diskettes were missing after an NRC inventory. The OIG found that two NRC employees improperly disposed of approximately 300 boxes of diskettes rather than following the established procedures for turning in excess government property. The U.S. Attorney for the District of Maryland declined prosecution, and the matter was referred to NRC management for consideration of administrative action.

- The OIG investigated an allegation that American Express Corporation (AMEX) cancelled an NRC employee's government credit card for nonpayment. The OIG determined that the employee used this credit card to purchase goods and services for personal benefit and had accrued over \$5,000 in unpaid charges. Further, it was determined that the employee provided false and misleading information to the NRC's Division of Security (SEC) during a background investigation. The employee resigned from the NRC.
  
- The OIG investigated numerous reports of personal and government property thefts at NRC headquarters. The OIG identified a contract security guard as the individual responsible for approximately 90% of the thefts reported at the NRC during a two-year period. Federal prosecution of the security guard was declined. However, the contractor terminated the guard's employment following the OIG investigation.

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# ***THE U.S. NUCLEAR REGULATORY COMMISSION***

The U.S. Nuclear Regulatory Commission (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.

The NRC's mission is to regulate the Nation's civilian use of source, byproduct, and special nuclear materials to ensure adequate protection of the public health and safety, to promote the common defense and security, and to protect the environment.



*The five NRC Commissioners are, from left to right, Commissioner Kenneth C. Rogers, Commissioner Nils J. Diaz (standing), Chairman Shirley A. Jackson, Commissioner Edward McGaffigan, Jr. (standing), and Commissioner Greta J. Dicus.*

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The NRC's scope of responsibility includes regulation of commercial nuclear power reactors; nonpower research, test, and training reactors; fuel cycle facilities; medical, academic, and industrial uses of nuclear materials; and the transport, storage and disposal of nuclear materials and waste.

The NRC fulfills its responsibilities through a system of licensing and regulatory activities. Some of the NRC's major activities include:

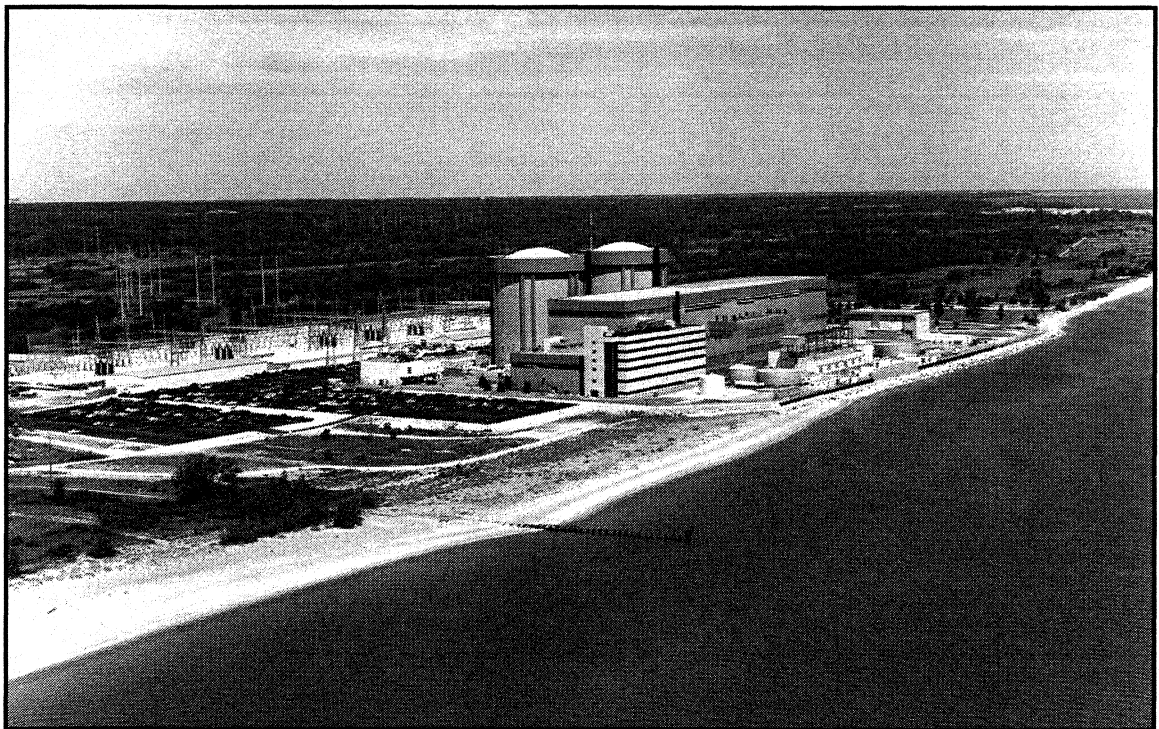
- licensing the construction and operation of nuclear power reactors and other nuclear facilities, such as nuclear fuel cycle facilities and nonpower test and research reactors, and overseeing their decommissioning;
- licensing the possession, use, processing, handling, and export of nuclear material;
- licensing the siting, design, construction, operation, and closure of low-level radioactive 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's total budget authority for Fiscal Year 1997 is \$476.8 million, which includes the Office of the Inspector General's appropriation of \$5 million.

# 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 Office of the Inspector General (OIG) within the NRC. The OIG's primary mission is to assist the agency by identifying ways to improve the 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 administrative and programmatic operations. Through financial audits, the OIG reviews the NRC's internal control systems, transaction processing, and financial systems. The OIG conducts special evaluations to examine the implications of NRC programs that affect national issues.

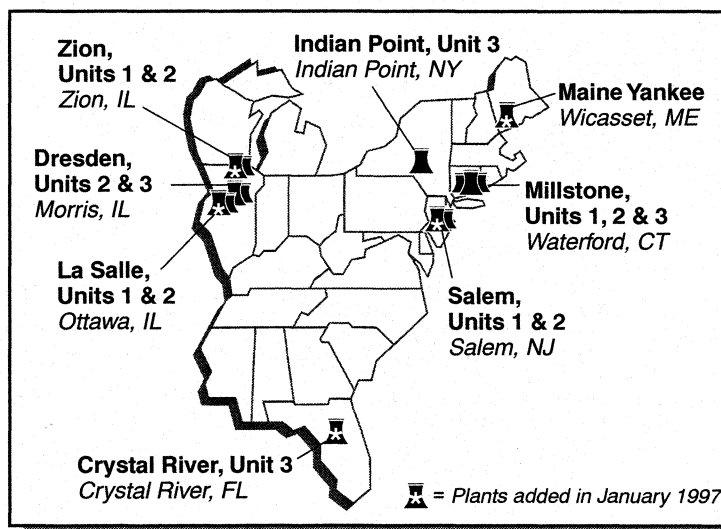


Zion Commercial Nuclear Power Plant

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. An 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 the 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 the NRC's efforts to ensure that its safety-related programs are operating effectively.

*The NRC Watchlist includes nuclear power plants that warrant increased regulatory attention. Recent OIG investigations addressed issues involving Maine Yankee, Millstone, Crystal River, and Salem.*



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 the 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% of its budget authority. Therefore, the agency must employ sound financial practices to fully comply with its legislative mandates. The OIG's financial audits help the agency to meet these objectives. In FY96, the NRC collected approximately \$457 million in fees, or 98% of its budget, from the industries that it regulates.

# **THE AUDIT PROGRAM**

*To help the agency improve its effectiveness, the OIG completed four performance and financial audits, four special evaluations, and analyzed 25 contract audit reports issued by the Defense Contract Audit Agency (DCAA). The audits and special evaluations resulted in 17 recommendations and suggestions to NRC managers.*

## **AUDIT SUMMARIES**

### ***Better Definition and Planning Needed to Guide NRC's Transition to a Risk-Informed, Performance-Based Regulatory System (Reactor Program)***

The NRC is shifting its regulations for nuclear power reactors to a more risk-informed and performance-based approach. The Chairman has noted this approach will allow the targeting of NRC and industry resources on those aspects of nuclear operations that have the greatest safety significance and will tend to relieve regulatory burden as a result. One of the most significant efforts toward developing risk-informed, performance-based regulations is the recently implemented Maintenance Rule. The Maintenance Rule requires licensees to establish programs to monitor performance of systems, structures, and components. The OIG evaluated the agency's efforts to shift to risk-informed and performance-based regulations using the Maintenance Rule as the primary example of that effort.

The OIG believes that the NRC needs to define performance-based regulations and describe how the agency plans to implement them. The NRC also needs to address the issue of how performance-based regulation will affect the citing of violations and the use of enforcement. The OIG's report suggested that the NRC consider (1) developing a conceptual framework for performance-based regulation, (2) designing a strategy for implementing the framework including establishing goals, and (3) establishing performance measures to evaluate progress toward meeting those goals.

***Review of NRC's Implementation of OMB Circular A-131,  
Value Engineering (Management and Support)***

The Office of Management and Budget (OMB) Circular A-131 requires Federal Departments and Agencies to use value engineering (VE) as a management tool to reduce program and acquisition costs. The Circular also requests Offices of the Inspector General to audit their agencies' implementation of A-131. The OIG's audit focused on assessing the adequacy of the NRC's policies, procedures, and implementation of VE, since the NRC reported no cost savings from VE for Fiscal Years 1994 and 1995.

Although the NRC has developed policies and procedures that generally meet Circular A-131's requirements, the agency has not applied the VE technique for analyzing agency programs and projects. Further, the OIG found that the NRC is not fully implementing the Federal Acquisition Regulation requirement to include VE clauses in contracts valued at over \$100,000. NRC management recognizes this problem and is committed to including VE clauses in appropriate future contracts.

The OIG also learned that OMB was leading an effort to revise Circular A-131 and may provide new incentives that encourage greater agency use of VE. Therefore, the OIG made no recommendations.

***NRC Has an Opportunity to Coordinate Projects Related to Tracking  
Employee Labor Hours (Management and Support)***

The OIG prepared a Special Evaluation Report to draw management's attention to several upcoming NRC projects related to developing or reviewing labor hour tracking systems. It is unclear whether these projects will be independent from one another or whether they will be fully coordinated and developed from an agency-wide perspective.

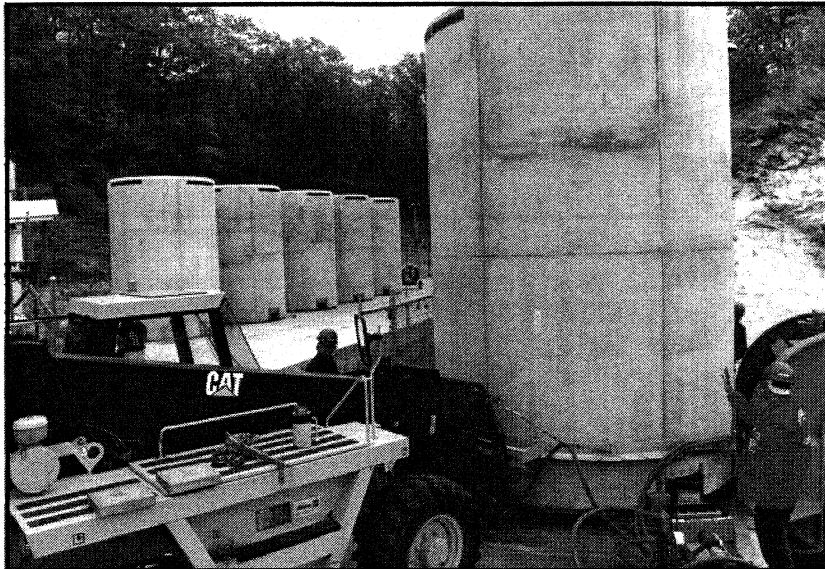
Because tracking labor hours is a common thread among these projects, the OIG saw this as an opportunity for NRC management to consider managing and coordinating them agency-wide. Since these projects are in their early stages, now is an opportune time to ensure adequate coordination.



***Opportunities to Improve NRC's Dry Cask Storage Program  
(Reactor Program)***

In June 1996, the NRC Chairman requested that the OIG evaluate the NRC's response to public concerns about a storage cask incident at the Point Beach nuclear power plant near Manitowoc, Wisconsin. As the Point Beach staff were welding a shield lid on a spent fuel storage cask, an unanticipated hydrogen gas ignition occurred. The shield lid, which weighs about 6,400 pounds, moved upward about three inches. No personnel injuries or damage to the spent fuel occurred.

The Chairman also requested that the OIG review the NRC's dry cask storage program with particular emphasis on (1) the loading and unloading techniques, (2) the NRC staff's scope and criteria for completing safety evaluations, (3) the vendor certification and review process, and (4) the interface between NRC staff regarding this program.



*Ventilated storage  
cask system at an  
independent spent fuel  
storage installation*

In September 1996, OIG staff briefed the Chairman's staff on this work and offered several observations to improve the program. In December 1996, the OIG issued a Special Evaluation Report that contained five suggestions to improve the dry cask storage program and the NRC's responsiveness to the public.

***Considerations for Improving NRC Oversight of the Commercial Facilities Management Services Contract (Management and Support)***

The NRC is responsible for operating and managing all NRC headquarters buildings. To fulfill its responsibilities, the NRC contracted with TECOM, Incorporated, a commercial facilities management services company. The contract, which became effective on March 7, 1994, includes a base year with four option years.

The OIG conducted this review at the request of the former Director, Office of Administration, and focused its efforts on identifying areas where contract management practices could be improved. The OIG believes that the NRC can better manage its commercial facilities management services contract by improving four internal processes. OIG suggestions included reducing the level of inspection oversight, consolidating and streamlining reporting requirements, and streamlining the process for issuing reimbursable work orders.

***Audit of the U.S. Nuclear Regulatory Commission's Fiscal Year 1996 Financial Statements (Management and Support)***

The Chief Financial Officers (CFO) Act requires that the OIG annually audit the Principal Financial Statements of the NRC. The OIG performed the audit to form an opinion on the Principal Financial Statements. The report contains the (1) principal statements, (2) opinions on the principal statements and management's assertions about the effectiveness of internal controls, and (3) a review of the NRC's compliance with laws and regulations.

On the NRC's Fiscal Year 1996 (FY96) Principal Financial Statements, the OIG issued an unqualified opinion on the Statement of Financial Position, and the Statements of Operations, Cash Flows, and Budget and Actual Expenses.

In its opinion on management's assertions about the effectiveness of internal controls, the OIG identified one new reportable condition and one carried over from prior fiscal years. The new condition concerns the NRC's procedures for identifying capitalized software. The OIG made two recommendations to clarify responsibilities for identifying and capitalizing software. The prior-year condition concerns the NRC's lack of a system for reporting labor costs by program.

Based on corrective actions taken in FY96, the OIG closed two reportable conditions identified in its FY95 report. Those conditions related to (1) internal controls for the NRC's fee recovery system, and (2) lack of DOE audit assurance for NRC funds spent at DOE labs. The OIG did, however, retain the DOE issue as a *Matter of Emphasis* in its report.

The OIG report on the NRC's compliance with laws and regulations states that, with respect to the items tested, the NRC was in compliance. Based on actions taken in FY96, the OIG closed the prior-year compliance finding related to the NRC's fee recovery system.

***Survey of NRC Actions to Secure its Sensitive Information Systems  
(Management and Support)***

The OIG assessed the NRC's actions to strengthen its protection of sensitive information systems. In a 1992 audit report, the OIG reported that the NRC needed to correct significant weaknesses identified in its computer security program. The OIG also recommended that the NRC report the weaknesses as material in its annual Federal Managers' Financial Integrity Act (FMFIA) report. The NRC followed the recommendation and developed a plan to address the weaknesses.

This OIG survey found that the actions taken by the NRC are complete and appear to have strengthened the security of the NRC's sensitive information systems. There are several additional initiatives underway on both a Government-wide and an NRC-wide basis that will affect the NRC's computer security program. The OIG plans to follow-up in this area when these initiatives are completed.

### **Management Controls Over NRC Property at DOE Laboratories Should Be Strengthened (Management and Support)**

Since 1992, the OIG issued three audit reports addressing the NRC's financial and administrative accountability for work placed with DOE laboratories. The agency recognized the need to strengthen its control over this work and issued Management Directive 11.7, "*NRC Procedures for Placement and Monitoring of Work With the Department of Energy*," (MD 11.7) as the primary means to resolve the OIG's reported concerns.

At an NRC Commissioner's request, the OIG initiated a review to determine:

- the adequacy of the NRC's revised controls over agency-funded property at DOE laboratories, and
- whether NRC project managers were effectively implementing other applicable procedures contained in MD 11.7.

The OIG found that NRC project managers made important progress in administering and controlling individual projects contracted to DOE laboratories. However, the OIG reported that project management should be strengthened by implementing a streamlined process to aggregately track and oversee NRC-funded property. The OIG report made three recommendations to NRC management to:

- encourage the DOE to provide the annual listing of NRC-titled software required by MD 11.7,
- reassess the MD 11.7 procedures to more clearly define the NRC's processes for tracking and overseeing NRC projects at DOE laboratories, and
- develop and maintain a centralized inventory tracking process for NRC-funded property at DOE laboratories.

## **AUDITS IN PROGRESS**

### ***Review of NRC's Initiatives to Resolve Regulatory Weaknesses***

Several recent nuclear power plant events have identified weaknesses in licensee and NRC documentation procedures for plant operations. Some of these weaknesses may be attributable to a lack of a consistent understanding of fundamental licensing terms and requirements. The OIG is reviewing the NRC's efforts to clarify regulatory requirements and enhance plant safety.

*OIG Inspector General and staff members view a reactor control room at the NRC Technical Training Center*



### ***Survey of the Requirements for an Integrated Financial Management System***

The NRC announced its intention to begin work on an integrated financial management system. The objective of the OIG survey is to determine generic characteristics and requirements needed to develop and implement such a system.

***Review of NRC's Renewal Justification for Continued Contracting of Its Federally Funded Research and Development Center***

The NRC's contract for its Federally Funded Research and Development Center (FFRDC), the Center for Nuclear Waste Regulatory Analyses, is scheduled to be renewed in October 1997. The agency must complete its renewal justification prior to this date. The OIG audit objectives are to evaluate the NRC's implementation of a previous OIG recommendation and to determine if the NRC properly considered all FFRDC review requirements in making its renewal decision.

***Review of M-Cubed's Work on the Reactor Program System (RPS)***

The OIG previously reported that improvements could be made in the NRC's management of its M-Cubed Information Systems, Inc. contract for systems development. Subsequent concerns with controls over M-Cubed's work led the OIG to review the contractor's work on another NRC system, the Reactor Program System.

***Review of NRC's International Activities***

The NRC maintains a wide range of programs and activities in the international arena pertaining to nuclear power and the use of nuclear materials. Much of the interaction involves other federal agencies and foreign governments. The OIG is reviewing the scope of NRC participation in these international activities.

***Review of NRC's Implementation of the Federal Managers' Financial Integrity Act (FMFIA) For 1996***

The FMFIA requires that the NRC annually evaluate and report on the status of its management control program. To assist the NRC in evaluating its management control program, the OIG annually reviews the agency's program. The objective of the OIG's review is to determine NRC compliance with the FMFIA and its implementation guidance.

## **SIGNIFICANT RECOMMENDATIONS NOT YET COMPLETED**

In March 1995, the 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 the NRC approve or disapprove the construction of a high-level waste repository within three to four years of receiving a DOE construction license application. To meet this deadline, the 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 the DOE design and develop the system, and that the NRC operate and maintain it.

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

In response to the March 1995 OIG report, the Executive Director of Operations (EDO) appointed a Senior Management Team (SMT) to reevaluate 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 the DOE's high-level nuclear waste program, "...there was no resumption of any LSS activities and DOE's LSS related activities remained stalled." The EDO reported that this included the finalization of an MOU with the DOE.

In August 1996, the EDO provided the SMT's action plan to the Commission. A final report was to be submitted to the Commission by October 15, 1996. Since then, however, the NRC has decided to reevaluate the need for an LSS. The NRC recently notified interested parties that:

“[T]he technology in document automation and retrieval overtook the technology of 1986 on which the original LSS was to be based. With the widespread and common place use of computers to generate and maintain the documents of a party to the HLW licensing proceeding, the universal availability of the Internet to tie disparate and geographically dispersed systems together, and the availability of commercially available software applications relevant to LSS functionalities, *the centralized LSS envisioned at the time the LSS rule was developed may be obsolete* [emphasis added]. Consequently, the Commission intends to evaluate how these new technologies can be integrated into the LSS rule while still maintaining the primary functions of the LSS.”

As a result, the NRC is currently reevaluating the LSS rule and has requested that interested parties provide input. If the NRC determines that an LSS is necessary, the agency will then develop an MOU with the DOE. If an LSS is no longer believed necessary, an MOU will not be needed. Because the NRC is reevaluating the need for an LSS and subsequently an MOU with DOE, final action on the OIG’s original recommendation is incomplete.



## **THE INVESTIGATIVE PROGRAM**

*During this reporting period, the OIG received 236 allegations, initiated 53 new investigations, and closed 39 cases and one event inquiry. In addition, 67 referrals were made to NRC management.*

### **INVESTIGATIVE CASE SUMMARIES**

#### ***OI Investigative Report Improperly Disclosed by NRC Project Manager (Reactor Program)***

The OIG investigated a complaint that an NRC project manager improperly disclosed sensitive portions of an NRC Office of Investigations (OI) report to a licensee.

The OIG determined that the NRC project manager for Maine Yankee Atomic Power Company (MYAPCo) provided pages of an OI investigative report to MYAPCo officials. The project manager was among a limited number of NRC managers with restricted access to the OI report, and was aware that the report had been referred to the Department of Justice (DOJ) for consideration of criminal prosecution.

The project manager pled guilty in Federal Court to disclosure of confidential information in violation of 18 USC 1905, and is awaiting sentencing on that charge.



### ***Illegal Export of Nuclear Components Without an NRC License (Reactor Program)***

The OIG received a request for investigative assistance from the U.S. Customs Service on a case involving the suspected illegal export of U.S. origin nuclear components to an embargoed country. When the case was initiated, the components had already been shipped from the U.S. to an intermediate foreign location awaiting shipment to the final destination.

An on-site examination of the components at the foreign location by the NRC and Customs confirmed that an export license should have been obtained before shipping the items abroad. As a result, the items were detained in the foreign country, with the assistance of the U.S. Department of State, pending additional investigation.

Further, the investigation by Customs and the OIG disclosed that the items were purchased in the 1970s for a nuclear power plant in the U.S. When the plant was cancelled before completion, the components were sold as scrap. The material was then resold to another firm controlled by a U.S. citizen and a resident alien. The items were eventually exported illegally from the U.S. using false or misleading shipping documents. The U.S. citizen pled guilty to one felony count of exporting nuclear components without an NRC license.

### ***False Statements to NRC Management Regarding Time and Attendance (Management and Support)***

An NRC employee was investigated by the OIG for providing false documents and making false statements to supervisors in connection with several leave requests. This employee had previously been placed on leave restriction by the agency due to excessive use of unscheduled leave.

In one instance, the employee submitted a medical certificate and referral for treatment at a medical facility. The OIG investigation revealed that the forms submitted were false and that during the claimed leave period, the employee had

actually been arrested by local authorities and was in custody for shoplifting. In addition, the OIG investigation revealed significant discrepancies in the employee's description of events surrounding the other leave requests.

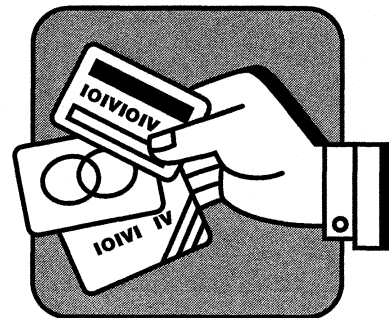
The employee ultimately resigned while NRC management was considering administrative action.

### ***Improper Disposal of Government Property (Management and Support)***

The OIG received information that approximately 500 boxes of computer diskettes were discovered missing after an NRC warehouse inventory. The OIG's investigation revealed that two NRC employees discarded approximately 300 boxes of diskettes rather than following the established procedures for turning in excess government property. The value of the discarded diskettes was approximately \$1,390. The U.S. Attorney for the District of Maryland declined prosecution, and the matter was referred to NRC management for consideration of administrative action. The employees were suspended.

### ***Abuse of Government Credit Card (Management and Support)***

The OIG received an allegation that American Express Corporation (AMEX) cancelled an NRC employee's government credit card, which had accrued over \$5,000 in unpaid charges. The OIG determined that the employee misused her AMEX card and, before that, her Diner's Club card to purchase goods and services for her personal use. Both credit card companies cancelled the employee's accounts for non-payment of charges. The OIG also determined that during a customary NRC background investigation, the employee provided false and misleading information to the NRC's Division of Security (SEC) regarding these credit cards and other personal financial matters.



### ***Theft of Personal Property at NRC (Management and Support)***

The OIG investigated numerous reports of missing personal and government property within the headquarters offices. This review focused on Division of Security (SEC) reports of missing items over a two-year period.

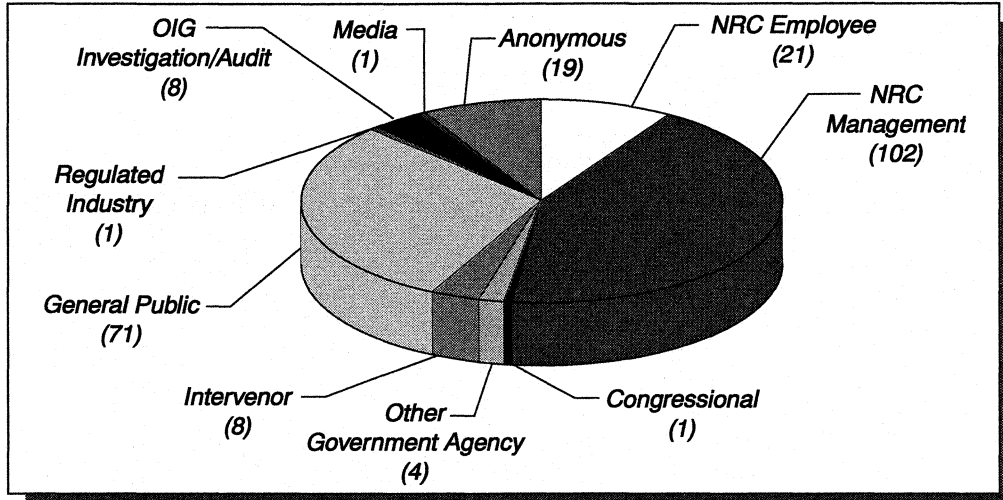
In conjunction with the SEC, the OIG developed an analysis that led to a surveillance of vulnerable NRC locations. As a result, the OIG observed an NRC security guard stealing money from an NRC workstation.

During a subsequent interview, the security guard admitted to stealing \$3,000–\$5,000 cash and approximately \$2,000 in personal and government property. This represented approximately 90% of the reported thefts in this two-year period.

The U.S. Attorney's office declined prosecution; however, the contractor terminated the guard's employment following the OIG investigation.

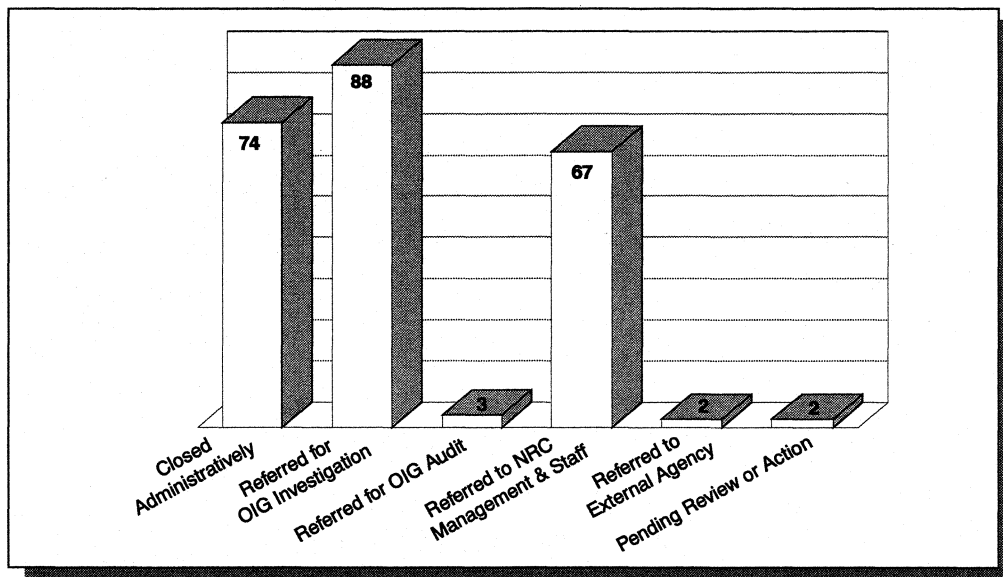
# INVESTIGATIVE STATISTICS

## Source of Allegations



Of the 236 allegations, none were carried forward from the previous period, and 33 resulted from hotline calls.

## Disposition of Allegations



**Status of Investigations**

DOJ Referrals	6
Pending DOJ Action	0
Declinations	6
Indictments and Arrests	2
Convictions	2
PFCRA Referrals	1
PFCRA Recoveries	\$1,000
Other Recoveries	0

**NRC Administrative Actions**

Terminations and Resignations	4
Suspensions and Demotions	4
Other Administrative Actions	16
<b>Total</b>	<b>24</b>

**Investigations Summary**

<b>Classification of Investigations</b>	<b>Carryover</b>	<b>Opened</b>	<b>Closed</b>	<b>In Progress</b>
Conflict of Interest	0	8	1	7
Internal Fraud	2	5	4	3
External Fraud	2	4	1	5
False Statements	2	2	3	1
Theft	4	2	4	2
Misuse of Government Property	4	3	4	3
Employee Misconduct	10	9	11	8
Management Misconduct	0	8	2	6
Technical Allegations — Other	6	10	9	7
Whistleblower Reprisal	0	2	0	2
<b>Total Investigations</b>	<b>30</b>	<b>53</b>	<b>39</b>	<b>44</b>
<b>Total Event Inquiries</b>	<b>1</b>	<b>4</b>	<b>1</b>	<b>4</b>

## **OTHER ACTIVITIES**

### **REGULATORY REVIEW**

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

From October 1, 1996, through March 31, 1997, the OIG reviewed more than 200 agency documents, including approximately 230 Commission Papers and numerous Federal Register notices, regulatory actions, and statutes.

The OIG Regulatory Commentaries addressed issues related to fraud, waste, and abuse to focus agency managers on the importance of considering aspects of policy and procedures that can be related to fraud, waste, and abuse prevention. Dialogue was initiated with the agency on several policy concerns and collegial efforts resulted in improved guidance to the agency staff in these areas. Commentaries raising the most significant issues are summarized below.

One of the first OIG comments during this semiannual period prompted the agency to include reference to the OIG's statutory responsibility to perform this regulatory review. This comment resulted from an OIG review of draft Management Directive 6.3, "*The Rulemaking Process*," which revealed the need to replace the draft language related to the OIG mission with a fuller description of the statutory requirements of the Inspector General Act.

The OIG's comment on Management Directive 13.4, "*Transportation Management*," reflected its concern regarding provisions allowing government-furnished home to work transportation. Although employees may be provided government vehicles or drivers for transport to work sites or in connection with travel, these are very limited circumstances requiring advance approval.

The OIG advised that the draft directive failed to adequately address the general statutory and regulatory prohibitions against commuting-type transportation in 31 United States Code § 1344 and 41 Code of Federal Regulation (CFR) Part 101-6.402(g). The OIG remarks suggested that the directive emphasize the limited nature of exceptions to these prohibitions and the addition of a requirement to fully analyze the cost to the government for this transportation. In addition, the OIG recommended the inclusion of detailed direction on the restrictions applicable to use of the government-sponsored METRO card program. In response, the staff agreed to provide additional clarification in the Management Directive to address these issues.

The OIG commented on proposed revisions to Management Directive, 11.7, “*NRC Procedures for Placement and Monitoring of Work with the Department of Energy*.” One concern resulting from the OIG review of the directive is omission of the Chief Information Officer role in the directive. The second OIG comment noted that the failure to include a conflict of interest standard is inconsistent with Section 170A of the Atomic Energy Act.

New areas of agency activity provide ample opportunity for the OIG to advise on the potential for fraud, waste, and abuse. The OIG comments on the agency’s draft language for procedures for “Gainsharing Awards,” to be included in Management Directive, 14.4, “*Official Temporary Duty Travel*,” reflect OIG concerns for abuse in this program. Focusing on the need for managerial oversight, the OIG suggested requiring documentation of supervisory review as part of the procedure for employees to obtain the cash payment available under this program. In addition, the OIG noted the potential for violation of 5 CFR, Part 2635.301, with regard to prohibitions against gifts to superiors under the “shared awards” provisions of the directive. The OIG also advised that the directive language would more effectively assist in the prevention of fraud and abuse if the current ban on the use of government-earned frequent flier miles were underscored.



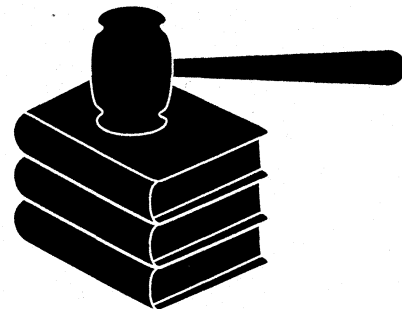
## **LEGISLATIVE AND OTHER EXTERNAL AGENCY REVIEWS**

*Significant review and comments were provided to the IG community on several critical issues.*

- The NRC OIG reviewed the draft guidelines for the President's Council on Integrity and Efficiency implementation of the directive for processing allegations against Inspectors General under Executive Order 12993. The NRC OIG provided comments urging clarity and specificity in the directive's operating guidelines, as well as the addition of the statutory reference related to adverse personnel actions.

- The OIG also reviewed the proposed revisions to the DOJ Law Enforcement Guidelines.

The observations documented in the OIG remarks describe the concern within the community regarding the intent of the guidelines, as well as their impact on newly established blanket deputation.



# APPENDICES

## AUDIT LISTINGS

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

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<b>Date</b>	<b>Title</b>	<b>Number</b>
10/04/96	<i>Better Definition and Planning Needed to Guide NRC's Transition to a Risk-Informed, Performance-Based Regulatory System</i>	OIG/96E-18
10/15/96	<i>Review of NRC's Implementation of OMB Circular A-131, Value Engineering</i>	OIG/96A-21
10/25/96	<i>NRC Has an Opportunity to Coordinate Projects Related to Tracking Employee Labor Hours</i>	OIG/96E-22
12/10/96	<i>Opportunities to Improve NRC's Dry Cask Storage Program</i>	OIG/96A-20
02/25/97	<i>Considerations for Improving NRC Oversight of the Commercial Facilities Management Services Contract</i>	OIG/97E-04
03/06/97	<i>Results of the Audit of U.S. Nuclear Regulatory Commission's Fiscal Year 1996 Financial Statements</i>	OIG/96A-19
03/14/97	<i>Management Controls Over NRC Property at DOE Laboratories Should Be Strengthened</i>	OIG/96A-10
03/21/97	<i>Survey of NRC Actions to Secure Its Sensitive Information Systems</i>	OIG/97A-06

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**Contract Audit Reports**


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<b>OIG Issue Date</b>	<b>Contractor/ Contract Number</b>	<b>Questioned Costs (Dollars)</b>	<b>Funds Put to Better Use (Dollars)</b>
10/17/96	Statistica, Inc. NRC-33-89-144 NRC-39-88-211	0 0	0 0
10/18/96	Stevenson & Associates RS-RES-96-062	0	0
10/18/96	Stevenson & Associates RS-RES-96-062	0	0
11/27/96	ANSTEC, Inc. NRC-33-93-201	0	0
12/4/96	Science Applications International Corp. NRC-04-91-054	0	0
12/9/96	Battelle Memorial Institute — Columbus NRC-04-86-106 NRC-04-90-069 NRC-04-91-063 NRC-04-92-047	0 0 0 0	0 0 0 0
12/9/96	National Council on Radiation Protection & Measurements NRC-04-85-118	0	0
12/9/96	National Council on Radiation Protection & Measurements NRC-04-85-118	0	0
12/9/96	National Council on Radiation Protection & Measurements NRC-04-85-118	0	0
12/9/96	National Council on Radiation Protection & Measurements NRC-04-85-118 NRC-04-94-057	0 0	0 0
1/17/97	EBASCO/Raytheon NRC-04-90-099 NRC-04-90-100	0 0	0 0

**Contract Audit Reports (continued)**

<b>OIG Issue Date</b>	<b>Contractor/ Contract Number</b>	<b>Questioned Costs (Dollars)</b>	<b>Funds Put to Better Use (Dollars)</b>
2/6/97	SAIC/EGS Corporation RS-NRR-94-030	0	0
2/6/97	Science & Engineering Associates, Inc. RS-NRR-94-030	0	0
2/6/97	Science Applications International Corp. RS-NRR-94-030	0	0
2/6/97	Sciencetech, Inc. RS-NRR-94-030	0	0
2/13/97	Cortest Columbus Technologies, Inc. NRC-04-87-069	\$17,935	0
3/4/97	Westinghouse Electric Corporation NRC-04-85-103	0	0
3/31/97	Applied Management Systems, Inc. NRC-33-92-203	\$32,802	0
3/31/97	Management Support Technologies Inc. RS-ADM-96-146	0	\$8,620
3/31/97	CEXEC Incorporated RS-IRM-95-171	0	0
3/31/97	I-NET, Inc. RS-IRM-95-171	0	0
3/31/97	Integrated Microcomputer Systems, Inc. RS-IRM-95-171	0	0
3/31/97	NCI Information Systems, Inc. RS-IRM-95-171	0	0
3/31/97	SOZA Company, Ltd. RS-IRM-95-171	0	0
3/31/97	Sytel, Inc. RS-IRM-95-171	0	0
<b>Totals</b>		<b>\$50,737</b>	<b>\$8,620</b>

## AUDIT TABLES

During this reporting period, the OIG analyzed 25 contract audit reports issued by the DCAA. The following tables depict the cost savings from this work.

**Table I — Post-Award Findings**

<b>Office of the Inspector General Reports Containing Questioned Costs October 1, 1996 – March 31, 1997</b>			
<b>Reports</b>	<b>Number of Reports</b>	<b>Questioned Costs (Dollars)</b>	<b>Unsupported Costs (Dollars)</b>
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	2	\$50,737	0
<i>Subtotal (A + B)</i>	2	\$50,737	0
C. For which a management decision was made during the reporting period:			
(i) dollar value of disallowed costs	2	\$50,737	0
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision had been made by the end of the reporting period	0	0	0
E. For which no management decision was made within 6 months of issuance	0	0	0

**Table II — Pre-Award Findings**

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**Office of the Inspector General**  
**Reports Issued With Recommendations That Funds Be Put to Better Use**  
**October 1, 1996 – March 31, 1997**

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<b>Reports</b>	<b>Number of Reports</b>	<b>Dollar Value of Funds</b>
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*	\$8,620
<i>Subtotals (A + B)</i>	4	\$8,620
C. For which a management decision was made during the reporting period:		
(i) dollar value of recommendations that were agreed to by management	4	\$8,620
(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 reports reported that zero funds were available for better use.

## **ABBREVIATIONS**

AMEX	American Express Corporation
CFR	Code of Federal Regulations
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act
CFR	Code of Federal Regulations
DCAA	U.S. Defense Contract Audit Agency
DOE	U.S. Department of Energy
DOJ	U.S. Department of Justice
EDO	Executive Director for Operations
FFRDC	Federally Funded Research and Development Center
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
HLW	High-Level Waste
LSS	Licensing Support System
MOU	Memorandum of Understanding
MYAPCo	Maine Yankee Atomic Power Company

NRC	U.S. Nuclear Regulatory Commission
OIG	NRC's Office of the Inspector General
OI	NRC's Office of Investigations
OMB	U.S. Office of Management and Budget
PFCRA	Program Fraud Civil Remedies Act
RPS	Reactor Program System
SEC	NRC's Division of Security
SMT	Senior Management Team
US	United States
USC	United States Code
VE	Value Engineering



## **GLOSSARY**

### *Event Inquiry*

An 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.



# ***THE NRC OIG HOTLINE***

The OIG established a toll-free number (1-800-233-3497) to provide NRC employees, contractors, and others with direct access to the OIG's Hotline Program. Hotline procedures and guidelines were carefully developed to ensure the confidentiality (unless totally unavoidable) 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 AM and 4 PM (eastern standard time).



**HOTLINE:**

**1-800-233-3497**

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**



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