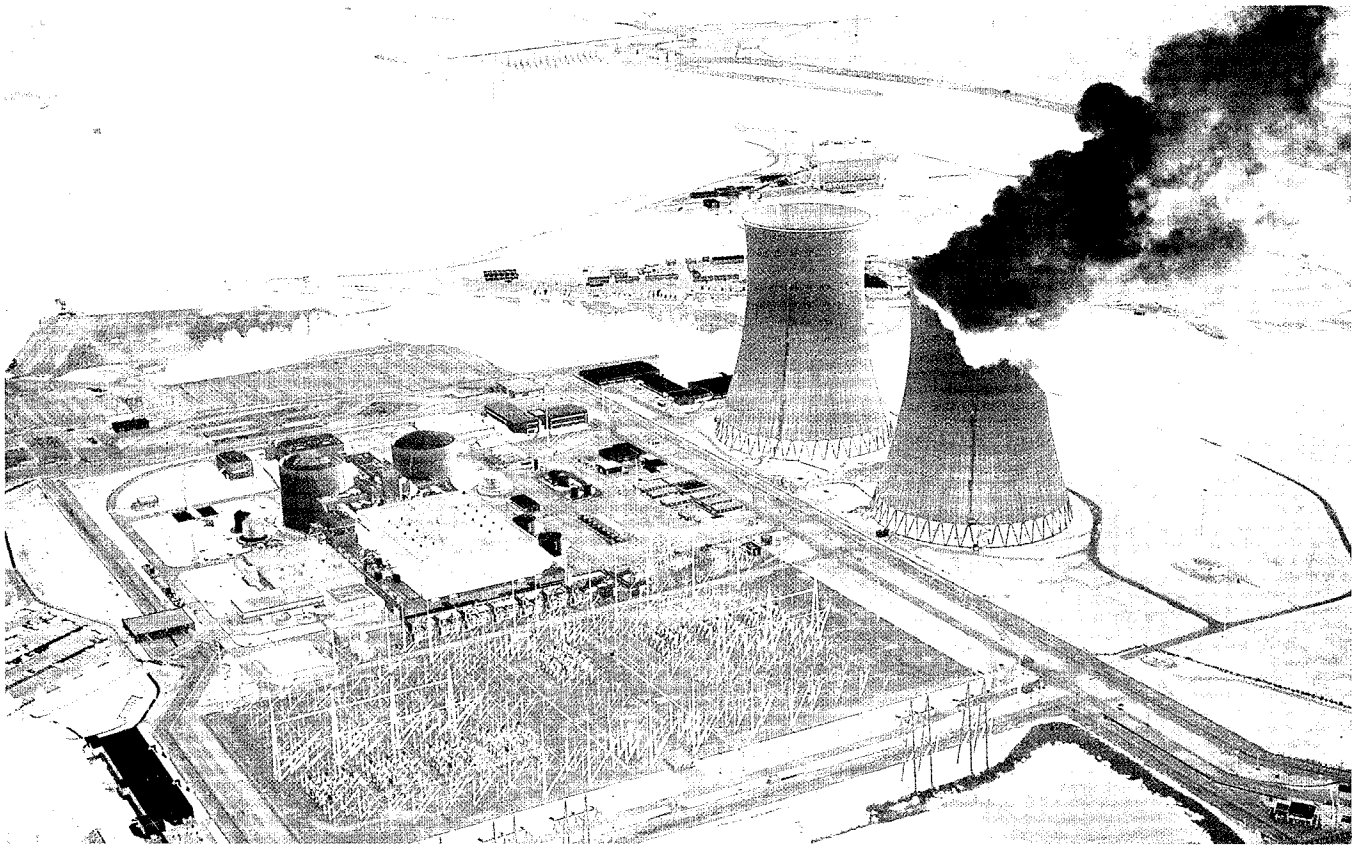




# *Office of the Inspector General*

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*U.S. Nuclear Regulatory Commission*

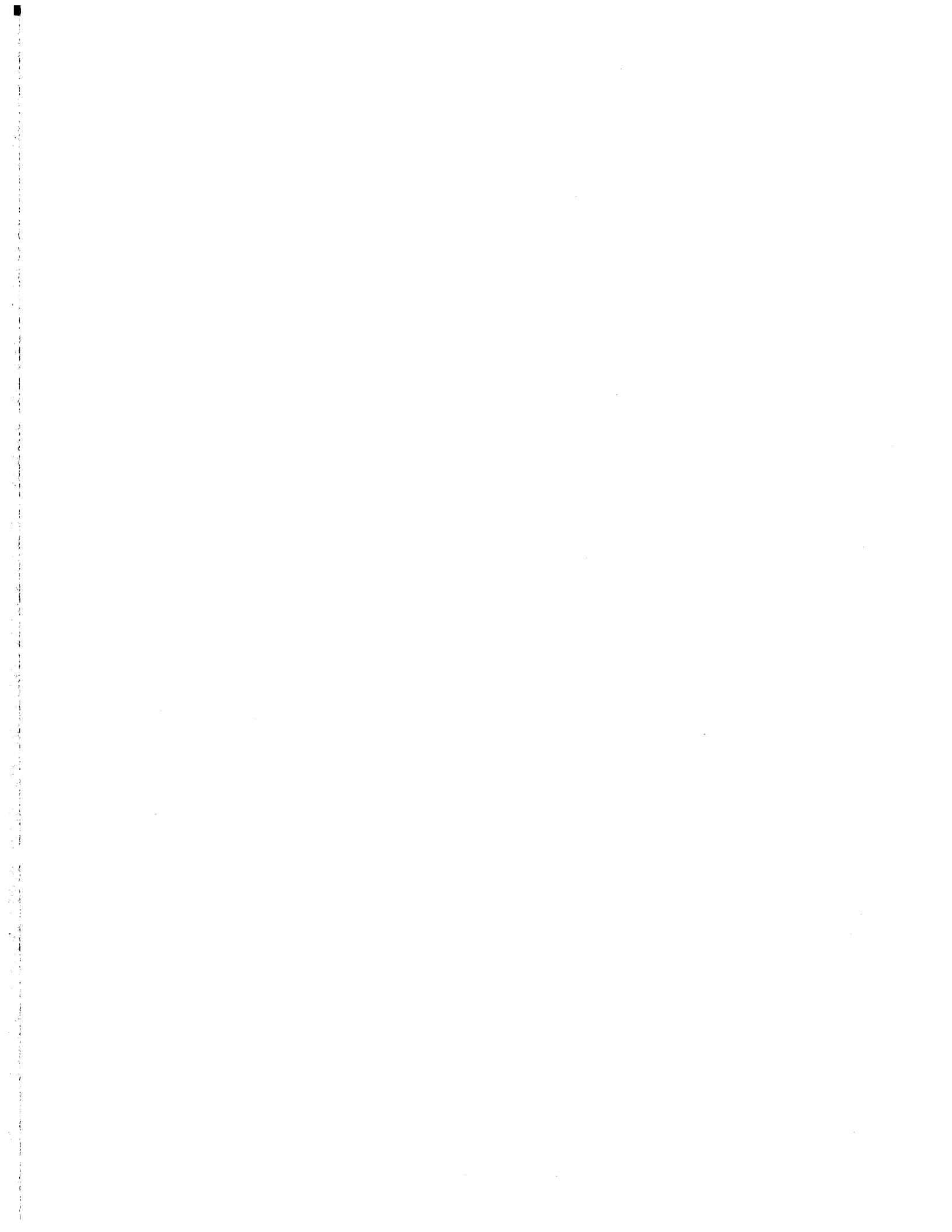


*Watts Bar Nuclear Plant*

## *Semiannual Report*

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*October 1, 1997 – March 31, 1998*



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# MEMORANDUM TO THE CHAIRMAN

On behalf of the Office of the Inspector General (OIG) for the U.S. Nuclear Regulatory Commission (NRC), I am pleased to submit this *Semiannual Report* to the U.S. Congress. This report discusses significant OIG activities during the period from October 1, 1997, through March 31, 1998, in compliance with Sections 4 and 5 of the Inspector General Act of 1978, as amended.

During this reporting period, our office completed 7 audits or special evaluations of the NRC's programs and operations. These resulted in 6 recommendations or suggestions to NRC management. In addition, the OIG analyzed 21 contract audit reports issued by the Defense Contract Audit Agency. Overall, these analyses caused the OIG to question \$269,030 in costs, and enabled our office to identify \$328,913 that could be put to better use. Finally, the OIG completed 49 investigations and 4 event inquiries, and led our office to make 23 referrals to NRC management.

In carrying out the oversight responsibilities of the OIG, we appreciate the cooperation and support we have received from you and NRC program managers and staff. Working together, I believe, we have taken positive steps to improve NRC programs and operations. We look forward to continuing our work with you and the entire NRC staff as we address the opportunities and challenges facing the Commission.

Sincerely,



Hubert T. Bell  
Inspector General

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# CONTENTS

<b>Reporting Requirements Index</b> .....	iv
<b>Executive Summary</b> .....	v
<b>The U.S. Nuclear Regulatory Commission</b> .....	1
<b>The Office of the Inspector General</b> .....	3
<b>The Audit Program</b> .....	5
Audit Summaries .....	5
Audits in Progress .....	9
Significant Recommendations Not Yet Completed .....	10
<b>The Investigative Program</b> .....	13
Investigative Case Summaries .....	13
Investigative Statistics .....	16
<b>Other Activities</b> .....	19
Regulatory Review .....	19
Continuation of the OIG's Outreach Initiatives .....	20
Expansion of the OIG's Outreach Initiatives to Other Agencies .....	21
<b>Appendices</b> .....	22
Audit Listings .....	22
Audit Tables .....	26
Abbreviations .....	28
Glossary .....	30

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# REPORTING REQUIREMENTS INDEX

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

<b>CITATION</b>	<b>REPORTING REQUIREMENTS</b>	<b>PAGE</b>
Section 4(a)(2)	<i>Review of Legislation and Regulations</i> .....	19
Section 5(a)(1)	<i>Significant Problems, Abuses, and Deficiencies</i> .....	5-8, 13-15
Section 5(a)(2)	<i>Significant Recommendations for Corrective Action</i> .....	5-8
Section 5(a)(3)	<i>Prior Significant Recommendations Not Yet Completed</i> .....	10,11
Section 5(a)(4)	<i>Matters Referred to Prosecutive Authorities</i> .....	None
Section 5(a)(5)	<i>Information or Assistance Refused</i> .....	None
Section 5(a)(6)	<i>Listing of Audit Reports</i> .....	22-25
Section 5(a)(7)	<i>Summary of Significant Reports</i> .....	5-8, 13-15
Section 5(a)(8)	<i>Audit Reports-Questioned Costs</i> .....	26
Section 5(a)(9)	<i>Audit Reports-Funds Put to Better Use</i> .....	27
Section 5(a)(10)	<i>Audit Reports Issued Before Commencement of the Reporting Period for Which No Management Decision Has Been Made</i> .....	None
Section 5(a)(11)	<i>Significant Revised Management Decisions</i> .....	None
Section 5(a)(12)	<i>Significant Management Decisions With Which the OIG Disagreed</i> .....	None

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# EXECUTIVE SUMMARY

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

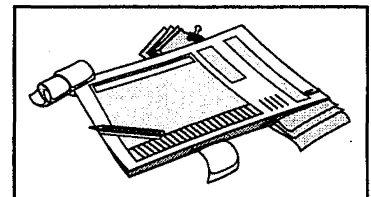
## AUDITS

■ The Commission directed that three offices, the Office of Administration (ADM), the Office of Nuclear Material Safety and Safeguards (NMSS), and the Office of Nuclear Reactor Regulation (NRR), assume rulemaking responsibilities previously performed by the Office of Nuclear Regulatory Research (RES). We found that the three offices are at different stages of readiness to assume rulemaking responsibilities, with ADM and NMSS being better positioned. Also, it appears that the Commission has not identified a clear objective to guide agency staff in transitioning the rulemaking process from RES to the program offices, since a single office no longer serves as the agency's focal point for rulemaking. We believe that senior management oversight is necessary to ensure that inconsistencies do not develop in the methods program offices use to promulgate new rules.

■ For several years, the NRC and the U.S. Environmental Protection Agency (EPA) have attempted to reach agreement on radiation standards for the decommissioning of NRC-licensed facilities. In 1994, the General Accounting Office (GAO) reported a lack of consistency and compatibility between NRC and EPA standards. Subsequently, Congress directed the agencies to work together to bring finality to this issue. We found that NRC and EPA still differ on what constitutes an adequate level of public health and safety protection from residual radiation. The in-

ability of NRC and EPA to agree on an acceptable level of radiation protection subjects NRC licensees to potential dual regulation, which, according to industry officials, could be cost burdensome and delay the initiation of the decommissioning process. We concluded that legislative action may therefore be the most effective means to resolve the impasse between NRC and EPA.

■ OIG contracted with an independent public accounting firm to audit NRC's FY 97 financial statements. The independent auditor issued an unqualified opinion on the Statements of Financial Position, Operations and Changes in Net Position, Cash Flows, and Budgetary Resources and Actual Expenses. In the opinion on management's assertions about internal controls, the independent auditor identified two new reportable conditions involving (1) business continuity (recovery) plans for financial systems, and (2) segregation of duties for certain accounting functions. In addition, the auditor's report on the NRC's compliance with laws and regulations disclosed that the reportable condition related to business continuity plans is considered a substantial noncompliance with the Federal Financial Improvement Act of 1996.



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- In support of its mission, the NRC performs substantial and diverse administrative and information management activities. The purpose of our review was to assess the efficiency, effectiveness, and economy of operations of selected support functions. Our review of NRC's Public Document Room (PDR) showed that the electronic age has significantly changed the way the PDR interacts with the public. Based on this and other factors, we concluded that conditions are favorable and savings could be realized by relocating the PDR to unoccupied space in NRC Headquarters or taking other action to reduce its operating costs. Leased space for the PDR currently costs \$186,000 annually.
- The OIG conducted an event inquiry into concerns raised by the public about the accuracy of an NRC report entitled, "Independent Safety Assessment of Maine Yankee Atomic Power Station." This inquiry revealed no significant problems with the report or the Independent Safety Assessment (ISA) conducted by the NRC staff.
- The OIG conducted an investigation into whether NRC inspectors should have reacted to information indicating inadequate performance of a critical valve at Maine Yankee Atomic Power Station (MYAPS) during a 1989 inspection of the plant's emergency operating procedures. The inquiry revealed that three documents listed in the 1989 NRC inspection report as being reviewed by the NRC inspectors contained information which should have raised concerns regarding the valve.

## **INVESTIGATIONS**

- The OIG conducted an investigation concerning an NRC employee who allegedly discussed the status of an alleged harassment allegation in a public setting. The investigation disclosed that the NRC employee approached the alleged in a public setting and discussed the NRC staff's actions related to the harassment allegation.
- The OIG conducted an investigation which substantiated that an NRC employee disclosed to two unauthorized individuals information about a job applicant's employment interview with the NRC, and made negative comments concerning the applicant's job history.
- The OIG conducted an event inquiry to address public concerns related to the Independent Corrective Action Verification Program (ICAVP) at Millstone Nuclear Power Station. The concerns addressed by OIG centered around (1) the selection and independence of the ICAVP contractors, (2) the point at which the NRC authorized the ICAVP contractors to begin their review, as well as the scope of the review, and (3) the adequacy of the NRC's acceptance criteria for plant systems reviewed during the ICAVP. The OIG's inquiry revealed problems with regard to the third concern.



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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. Along with the Atomic Energy Act of 1954, as amended, this act provides the framework for regulating the Nation's commercial nuclear power industry and use of nuclear materials.

The NRC's mission is to ensure that civilian uses of nuclear materials in the United States are carried out in a manner that adequately protects the health and safety of the public, as well as the environment and national security. In particular, the NRC's responsibilities include licensing and regulating the operation of nuclear power plants; 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 and its licensees share a common responsibility to protect public health and safety. For its part, the NRC accomplishes its statutorily mandated mission by issuing rules and standards, inspecting facilities and operations, and imposing any required enforcement actions. Federal regulations and the NRC's regulatory programs are important elements in protecting the public. However, NRC licensees have the primary responsibility for the safe use of nuclear materials.

*(continued on next page)*

*Limerick 1 and Limerick 2  
Nuclear Power Reactors*



In fulfilling its mission, the NRC adheres to the following Principles of Good Regulation:

- **Independence** – Nothing but the highest possible standards of ethical performance and professionalism should influence regulation.
- **Openness** – Nuclear regulation is the public's business, and it must be transacted publicly and candidly.
- **Efficiency** – The American taxpayer, the rate-paying consumer, and licensees are all entitled to the best possible management and administration of regulatory activities.
- **Clarity** – Regulations should be coherent, logical, and practical.
- **Reliability** – Regulations should be based on the best available knowledge from research and operational experience.

For Fiscal Year 1998 (FY 98), the NRC's total budget authority is approximately \$473 million, which includes an appropriation of \$4.8 million for the Office of the Inspector General (OIG). The NRC is relatively unique among Federal agencies because it is required by the Omnibus Budget Reconciliation Act of 1990 to assess fees in order to recover 100 percent of its budget authority, less the amounts appropriated from the Nuclear Waste Fund for high-level waste activities, and from the general fund for regulatory reviews and other assistance provided by the U.S. Department of Energy. Therefore, the NRC must employ sound financial practices to fully comply with its legislative mandates. The OIG's financial audits help the NRC to meet these objectives. In FY 97, the NRC was appropriated approximately \$477 million, of which almost \$15 million was derived from the Nuclear Waste Fund and the General Fund. Of the remaining \$462 million, the NRC collected 99 percent through fees and other charges.

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# THE OFFICE OF THE INSPECTOR GENERAL

In passing the Inspector General Act of 1978, the U.S. Congress sought to ensure integrity and efficiency within the Federal Government and its programs. To achieve that objective, each Inspector General (IG) has a dual reporting responsibility to the Congress and the head of the respective agency. Each IG submits semiannual reports to the agency head and Congress regarding their findings, conclusions, and recommendations for corrective action. The IGs may also issue immediate reports on particularly serious or flagrant problems they discover. Indeed, IGs are required to keep the agency head and Congress fully and currently informed about problems and deficiencies related to the administration of programs in their agencies through these reports and other mechanisms, including in-person meetings and testimony at hearings.

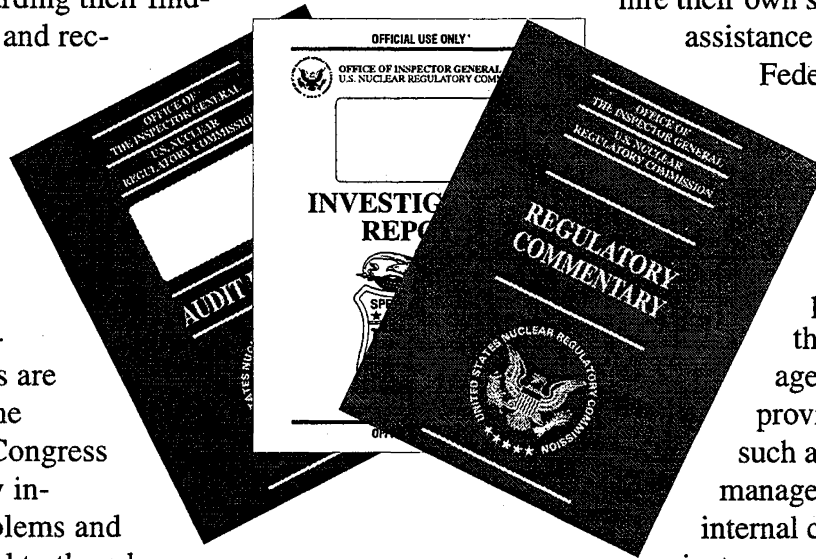
The existence of the IGs also relieves agency program managers and executives from being solely responsible for gathering objective data and evidence in circumstances where wrongdoing is suspected and where intense scrutiny and controversy exist. In this capacity, IGs consolidate responsibility for auditing and investigations within the agency. Established as permanent, independent, nonpartisan, and objective units, the OIGs are tasked with combatting waste, fraud, and abuse.

In order to accomplish this broad mandate, IGs have been granted a substantial amount of independence and authority. Within this broad purview, the IGs are authorized to conduct audits and investigations of agency programs; have direct access to agency records and materials; issue subpoenas for all necessary information, data, reports, and other documentary evidence; hire their own staffs; and request assistance from other

Federal, State, and local government agencies. Consequently, the IG structure allows them to perform services at the request of the agency head, and provide assessments in such areas as financial management systems and internal controls. In such instances, the IGs and management pursue the same ultimate goal—efficient and effective program operation and delivery of services.

In the case of the NRC, Congress established an independent Office of the Inspector General (OIG) through the 1988 amendment to the Inspector General Act. Today, the mission of the OIG is to assist the NRC by independently evaluating the agency's programs and operations to ensure their efficiency and effectiveness, and by investigating allegations of fraud, waste, and abuse.

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The OIG's audit staff conducts performance and financial audits, as well as special evaluations. Performance audits focus on the NRC's administrative and program operations. Financial audits review 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.

The OIG's investigative staff conducts investigations and event inquiries. The staff investigates violations of law or misconduct by NRC employees and contractors, as well as 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. Instead, these reports identify *institutional* weaknesses that led to or allowed the occurrence of a problem.

The OIG's Counsel reviews existing and proposed legislation, regulations, and policies.

The resulting commentary documents an objective analysis of regulatory vulnerabilities created within NRC programs and operations. The intent of these reviews is to assist the agency in identifying and preventing potential problems.

The OIG shares in the NRC's responsibility to assure the public that its health and safety are adequately protected 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.

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

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# THE AUDIT PROGRAM

*To help the agency improve its effectiveness, the OIG completed 4 performance and financial audits, as well as 3 special evaluations, which resulted in 6 recommendations and suggestions to NRC managers. In addition, the OIG analyzed 21 contract audit reports issued by the Defense Contract Audit Agency (DCAA). Overall, these analyses caused the OIG to question \$269,030 in costs, and enabled the office to identify \$328,913 that could be put to better use.*

## **AUDIT SUMMARIES**

### ***Additional Measures Needed to Enhance the NRC's Rulemaking Process***

The Commission directed that three offices, the Office of Administration (ADM), the Office of Nuclear Material Safety and Safeguards (NMSS), and the Office of Nuclear Reactor Regulation (NRR), assume rulemaking responsibilities previously performed by the Office of Nuclear Regulatory Research (RES). We conducted this special evaluation to (1) review the approach developed by the agency to transfer the preparation and coordination of rulemaking functions, and (2) determine if additional actions could be taken to enhance the transition process.

We found that the three offices are at different stages of readiness to assume rulemaking responsibilities, with ADM and NMSS being better positioned. Also, it appears that the Commission has not identified a clear objective to guide agency staff in transitioning the rulemaking process from RES to the program offices. We concluded that unless the Commission communicates a clear and measurable objective to the staff responsible for the agency's new rulemaking process, it will be difficult to measure whether the transition has been successful. We also believe that senior management oversight is neces-

sary to ensure that process inconsistencies do not develop, since a single office no longer serves as the agency's focal point for rulemaking.

We suggested that (1) NMSS and NRR complete various actions to enhance the transition of rulemaking responsibilities, including the development of internal rulemaking guidance, and (2) the Commission identify and communicate clear and measurable objectives so that the success of this effort and the rulemaking process can be assessed. Finally, we also suggested that senior management oversight be provided to ensure that NRC's rulemaking process remains consistent among the program offices. One aspect of this oversight could be the development of specific performance measures for the rulemaking process and periodic review by the Executive Director for Operations (EDO).

### ***Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for FY 1997***

In September 1982, the U.S. Congress passed the Federal Managers' Financial Integrity Act (FMFIA), to address continuing disclosures of Federal waste, loss, unauthorized use, and misappropriation of funds or assets associated with weak internal controls and accounting systems. In particular, the FMFIA requires

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Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal controls and accounting systems for which they are responsible.

To assist the NRC in evaluating its management control program, the OIG annually reviews the NRC's program. This review did not identify any material weaknesses in FY 97. Nonetheless, the OIG staff noted that the NRC needs to be especially attentive to a funding issue concerning the agency's high-level waste repository program, as described in "reasonable assurance" letters prepared by the NMSS for the past 2 years. Specifically, NMSS reported that recent budget reductions have had significant, cumulative impacts on the NRC's ability to meet the schedule for developing the necessary regulatory framework, reviewing the Department of Energy's site characterization program and resolving key technical issues at the staff level. The NRC determined that this issue is not a material weakness; however, the OIG staff concluded that the NRC needs to carefully monitor its ability to fulfill these regulatory responsibilities in light of the recent budget shortfalls. Consequently, the OIG will continue to monitor the NRC's actions on this issue.

### ***Survey of NRC/EPA Issues Regarding Radiation Standards***

For several years, the NRC and the EPA have attempted to reach agreement on radiation standards for the decommissioning of NRC-licensed facilities. In 1994, the GAO reported a lack of consistency and compatibility between NRC and EPA standards. Consequently, Congress directed the agencies to work together to bring finality to this issue by establishing consistent and uniform radiation protection standards. OIG, therefore, reviewed NRC and EPA efforts to resolve their differences related to developing consistent and compatible radiation standards. We also assessed the potential impact on NRC licensees.

We found that NRC and EPA still differ on what constitutes an adequate level of public health and safety protection from residual radiation. Although the two agencies have taken actions to establish consistent and compatible radiation standards for NRC license termination, this goal has not been achieved, despite the issuance of an NRC rule in July 1997. The inability of NRC and EPA to agree on an



*Medical procedure using radioactive material*

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acceptable level of radiation protection subjects NRC licensees to potential dual regulation, which, according to industry officials, could be cost burdensome and delay the initiation of the decommissioning process.

Following passage of the July 1997 rule, the Commission initiated additional efforts to achieve finality in NRC license termination decisions. NRC proposed that Congress include a provision in the Superfund Cleanup Acceleration Act (Superfund reform bill). This proposal would effectively resolve the authority issue for NRC-regulated sites whose licenses are terminated in accordance with NRC's rule. However, EPA officials stated that EPA already has clear legal authority to set radiation standards and, therefore, questioned the need for any legislative change.

At this point, it seems clear that various avenues to resolve this issue have been explored without success. We concluded that legislative action may therefore be the most effective means to resolve the impasse between NRC and EPA which will otherwise likely continue with its attendant effect on NRC licensees.

### ***Results of the Audit of the U.S. Nuclear Regulatory Commission's Fiscal Year 1997 Financial Statements***

The Chief Financial Officers' Act requires that the OIG annually audit the NRC's principal financial statements. This year, the OIG contracted with an independent public accounting firm to perform the audit and issue the related report. That report contains (1) the principal statements, (2) the 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.

The independent auditor issued an unqualified opinion on the Statement of Financial

Position, Statements of Operations and Changes in Net Position, Cash Flows, and Budgetary Resources and Actual Expenses. In the opinion on management's assertion about the effectiveness of internal controls, the independent auditor identified two new reportable conditions concerning (1) business continuity (recovery) plans for financial systems, and (2) segregation of duties for certain accounting functions. The auditor made two recommendations to address these concerns. In addition, the auditor closed two prior-year reportable conditions related to (1) software capitalization procedures, and (2) payroll system integration and labor cost distribution.

The report on NRC's compliance with laws and regulations disclosed that the reportable condition related to business continuity plans is considered a substantial noncompliance with the Federal Financial Management Improvement Act of 1996. Tests of compliance with selected provisions of other laws and regulations disclosed no other instances of noncompliance.

### ***NRC's Effort to Document Compliance with the New Time and Attendance System is Lacking***

The NRC is in the process of replacing its current payroll and personnel systems. The systems, which currently are separate and only partially automated, are to be replaced with one integrated system called PAY/PERS. In February 1996, the Division of Accounting and Finance (DAF), Office of the Chief Financial Officer (OCFO), implemented the time and attendance (T&A) module of PAY/PERS. Because the T&A module shifts certain internal control responsibilities to the individual T&A units from the DAF, OIG's 1997 Annual Plan included a review of agency compliance with the new T&A requirements.

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In December 1996, DAF began assessing agency compliance with the new T&A requirements. They completed their review in July 1997. Therefore, rather than duplicate their effort, OIG sought to determine if we could rely on DAF's review to answer the question of whether the new T&A requirements were being met.

Although DAF developed a methodology to assess agency compliance with T&A requirements, the methodology was not consistently followed, nor were results summarized to attempt to assess agency compliance as a whole. As a result, we concluded that (1) OIG cannot rely on the T&A review to draw conclusions about the effectiveness of T&A controls, and (2) OCFO cannot use the review to make assessments for FMFIA purposes. Our report recommended that the CFO assess what additional data and procedures are needed to determine agency-wide compliance with the new T&A requirements.

### ***Valuable Lessons Can Be Learned from the Regulatory Transition of the Gaseous Diffusion Plants***

Unlike fossil fuels, which can be burned in virtually the same form in which they exist in nature, uranium must undergo enrichment to become an efficient fuel for nuclear power reactors. There are various enrichment techniques, but gaseous diffusion is the only process that has been used in the United States. The Energy Policy Act of 1992 established the United States Enrichment Corporation (USEC) for the purpose of operating the two gaseous diffusion plants (GDPs). In September 1994, NRC promulgated standards for the two GDPs. These standards establish the framework for NRC to assume regulatory authority over the two GDPs owned by DOE and operated by the USEC. Our review was intended to gain an understanding of (1) NRC's processes and management controls for regulating the plants,

and (2) NRC's working relationships with other involved Federal agencies.

We found that senior plant officials believe NRC's regulatory consistency and its expectation of adherence to operating commitments are creating safer and improved operations at the GDPs. We also found that NRC's inspection approach and its inspection staff are highly regarded and are key to NRC's regulatory consistency. Our review identified several areas where the transition of oversight for the GDPs can provide valuable lessons that may also be applicable to NRC's possible future external regulation of DOE facilities.

### ***Opportunities for Savings Available in Information Management Activities***

In support of its mission, the NRC performs substantial and diverse administrative and information management activities. These activities range from mail operations to World Wide Web management services and account for almost \$60 million, or 12 percent of NRC's annual budget. The purpose of our review was to assess the efficiency, effectiveness, and economy of operations of selected support functions.

Our review showed that the electronic age has changed the way NRC's Public Document Room (PDR) interacts with the public. Based on this and other factors, we concluded that conditions are favorable and savings could be realized by relocating the PDR to unoccupied space in NRC Headquarters or taking other action to reduce its operating costs. Leased space for the PDR currently costs \$186,000 annually.

We also found that additional savings could be realized by (1) maintaining accurate and current mailing lists for over one-half million documents NRC distributes annually and (2) disposing of excess publications held in offsite storage. Our report makes three recommendations to address the issues identified.



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## **AUDITS IN PROGRESS**

### ***Review of the PC Refresh Program***

PC Refresh is an ongoing program through which the agency will remove and replace microcomputers that no longer effectively support staff requirements. In auditing this program, the OIG has two principal objectives:

- (1) Identify and evaluate the management controls associated with the program.
- (2) Determine if PC Refresh will meet the schedule to support new agency applications such as the Agency-wide Document Access and Management System (ADAMS) and the Reactor Program System (RPS).

### ***Review of the NRC's Project Manager Workload and Process***

The NRC has established a Headquarters-based project manager (PM) position to assist in licensing and monitoring nuclear power plants. This work is examining the PM workload, as well as their roles and responsibilities, and the management processes used to oversee this important agency function.

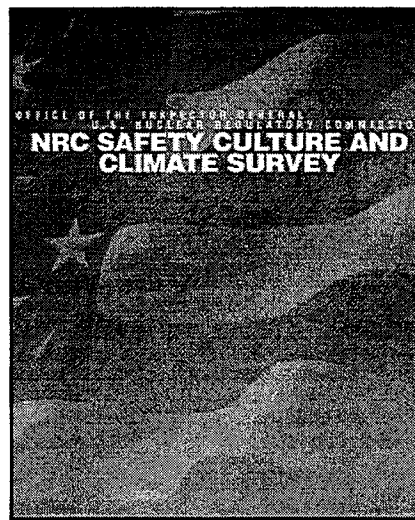
### ***Survey of NRC's Assistance Programs to the New Independent States of the Former Soviet Union***

Under the Foreign Assistance Act, the NRC and other agencies provide various types of assistance to the new independent states of the former Soviet Union. OIG is reviewing the management controls that govern these assistance programs.

### ***Survey of the NRC's Work Force***

In October 1997, the OIG began surveying NRC employees to assess their attitudes about the

agency's safety culture and climate. The OIG and its contractor developed and implemented the survey methodology, created the survey questionnaire, and distributed survey packages to all NRC employees. The OIG's contractor is currently processing the completed questionnaires, and will brief the OIG and NRC management and employees on the results.



### ***Followup Review of NRC's Process for Issuing and Tracking Notices of Enforcement Discretion (NOEDs)***

In October 1994, the OIG issued an audit report entitled, "Review of NRC's Compliance with Notice of Enforcement Discretion Policy and Procedures." The OIG review found that the NRC was generally compliant with its procedures for granting NOEDs. However, the OIG also found several shortcomings in the NRC's administration of the program and made four recommendations.

The OIG subsequently decided to reevaluate the NRC's compliance with its NOED policy, as well as the implementation of recommendations made in the OIG's 1994 report. The OIG is examining the NRC's documentation and

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analyses pertaining to NOED issuance to determine if the agency is using its NOED mechanism as intended.

### ***Review of NRC's Contracting Activities***

The NRC uses contractors to perform many activities. During periods of performance, contracts are often modified for various reasons, including price increases. Consequently, the OIG is conducting a review to determine the nature and extent of contract price increases and the adequacy of controls over those increases.

### ***Review of Streamlined Contractor Evaluation Processes***

As a result of the National Performance Review, the NRC was designated as a "procurement reinvention laboratory." As such, the agency developed and implemented several streamlined processes to reduce contract lead times and remove some of the burdensome aspects of its procurements. Consequently, the OIG is conducting a review to evaluate the efficiency and effectiveness of the streamlined processes.

### ***Surveys of NRC's Continued Progress on the Year 2000 Program***

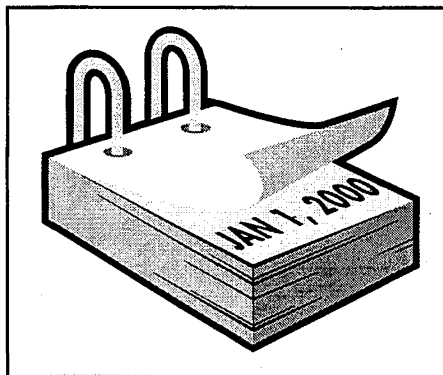
The OIG is currently evaluating the NRC's progress on the various internal and external aspects of its Year 2000 program. The OIG will assess the NRC's efforts to ensure that its hardware, software, and related devices are "Year 2000 compliant." The OIG will also examine the NRC's efforts to ensure that the regulated nuclear industry is Year 2000 compliant. We will periodically brief NRC management

regarding the findings and observations as the work progresses.

## **SIGNIFICANT RECOMMENDATIONS NOT YET COMPLETED**

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 (or the Licensing Support 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.

In March 1995, the OIG issued a report entitled, "*NRC Needs to Provide Strong Direction for the Licensing Support System (LSS)*," which stated that the program had stalled over the past five years. Many delays were attributed to an inadequate system definition and disagreement between the DOE and the NRC regarding the roles and responsibilities of each agency. 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, the Executive Director for 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.



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In status reports issued in 1996, the EDO advised the Commission that the SMT would develop an action plan addressing the issues affecting the LSS program. However, due to Congressional budget action related to the DOE's high-level nuclear waste program, there was no resumption of any LSS activities and the DOE's LSS-related activities remained stalled, including the finalization of an MOU with the NRC. The EDO also provided an SMT action plan to address outstanding LSS issues, which subsequently was revised to reevaluate the need for an LSS as originally envisioned.

This reevaluation has been ongoing since November 1996. The SMT has recommended to the Commission an option which it believes "provides the best solution for maintaining the basic functionality of the LSS conceptual design, while most flexibly accommodating current and future technological developments."

To bring about the SMT's recommended changes to the LSS, a revised rule is required. As such, in July 1997, the SMT provided a proposed revised rule to the Commission for approval. The proposed revised rule eliminates the current prescriptive requirements in the existing

rule for a centralized LSS administered by the NRC. As such, it also eliminates the requirement for an LSS Administrator. The proposed rule also requires that all potential parties, including the NRC and the DOE, must make their documentary material available in electronic form to all other participants beginning in the pre-application phase.

In September 1997, the Commission approved the revised rule with comments. The Commission also directed the SMT (1) to incorporate the comments in the proposed rule, (2) to submit the proposed rule for publication in the *Federal Register*, and (3) to seek public comment. The SMT followed the Commission's directions. Subsequently, the original comment period for the proposed rule was extended and was scheduled to close March 30, 1998. As a result, at the time that we published this semiannual report, NRC had not yet determined whether it would revise the rule "that would amend the regulations containing the NRC's Rules of Practice for licensing proceedings on the disposal of high-level radioactive waste at a geologic repository." If the proposed revised rule is adopted, the OIG will close out this audit recommendation.



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# THE INVESTIGATIVE PROGRAM

*During this reporting period, the OIG received 167 allegations, initiated 57 investigations and 2 event inquiries, and closed 49 cases and 4 event inquiries. In addition, 23 referrals were made to NRC management.*

## **INVESTIGATIVE CASE SUMMARIES**

### ***Inappropriate Discussion of an Allegation in a Public Setting***

The OIG conducted an investigation after an allogger claimed that an NRC employee had publicly discussed the status of the NRC's investigation regarding the individual's earlier allegation that he had been harassed by an NRC licensee. The OIG inquiry disclosed that the NRC employee approached the allogger following a public meeting and discussed the NRC staff's actions related to the harassment allegation. This discussion, which included confidential matters, occurred in an open area with members of the public and licensee employees standing nearby.

### ***Privacy Act Violation by an NRC Employee***

The OIG investigated an allegation that an NRC employee improperly disclosed to unauthorized individuals personal information concerning a job applicant. The investigation substantiated that the NRC employee had disclosed information to two individuals about a job applicant's employment interview with the NRC, and had made negative comments concerning the applicant's job history. The individuals to whom the disclosures were made had no official need for this information.

### ***Public's Concerns with NRC Report of Independent Safety Assessment (ISA) at Maine Yankee***

The OIG completed an event inquiry into public concerns regarding the accuracy of an NRC report entitled, "Independent Safety Assessment of Maine Yankee Atomic Power Station," dated October 1996. That report contained findings which indicated that Maine Yankee Atomic Power Station (MYAPS) had significant areas of noncompliance with NRC regulations and the plant's licensing and design bases. However, the inspection team concluded that the plant was adequate for safe operation. The concerned public asserted that the team's conclusion was contradicted by the reported findings of noncompliance. Additionally, the public believed that wording in the report indicated that the NRC staff was making operability determinations, which the licensee was supposed to make.

As a result of this inquiry, the OIG reached the following conclusions:

- The inspection team considered the balance of the good and bad of the safety systems to conclude that the plant was generally in conformance with its licensing and design bases.

*(continued on next page)*

- The inspection team took into account the plant's defense-in-depth when it concluded that the plant posed no undue risk to public health and safety and was safe to operate.
- The report used such phrases as "undue risk" and "adequate protection" to describe the NRC's standard of protecting public health and safety; however, the NRC had not clearly defined these terms.
- The NRC's inspection effort resulted in additional reviews of the plant by the licensee, which, in turn, caused the licensee to enhance its self-assessment processes.
- Although the report contained language which suggested that the NRC staff had performed operability determinations for the licensee, the NRC had not done so.

#### ***NRC's Handling of Maine Yankee Atomic Power Station Emergency Operating Procedures Information***

The OIG conducted an investigation into the NRC staff's inspection activities regarding the Emergency Operating Procedures (EOPs) at MYAPS. In a separate investigation conducted by the NRC Office of Investigations, it was alleged that licensee representatives knowingly provided incorrect information to the NRC in 1986 regarding the capacity of a critical valve that was needed to recover from an inadequate core cooling event at the plant. In particular, the OIG inquiry addressed whether NRC inspectors should have reacted to information indicating the inadequacy of the valve during a 1989 inspection of the plant's EOPs. The OIG found that three documents listed in the 1989 NRC inspection report as being reviewed by the inspectors contained information which should have raised concerns regarding the valve. OIG

interviews of three inspection team members disclosed that none of them recalled reviewing the documents in question during the 1989 inspection. When informed of the discrepancy in 1996, the NRC staff took appropriate action to address the issue.

#### ***Public's Concerns with Millstone Independent Corrective Action Verification Program (ICAVP)***

The OIG conducted an event inquiry to address public concerns related to the Independent Corrective Action Verification Program (ICAVP) at Millstone Nuclear Power Station. In August 1996, the NRC issued an order directing the operator of the three Millstone plants to establish the ICAVP to confirm that each Millstone unit was operating in conformance with its licensing and design bases. The order required the licensee to obtain the services of an independent third-party to act as the ICAVP contractor.

The concerns raised by the public and addressed by the OIG centered around (1) the selection and independence of the ICAVP contractors, (2) the point at which the NRC authorized the ICAVP contractors to begin their review, as well as the scope of the review, and (3) the NRC's acceptance criteria for plant systems reviewed during the ICAVP.

As a result of this inquiry, the OIG reached the following conclusions:

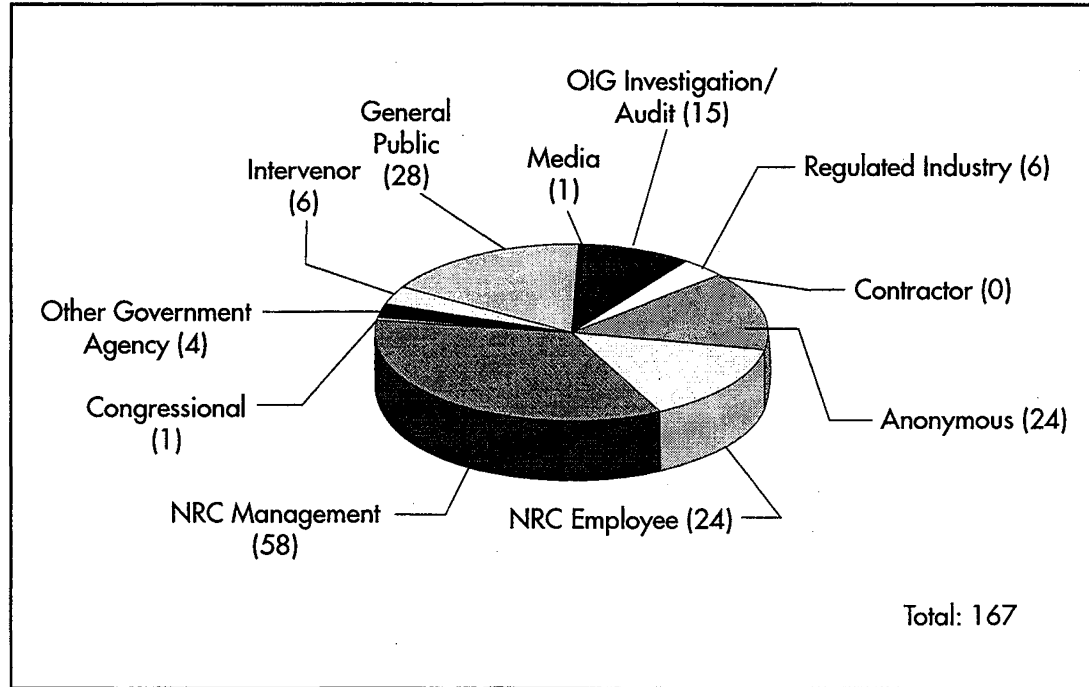
- Although one of the contractors selected for the ICAVP work had performed work for the licensee in the past, which could have resulted in additional future work, there was insufficient involvement with the licensee to preclude selection as the ICAVP contractor.

- 
- Although there were inconsistent statements by NRC before the start of the ICAVP, the eventual starting point for the program conformed with the original expectation of the NRC.
  - The acceptance criteria used by the NRC to evaluate the licensee's performance contained

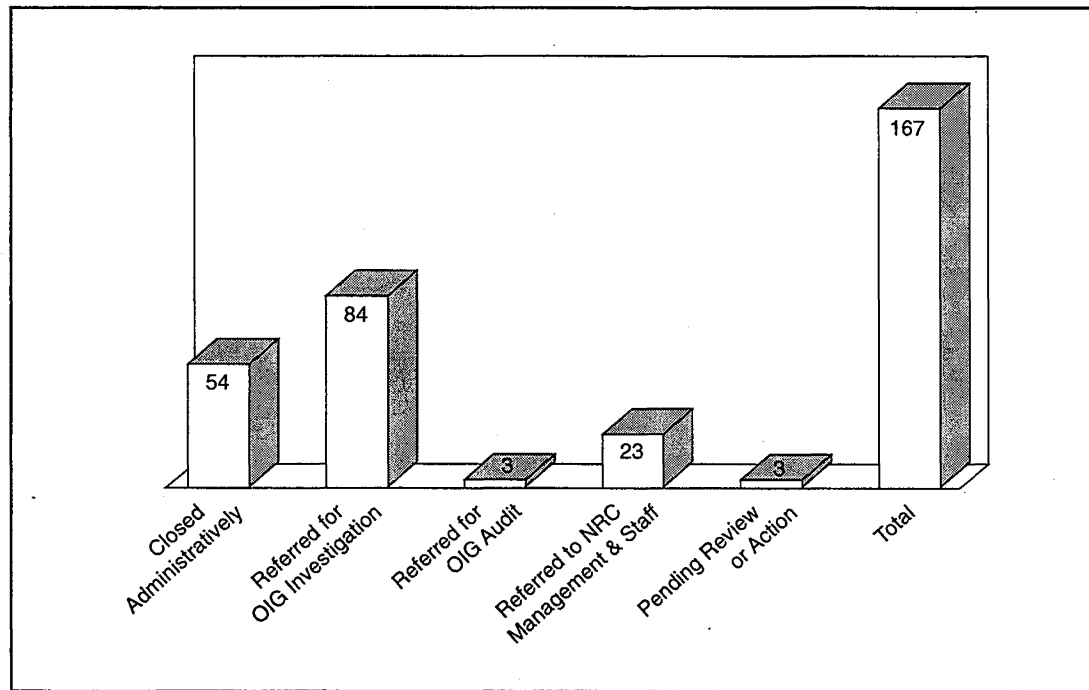
vague and imprecise wording to describe the range of possible NRC actions to address deficiencies. More importantly, the acceptance criteria did not adequately define a regulatory standard upon which the NRC would measure the licensee's performance.

# INVESTIGATIVE STATISTICS

## Source of Allegations – October 1, 1997 through March 31, 1998



## Disposition of Allegations – October 1, 1997 through March 31, 1998





## ***Status of Investigations***

DOJ Referrals	4
Pending DOJ Action	0
DOJ Declinations	5
Indictments and Arrests	0
Convictions	0
PFCRA Referrals	2
PFCRA Recoveries	0
Other Recoveries	0
NRC Administrative Actions:	
Terminations and Resignations	0
Suspensions and Demotions	3
Other Administrative Actions	13

## ***Summary of Investigations***

<b><i>Classification of Investigations</i></b>	<b><i>Carryover</i></b>	<b><i>Opened</i></b>	<b><i>Closed</i></b>	<b><i>In Progress</i></b>
Conflict of Interest	6	2	2	6
Internal Fraud	4	2	4	2
External Fraud	4	16	2	18
False Statements	5	3	5	3
Theft	2	2	2	2
Misuse of Government Property	2	4	3	3
Employee Misconduct	13	14	13	14
Management Misconduct	15	5	12	8
Technical Allegations – Other	7	9	5	11
Whistleblower Reprisal	<u>4</u>	<u>0</u>	<u>1</u>	<u>3</u>
<b>Total Investigations</b>	<b>62</b>	<b>57</b>	<b>49</b>	<b>70</b>
<b>Total Event Inquiries</b>	<b>5</b>	<b>2</b>	<b>4</b>	<b>3</b>



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# 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 October 1, 1997, through March 30, 1998, the OIG reviewed more than 300 agency documents, including approximately 130 documents issued by the Office of the Secretary (SECYs) and 200 *Federal Register* notices, regulatory actions, and statutes.

Regulatory commentaries were provided on issues related to the OIG mission requirement to assist in preventing fraud, waste and abuse. Guidance also sensitized agency managers to the importance of considering aspects of agency policy and procedures that impact the OIG functions. The OIG also initiated dialogue with the agency on several policy concerns, and cooperative efforts resulted in improved direction to the agency staff. This section summarizes the commentaries that raised the most significant issues.

A followup commentary discussed issues related to protecting and distributing OIG documents. Once again, the OIG commentary addressed adequate protection and limitations related to distributing OIG reports under draft Management Directive 3.4, "Release of Information to the Public." The commentary also suggested including language to reflect legal requirements to disclose information under the

Inspector General Act. One representative instance, where information must be disclosed, is under the mandate to forward evidence of criminal activity to the Attorney General. Additional remarks indicated that more definition or substitution of terms would aid in understanding the instructions in the directive. In addition, revisions were made to the draft documents after collegial discussion and agreement.

Another commentary related concerns regarding the Inspector General's role within the agency. That particular commentary appeared in a memorandum, addressed to the EDO, regarding the draft Commission paper on regulatory excellence entitled, "Enhancing NRC Effectiveness and Efficiency." In this case, the OIG limited its remarks to reminding the agency that under Section 9(a)(2) of the Inspector General Act, agency program operating responsibilities may not be assigned to the OIG.

Concerns regarding the content and structure of draft Management Directive 10.12, "Use of Advisory Committee Members," resulted in several suggestions. In particular, the OIG emphasized the need to specifically enumerate ethical and reimbursement limitations applicable to committee members in the performance of their governmental duties. In addition, the OIG identified the need for further direction concerning restrictions governing the use of proprietary and inside information by committee members. Finally, the OIG proposed format changes that would incorporate instructions presently included as exhibits in the draft, so that the directive would be complete within its formal text.

*(continued on next page)*

## CONTINUATION OF THE OIG'S OUTREACH INITIATIVES

The last semiannual report (April 1–September 30, 1997) included a special feature, which described the OIG's outreach initiatives. As recounted in that feature, the Inspector General Act, 5 U.S.C. Section 4(a)(3), directs the Inspector General to conduct, supervise, and coordinate activities to promote economy and efficiency, and to prevent fraud and abuse in agency programs and operations. To further this statutory mandate, the OIG continued this initiative during the current reporting period by providing employees at NRC Headquarters with the same training program provided last year in the Regions. The strategy behind this training is that employees who are educated and knowledgeable about the functions and processes used by the OIG will be better able to fulfill their obligations as government employees, and will avoid violating statutes and regulations.

The training panel consisted of Inspector General, Hubert T. Bell, and his senior staff:

- David C. Lee, Deputy Inspector General
- Thomas J. Barchi, Assistant Inspector General for Audits
- James E. Childs, Assistant Inspector General for Investigations
- Maryann L. Grodin, Counsel

This training followed the same syllabus used in the regional training sessions. However, the panel expended additional effort to tailor the training to the interests of individual employees by organizing the schedule of training by office functions. Large offices had essentially dedicated sessions. After opening remarks by the Inspector General, the staff summarized the functions of audits, investigations, and counsel. The panel also stressed high-profile cases and issues, and identified reference materials. Each training session concluded with a question-and-answer period.

*James E. Childs, AIGI; Hubert T. Bell, Inspector General; David C. Lee, Deputy Inspector General, Corenthis B. Kelley, Team Leader; and Maryann Grodin, Counsel conduct a training session for NRC Headquarters employees.*



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In fifteen 2-hour sessions, almost 900 headquarters employees received this OIG Outreach Training. Responses from managers and employees alike were uniformly positive.

## **EXPANSION OF THE OIG'S OUTREACH INITIATIVES TO OTHER AGENCIES**

Sharing the OIG's outreach philosophy within the Inspector General community was a new avenue pursued during this period. The NRC's Inspector General was invited to address the Naval Inspector General Annual Conference as a guest speaker on the topic of outreach. Besides recounting the NRC/OIG's experience in the publishing and training arenas, the message conveyed the importance of educating agency employees and management with regard to the functions and mission of the OIG. The Inspector General's presentation concluded with extensive comments in response to questions from the several hundred attendees.



*Inspector General, Hubert T. Bell receives plaque in appreciation of his address at the Naval Inspector General Annual Conference.*

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# APPENDICES

## AUDIT LISTINGS

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

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<b>Date</b>	<b>Title</b>	<b>Number</b>
10/20/97	<i>Valuable Lessons Can Be Learned from the Regulatory Transition of the Gaseous Diffusion Plants</i>	OIG/97E-19
10/23/97	<i>NRC's Effort to Document Compliance with the New Time and Attendance System is Lacking</i>	OIG/97A-18
12/18/97	<i>Survey of NRC/EPA Issues Regarding Radiation Standards</i>	OIG/97A-14
01/29/98	<i>Opportunities for Savings Available in Information Management Activities</i>	OIG/97A-22
02/09/98	<i>Review of NRC's Implementation of the Federal Manager's Financial Integrity Act for Fiscal Year 1997</i>	OIG/98A-05
02/13/98	<i>Results of the Audit of U.S. Nuclear Regulatory Commission's Fiscal Year 1997 Financial Statements</i>	OIG/97A-17
03/13/98	<i>Additional Measures Needed to Enhance NRC's Rulemaking Process</i>	OIG/98E-04

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**Contract Audit Reports**

<b>OIG Issue Date</b>	<b>Contractor/ Contract Number</b>	<b>Questioned Costs</b>	<b>Funds Put to Better Use</b>
10/16/97	Bernard Hodes Advertising RS-PER-98-281	0	0
10/21/97	Westinghouse Electric Corporation NRC-04-90-085	\$2,359	0
10/27/97	Advanced Systems Technology, Inc. NRC-04-91-047	0	0
10/28/97	Battelle Memorial Institute NRC-03-96-022	0	0
	NRC-04-91-063	0	0
	NRC-04-92-047	0	0
11/5/97	Science Applications International Corp. NRC-03-82-096	0	0
11/12/97	Risk Engineering, Incorporated NRC-04-96-037	0	0
11/26/97	Ebasco Services, Incorporated NRC-04-86-117	0	0
11/26/97	Ebasco Services, Incorporated NRC-04-86-117	0	0
1/28/98	Ebasco Services, Incorporated NRC-04-90-099	0	0
1/28/98	Ebasco Services, Incorporated NRC-02-85-010	0	0
1/28/98	Westinghouse Electric Corporation NRC-04-91-071	0	0

**Contract Audit Reports (continued)**

<b>OIG Issue Date</b>	<b>Contractor/ Contract Number</b>	<b>Questioned Costs</b>	<b>Funds Put to Better Use</b>
2/12/98	Science & Engineering Associates, Inc. NRC-04-89-051	\$57,966	0
3/11/98	Southwest Research Institute RS-02-97-009	0	\$328,913
3/20/98	Southwest Research Institute NRC-02-93-005	\$205,205	0
3/23/98	M-Cubed Information Systems, Inc. NRC-33-93-196	\$3,500	0
3/23/98	Pal Consultants, Inc. NRC-04-91-073	0	0
3/31/98	Cexec, Inc. NRC-33-90-178 NRC-33-93-186 NRC-33-93-203	0 0 0	0 0 0
3/31/98	Comex Corporation NRC-03-93-026 NRC-03-93-036 NRC-26-93-290	0 0 0	0 0 0
3/31/98	Energy Research, Inc. NRC-04-91-068 NRC-04-92-045 NRC-04-92-046 NRC-04-94-050	0 0 0 0	0 0 0 0



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**Contract Audit Reports (continued)**

<b>OIG Issue Date</b>	<b>Contractor/ Contract Number</b>	<b>Questioned Costs</b>	<b>Funds Put to Better Use</b>
3/31/98	Science & Engineering Associates, Inc.		
	NRC-03-93-030	0	0
	NRC-03-93-032	0	0
	NRC-03-93-036	0	0
	NRC-04-87-086	0	0
	NRC-04-91-066	0	0
	NRC-04-91-071	0	0
	NRC-04-95-042	0	0
	NRC-04-95-047	0	0
	NRC-26-93-290	0	0
3/31/98	Statistica, Incorporated		
	NRC-33-93-201	0	0
<b>TOTALS</b>		<b>\$269,030</b>	<b>\$328,913</b>

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## AUDIT TABLES

During this reporting period, the OIG analyzed 21 contract audit reports issued by the DCAA. The following tables depict the cost savings from this work.

**Table I. Post-Award Findings**

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<b>OIG Reports Containing Questioned Costs October 1, 1997 - March 31, 1998</b>			
<b>Reports</b>	<b># of Reports</b>	<b>Questioned Costs(\$)</b>	<b>Unsupported Costs (\$)</b>
A. For which no management decision has been made by the commencement of the reporting period	1	\$118,010	0
B. Which were issued during the reporting period	4	\$269,030	0
Subtotal (A+B)	5	\$387,040	0
C. For which a management decision was made during the reporting period:			
(i) dollar value of disallowed costs	5	\$387,040	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

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**Table II. Pre-Award Findings**

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**OIG Reports Issued with Recommendations  
That Funds Be Put to Better Use  
October 1, 1997 – March 31, 1998**

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<b>Reports</b>	<b># of Reports</b>	<b>Dollar Value</b>
A. For which no management decision has been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	2*	\$328,913
Subtotal (A+B)	2	\$328,913
C. For which a management decision was made during the reporting period:		
(i) dollar value of recommendations that were agreed to by management	2	\$328,913
(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

\* One pre-award audit reported that zero funds were available for better use.

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## **ABBREVIATIONS**

ADAMS	Agency-wide Documents Access and Management System
ADM	Office of Administration (NRC)
CFO	Chief Financial Officer
CRT	Citizen's Review Team
DAF	Division of Accounting and Finance (NRC)
DCAA	U.S. Defense Contract Audit Agency
DOE	U.S. Department of Energy
EDO	Executive Director for Operations
EOP	Emergency Operating Procedure
EPA	U.S. Environmental Protection Agency
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GDP	Gaseous Diffusion Plant
IG	Inspector General
ICAVP	Independent Corrective Action Verification Program
ISA	Independent Safety Assessment
ISAT	Independent Safety Assessment Team
LSS	Licensing Support System
MOU	Memorandum of Understanding
MYAPS	Maine Yankee Atomic Power Station
NMSS	Office of Nuclear Material Safety and Safeguards (NRC)
NOED	Notice of Enforcement Discretion
NRC	U.S. Nuclear Regulatory Commission

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NRR	Office of Nuclear Reactor Regulation (NRC)
OCFO	Office of the Chief Financial Officer (NRC)
OIG	Office of the Inspector General (NRC)
PDR	Public Document Room (NRC)
PM	Project Manager
RES	Office of Nuclear Regulatory Research (NRC)
RPS	Reactor Program System
SMT	Senior Management Team
T&A	Time and Attendance
USEC	United States Enrichment Corporation

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## **GLOSSARY**

### *Event Inquiry*

The event inquiry is an investigative product documenting examination of events or agency actions that do not specifically focus 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 founded 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. Such instances typically involve 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.

### *Special Evaluation*

An OIG audit report that examines the implications of NRC programs that affect national issues, such as high-level radioactive waste disposal, nuclear power plant decommissioning, or the use of radiation by the medical community in treating disease.

### *Questioned Cost*

A cost questioned as a result of an alleged violation of law, regulation, contract, or agreement governing the expenditure of funds (costs unsupported by adequate documentation or funds for a particular purpose that are unnecessary or unreasonable.)

# ***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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