



Office of the Inspector General

U.S. Nuclear Regulatory Commission

Semiannual Report

April 1, 2002 – September 30, 2002

Pictured on the Cover:

A brilliant “Blue Glow” engulfs the University of Missouri-Rolla Reactor core when it is operating at a high power. This effect is known as Cerenkov Radiation, named after the Russian scientist who developed the theory explaining the phenomena.

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 summarizes significant OIG activities during the period from April 1, 2002, to September 30, 2002, in compliance with Sections 4 and 5 of the Inspector General Act of 1978, as amended.

During this reporting period, our office completed eight audits of NRC's programs and operations. This work led OIG to make a number of recommendations and suggestions to NRC for program improvement. In addition, OIG completed 28 investigations and made 21 referrals to NRC management. Finally, OIG analyzed 10 contract audit reports issued by the Defense Contract Audit Agency and one contract audit issued by the General Services Administration OIG. Overall, these analyses caused OIG to question \$127,937 in costs. In addition, OIG classified \$3,606,365 as unsupported costs.

I would like to express my appreciation for the ongoing support and interest of the Commission and the agency's senior staff. We look forward to continuing to work constructively with NRC's leaders and staff to further our common goal of ensuring the effectiveness, efficiency, and integrity of the programs that ultimately protect the health and safety of the public.

Sincerely,



Hubert T. Bell
Inspector General

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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 Office of the Inspector General (OIG) conducted an audit of the Nuclear Regulatory Commission's (NRC) use of the Government-wide commercial purchase card, focusing on NRC headquarters purchase card usage and oversight. While NRC's simplified acquisition policies are in accordance with applicable laws and regulations, the agency's purchase card policies are not incorporated into its formal policy system. While most management controls for micro-purchases are working as intended, opportunities exist to strengthen other relevant management controls. The purchase card program would benefit from (1) more comprehensive agency guidance, (2) improvements to NRC quality control reviews, and (3) a strengthened separation-clearance process.
- OIG independently assessed the adequacy of physical security measures at NRC headquarters. Following the terrorist attacks of September 11, 2001, NRC instituted measures to further tighten security at its headquarters and undertook a security review of the headquarters buildings. According to NRC's review, the agency has one major remaining vulnerability and is presently working with the General Services Administration regarding its solution. OIG based its assessment on existing physical security standards for Federal buildings and

expert opinion on the adequacy of physical security measures, given the attacks of September 11. While NRC has increasingly hardened its controls to protect against unauthorized access to its headquarters complex, NRC needs to do more.

- OIG performed an audit of the NRC's significance determination process (SDP) to determine if (1) it is achieving desired results, (2) NRC staff clearly understand the process, and (3) it is used in accordance with agency guidance. The SDP is a series of analytical steps that NRC staff use to evaluate reactor inspection findings. NRC provides the public with the results of its inspections and performance assessments on its Web site and through public meetings. SDP evaluations are generally specific to each of seven NRC-established "cornerstones of safety." NRC staff, licensees, and stakeholders view the SDP as an improvement over NRC's previous method for establishing the significance of inspection findings. While the SDP is meeting its objectives and agency staff are using the process in accordance with guidance, additional refinements are needed. Specifically, NRC should (1) develop an action plan to correct Phase 2 analysis weaknesses, or eliminate this portion of the SDP, because Phase 2 provides conservative results that have been subsequently changed, is used infrequently, and adds cost and time to the

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process and (2) discontinue the expenditure of about \$1,050,000 remaining to develop Phase 2 until the action plan is completed. These refinements will help ensure that SDP is implemented successfully.

INVESTIGATIONS

- **OIG conducted an investigation based on information developed during an OIG audit about possible improprieties by the NRC's Office of Human Resources in awarding a contract to Arthur Andersen, LLP (AA), to assist NRC with strategic workforce planning.**

OIG found that before NRC issued a request for quote (RFQ), the project officer for the NRC strategic workforce planning contract informed AA that it had already been chosen for the workforce planning contract. In addition, prior to the RFQ's issuance, the NRC project officer provided to AA the draft statement of work that included the RFQ evaluation criteria and the Government's cost-estimate ceiling for the project. As a result, OIG determined that in awarding the task order, the NRC employee failed to conduct Government business with complete impartiality and failed to provide fair and equitable consideration to prospective vendors.

- **OIG conducted an investigation upon receiving information that NRC contract employees falsely reported parking fees collected from NRC employees and visitors who purchased NRC garage parking permits at \$6 a day.**

OIG determined that between January 7, 1997, and August 8, 2001, two Colonial Parking, Inc., employees defrauded the

U.S. Government by issuing false parking receipts at the NRC headquarters garage totaling approximately \$11,400. As a result, both employees were convicted for violations of Maryland State laws, including theft, theft scheme, and conspiracy. Both employees were sentenced to incarceration in the Montgomery County Detention Center; one was sentenced for 2 years and the other for 364 days. Upon release, each employee will be placed on supervised probation, perform 50 hours of community service, and make monetary restitution to the NRC.

- **OIG completed an investigation into concerns raised by members of the public and elected State officials regarding NRC staff conduct during the agency's review of a license amendment request and the related NRC Atomic Safety and Licensing Board Panel (ASLBP) hearing. The proceeding in question concerned a request by Carolina Power & Light (CP&L) to amend the operating license of the Shearon Harris Nuclear Power Plant to increase its spent fuel storage capacity. In connection with this request, it was alleged that:**

- NRC staff and the ASLBP failed to adhere to procedures during their review of the license amendment request,
- NRC staff pressured the ASLBP to expedite license amendment approval and the staff did not sufficiently review all relevant contentions, and
- NRC was biased towards CP&L and stifled the public's participation in the license amendment review process.

OIG's investigation did not validate claims that the NRC staff acted improperly during this review. However, OIG identified sev-

eral staff actions that gave the appearance that NRC was not an impartial arbiter during the license amendment review process.

- **OIG completed investigations concerning three NRC employees who misused their Government computers to access pornographic Internet site(s). Two investigations were based on a referral of information developed during an OIG audit of NRC Internet use. The third investigation was conducted based on a confidential informant's report to OIG that he/she observed pornographic images on an NRC employee's NRC computer.**

As a result of the investigations, OIG found that each employee accessed Internet sites containing sexually explicit material on their assigned NRC computer. OIG found that the first NRC employee downloaded a total of 3,574 graphic or video files containing images or content of a sexual nature. The second employee downloaded 53 files to view sexually explicit Web sites. The third employee downloaded 2,121 files containing images or contents of a sexual nature. Action by the agency on all three investigations is pending.

THE OFFICE OF THE INSPECTOR GENERAL

In October 1978, the Congress passed and the President signed the Inspector General (IG) Act, which created independent audit and investigative offices within 12 Federal agencies headed by IGs appointed by the President and confirmed by the Senate. At that time, the IGs were charged with independently reviewing the programs and operations of their agencies; detecting and preventing fraud, waste, and abuse; and promoting economy, efficiency, and effectiveness so their agencies could best serve the public. The act has been amended several times over the years to add new IGs and clarify reporting requirements. Today, 57 Offices of Inspector General (OIG) provide oversight for 59 Federal agencies.

Individual OIGs view themselves as “agents of positive change” within their agencies and direct their work toward examining programs and operations to promote program efficiency and effectiveness and protect Government integrity. IGs endeavor to be influential forces in identifying vulnerabilities in the agency’s programs and operations and facilitating excellence by recommending improvements. While changes in vulnerability and risk have affected the focus of their work and priorities over the years, OIGs have drawn on their broad base of knowledge and expertise to adapt to these changes and remain relevant and on point.

Helping to fight terrorism, evaluating the Nation’s critical infrastructure, striving to improve the Government’s financial management, and validating agency performance and accountability measures are among the key tasks facing the Nation’s IGs today. These tasks have emerged as a result of

priorities established by the Administration or the Congress or, as has more recently occurred, threats against our homeland. These priorities differ sharply from those faced by the newly formed IG offices nearly 24 years ago.

To accomplish their broad mandate, IGs have substantial independence and authority to conduct audits and investigations of agency programs. They have direct access to agency records and materials and ready access to agency heads; issue subpoenas for all necessary information, data, reports, and other documentary evidence; administer oaths for taking testimony; hire their own staffs; and request assistance from other Federal, State, and local Government agencies. They also act as independent fact gatherers, often undertaking initiatives 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 agency management pursue the same ultimate goal: efficient and effective program operation and service delivery.

In the case of NRC, Congress established an independent OIG through a 1988 amendment to the IG Act. Today, the NRC’s OIG’s primary mission is to assist NRC by ensuring integrity, efficiency, and accountability in the agency’s programs to regulate the civilian use of byproduct, source, and special nuclear material in a manner that adequately protects public health and safety and the environment, while promoting the Nation’s common defense and security. Specifically, NRC’s OIG supports the agency by carrying out its mandate to (1) independently and objectively conduct and

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supervise audits and investigations related to NRC's programs and operations; (2) prevent and detect fraud, waste, and abuse; and (3) promote economy, efficiency, and effectiveness in NRC's programs and operations. OIG also keeps the NRC Chairman and members of Congress fully and currently informed about problems, recommends corrective actions, and monitors NRC's progress in implementing those actions. For Fiscal Year (FY) 2002, NRC's total budget authority is \$558 million, which includes a \$6.1 million appropriation for OIG.

ORGANIZATION AND FUNCTIONS OF NRC'S OIG

NRC's OIG includes an audit staff, an investigative staff, an independent general counsel, and a resource management and operations support (RMOS) staff. The IG's audit program is designed to keep the NRC Chairman and members of Congress fully and currently informed about problems, recommend corrective actions, and monitor NRC's progress in implementing such actions. OIG conducts performance, financial, and contract audits. Performance audits are conducted on NRC administrative and program operations to evaluate the effectiveness and efficiency with which managerial responsibilities are carried out and whether the programs achieve intended results. Financial audits attest to the reasonableness of NRC's financial statements. Contract audits evaluate the costs of goods and services procured by NRC from commercial enterprises. In addition, the audit staff prepares special evaluation reports that present OIG perspectives or information on specific topics.

OIG's investigative program mission is to perform investigative activities related to the integrity of NRC's programs and operations. Most OIG investigations focus on violations of

law or misconduct by NRC employees and contractors, as well as allegations of irregularities or abuses in NRC programs and operations, with special emphasis on those activities that could adversely impact public health and safety. As a complement to the investigative function, the staff also conducts event inquiries, which yield investigative reports documenting the examination of events or agency actions that do not specifically involve individual misconduct. Instead, these reports identify institutional weaknesses that led to or allowed a problem to occur. In addition, the OIG investigative staff periodically performs root cause analyses and implements other preventive initiatives such as integrity awareness training.

OIG's General Counsel (GC) provides independent legal advice on criminal law and procedures, evidence, and constitutional law in the context of OIG's investigative program. The GC also develops legal interpretations of appropriations law, financial management statutes and regulations, and procurement and funding precepts in support of OIG's audit program. In addition, the GC conducts and coordinates as necessary with other cognizant OIG staff to provide indepth reviews of and comments on existing and proposed legislation, regulations, directives, and policy issues that affect NRC programs and operations. The intent of these reviews is to assist the agency in prospectively identifying and preventing potential problems.

The RMOS staff formulates and executes the OIG budget, prepares the OIG's *Semiannual Report* to Congress, operates an independent personnel program, administers the control of OIG funds, administers the office's information technology programs, coordinates strategic planning activities, and performs a variety of other support functions.

ABOUT THE NRC

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

NRC places a high priority on keeping the public informed of its work. Toward that end, the agency maintains a current Web site and a public document room. In addition, the agency holds public hearings, public meetings at NRC offices and in local areas, and a variety of discussions with individuals and organizations.


NRC's Commission is composed of five members, with one member designated by the President to serve as Chairman. Each member is appointed to a 5-year term by the President, with the advice and consent of the Senate. The Chairman serves as the Commission's principal executive officer and official spokesperson. The Executive Director for Operations (EDO) carries out the program policies and decisions made by the Commission. The EDO oversees the following major program areas:

- **Nuclear Reactor Regulation** - Directs all licensing and inspection activities associated with the design, construction, and operation of nuclear power reactors and nonpower reactors.
- **Nuclear Material Safety and Safeguards** - Directs all licensing inspection and environmental activities associated with nuclear fuel cycle facilities, uses of nuclear materials, storage and transport of nuclear materials, safeguarding of nuclear materials, management and disposal of low-level and high-level radioactive nuclear waste, and decontamination and decommissioning of facilities and sites.
- **Nuclear Regulatory Research** - Provides independent expertise and information for making timely regulatory judgments, anticipating problems of potential safety significance, and resolving safety issues. Provides support for developing technical regulations and standards. Collects, analyzes, and disseminates information about the operational safety of commercial nuclear power reactors and certain nuclear materials activities.
- **Office of Nuclear Security and Incident Response** - Responsible for overall agency policy and activities involving nuclear facility security. Provides safeguards and security interface with other Federal agencies and oversees the agency's incident response program.
- **Regional Offices** - Conduct inspection, enforcement, investigation, licensing, and emergency response programs for nuclear reactors, fuel facilities, and materials licensees within regional boundaries established by NRC headquarters.

The NRC staff numbers approximately 2,800, with roughly two-thirds of the employees working at the agency's headquarters in Rockville, Maryland. The remainder are located in four regional offices or at resident inspector offices at each commercial nuclear power plant and some fuel cycle facilities.

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MANAGEMENT CHALLENGES FACING THE NRC

NRC's Most Serious Management Challenges as of December 17, 2001	
<p>Challenge 1 Protection of nuclear material and facilities used for civilian purposes.</p>	<p>Challenge 5 Clear and balanced communication with external stakeholders.</p>
<p>Challenge 2 Development and implementation of an appropriate risk-informed and performance-based regulatory oversight approach.</p>	<p>Challenge 6 Intra-agency communication (up, down, and across organizational lines).</p>
<p>Challenge 3 Identification, acquisition, implementation, and protection of information resources.</p>	<p>Challenge 7 Integration of regulatory processes in a changing external environment.</p>
<p>Challenge 4 Administration of all aspects of financial management.</p>	<p>Challenge 8 Maintenance of a highly competent staff (i.e., human capital management).</p>
<p> The challenges are <i>not</i> ranked in any order of importance.</p>	

THE AUDIT PROGRAM

To help the agency improve its effectiveness during this period, OIG completed eight performance and financial audits, which resulted in a number of recommendations and suggestions to NRC management. In addition, OIG analyzed 10 contract audit reports issued by the U.S. Defense Contract Audit Agency (DCAA) and one contract audit issued by the General Services Administration OIG. Overall, these analyses caused OIG to question \$127,937 in costs. In addition, OIG classified \$3,606,365 as unsupported costs.

AUDIT SUMMARIES

Review of NRC's Simplified Acquisition Procedures

Simplified acquisition procedures are the methods prescribed in Federal Acquisition Regulation (FAR) Part 13 for making purchases of supplies or services that do not exceed \$100,000, with certain exceptions. Simplified acquisition methods include the Government-wide commercial purchase card, purchase orders, and blanket purchase agreements. The Chief Financial Officers Council goal is for purchase cards to be used for more than 90 percent of purchases under \$2,500. U.S. General Accounting Office audits of other agencies found that lack of training and insufficient management controls resulted in fraudulent, improper, and abusive transactions using the purchase card. Accordingly, this audit focused on the NRC's use of the purchase card.

As of January 2002, NRC had 121 purchase card holders and 52 approving officials. During FY 2001, NRC purchase card holders used their purchase cards to make 5,810 micro-purchases (an acquisition of supplies or services, the aggregate amount of which does not exceed \$2,500, except that in the case of construction, the limit is \$2,000) totaling approximately \$2.4 million. The audit

objectives were to determine whether (1) NRC's policies governing simplified acquisitions are in accordance with applicable laws, executive orders, and regulations and (2) management controls for purchase card use provide reasonable assurance to deter and prevent loss through fraud, waste, or misuse. This audit focused on purchase card usage and oversight at NRC headquarters.

OIG found that NRC's simplified acquisition policies are in accordance with applicable laws, executive orders, and regulations such as the Federal Acquisition Regulation (FAR). The agency's broad policies recognize the need for oversight and the proper authorization and execution of transactions. During FY 2001, NRC achieved the Chief Financial Officers Council's goal, as NRC made 96.1 percent of its 6,047 micro-purchase transactions using purchase cards. Thus, NRC also satisfied the FAR requirement that the purchase card be used as the preferred method for making micro-purchases, which resulted in approximately \$395,000 in cost avoidance.

However, while NRC's simplified acquisition policies are in accordance with applicable laws and regulations, the agency's purchase card policies are not incorporated into its formal policy system. As a result, the agency

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may not be able to hold employees legally accountable if they misuse purchase cards. While most management controls for micro-purchases are working as intended, opportunities exist to strengthen other relevant management controls. OIG compliance testing of 155 purchase card transactions made during FY 2001 disclosed one recurring questionable transaction (a monthly charge that actually represents 11 of the 155 transactions sampled) that was referred to agency officials for appropriate action. The purchase card program would benefit from (1) more comprehensive agency guidance, (2) improvements to NRC quality control reviews, and (3) a strengthened separation-clearance process. NRC management officials did not identify these conditions because they believed that existing controls were sufficient. Enhancing existing controls will lessen agency vulnerabilities to loss due to fraud, waste, and misuse. (Addresses Management Challenges #3 and 4)

Memorandum Report: Audit of NRC Oversight of its Federally Funded Research and Development Center

OIG conducted this audit at the request of the Executive Director for Operations to determine if NRC adhered to the FAR in preparing the renewal justification for its Federally Funded Research and Development Center (FFRDC). Additionally, OIG examined how NRC exercises technical oversight and contract administration of the FFRDC.

In October 1987, NRC contracted with Southwest Research Institute (SwRI) to operate a FFRDC. SwRI established the Center for Nuclear Waste Regulatory Analyses (the Center) to provide long-term technical assistance and research related to NRC's High-Level Waste Program authorized under the Nuclear Waste

Policy Act of 1982, as amended. The agency sponsored an FFRDC to (1) avoid potential conflict-of-interest situations caused by hiring contractors who worked on or were competing for Department of Energy (DOE) contracts and (2) establish consistent long-term technical expertise. Under the Nuclear Waste Policy Act of 1982, as amended, NRC is responsible for licensing high-level waste storage and disposal facilities that will be sited, constructed, and operated by the DOE, the licensee. Because of the nature of this relationship, it is critical that NRC's technical evaluations of DOE license applications be free of any potential conflict-of-interest.

In October 1992, and again in September 1997, the agency extended its contract with SwRI for an additional 5 years. The current contract, with a ceiling of \$87.6 million, expired on September 27, 2002. FAR Section 35.017 addresses FFRDCs and requires that, prior to extending a contract for an FFRDC, a sponsor must conduct a comprehensive review of the use of and need for the FFRDC. The review must examine the continuing need for the FFRDC, consider alternative sources, assess the Center's efficiency and effectiveness, determine if the Center's operation is cost-effective, and determine agreement compliance with FAR Section 35.017-1. If the review determines that the need for the FFRDC still exists and that the Center has met the agency's needs, NRC may extend the contract for an additional 5-year period.

OIG found that the agency's draft renewal justification, as revised on April 18, 2002, for continued use of the FFRDC satisfactorily addressed the FAR criteria. Furthermore, NRC's oversight and administration of the FFRDC contract are adequate. (Addresses Management Challenges #2, 4, 7, and 8)

Review of ADAMS

The Agencywide Documents Access and Management System (ADAMS) is NRC's electronic record keeping system that maintains the agency's official records. The system was declared operational on April 1, 2000, despite system shortfalls with regard to functionality, ease of use, reliability, document tracking, and reporting capabilities desired by the agency. Because of these problems, in May 2000, the Chairman requested an assessment of ADAMS's effectiveness and efficiency. In response to the Chairman's tasking memorandum, the Office of the Chief Information Officer developed an ADAMS action plan and obtained an independent assessment of ADAMS. The objectives of this audit were to 1) determine how effectively NRC has carried out the Chairman's requests and 2) assess what additional actions are required by NRC to make ADAMS successful.

ADAMS cost \$12.9 million more than expected, took longer to become operational than anticipated, and initially failed to produce significant improvements in document management. After implementing the system, NRC management completed a number of system fixes and upgrades to improve ADAMS's functionality and overall usefulness to NRC offices. According to an NRC user satisfaction survey, users favor the current version of ADAMS over the previous version that received a negative review just after the system became operational. In response to one question, 72.7 percent of the users now agree or strongly agree with the statement, "The information that I get is current and up to date." However, ADAMS is now at a crossroads and a decision needs to be made on whether ADAMS should migrate to a Web-based system. Regardless of this decision, specific management controls need to be improved.

OIG found that management oversight of ADAMS is hampered by weak management controls. Specifically, ADAMS lacks a finalized system development methodology policy, adequate steering group guidance, complete reporting of cost information to the Office of Management and Budget, and ADAMS contractors with system administrator rights do not have the appropriate security clearances. As a result, weaknesses continue in ADAMS project management, ADAMS costs will not be accurately reported, and sensitive information in ADAMS is at risk of disclosure to unauthorized individuals. (*Addresses Management Challenges #3, 5, and 6*)

Review of Security at NRC

When NRC selected its current Rockville, Maryland, site for its headquarters operations in the mid-1980s, security considerations were not a major factor in the decision because security threats were not then viewed as an overriding concern. However, the buildings do contain many security features and, based on recommendations from NRC's own security reviews conducted in 1995 and 1999, the agency has increasingly hardened its protection against unauthorized access to its headquarters.



Following the terrorist attacks of September 11, 2001, NRC instituted measures to further tighten security at its headquarters and undertook a security review of the headquarters buildings. According to NRC's review, the agency has one major remaining vulnerability, based on minimum standards in the Department of Justice's *Vulnerability Assessment of Federal*

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Facilities, published in June 1995. The agency is presently working with the GSA regarding a solution for this vulnerability.

This audit's objective was to independently assess the adequacy of physical security measures at NRC headquarters. OIG assessed the agency's compliance with existing physical security standards for Federal buildings and obtained expert opinion on the adequacy of physical security measures, given the attacks of September 11.

Auditors found that NRC has increasingly hardened its controls to protect against unauthorized access to its headquarters complex, but still needs to do more. (*Addresses Management Challenge #1*)

Review of NRC's Significance Determination Process

NRC regulates the Nation's 103 operating commercial nuclear power plants through its reactor oversight program. NRC staff use inspection findings and performance indicators to assess plant operations within a framework of seven "cornerstones" of safety. A key feature of the inspection program is the significance determination process (SDP).

SDP is a series of analytical steps that NRC staff use to evaluate inspection findings. The process uses four colors — green, white, yellow, and red — to indicate the significance of inspection findings. NRC provides the public with the results of its inspections and performance assessments on its Web site and through public meetings. SDP evaluations are generally specific to each cornerstone of safety.

The audit objectives were to determine whether (1) SDP is achieving desired results, (2) NRC staff clearly understand the process,

and (3) NRC staff are using SDP in accordance with agency guidance.

NRC staff, licensees, and stakeholders view SDP as an improvement over NRC's previous method for establishing the significance of inspection findings. While SDP is meeting its objectives and agency staff are using SDP in accordance with guidance, additional refinements are needed. Specifically, NRC should (1) develop an action plan to correct Phase 2 analysis weaknesses, or eliminate this portion of the SDP, because Phase 2 provides conservative results that have been subsequently changed, is used infrequently, and adds cost and time to the process; (2) discontinue the expenditure of about \$1,050,000 remaining to develop Phase 2 until the action plan is completed; (3) provide guidance for using information from licensee risk assessments in SDP evaluations; (4) take action to improve SDP timeliness; (5) improve its Web site to more fully inform the public; and (6) improve SDP training and guidance. These refinements will help to ensure that SDP is implemented successfully. (*Addresses Management Challenges #2, 3, 5, 6, and 7*)

Independent Evaluation of NRC's Information Security Program as Required by the Government Information Security Reform Act (GISRA) for Fiscal Year 2002

This report reflects the results of the second annual independent evaluation performed by Richard S. Carson & Associates on behalf of OIG. The evaluation found that NRC has made substantial progress in improving its information security program and implementing recommendations from the 2001 GISRA assessment by Carson & Associates. However, NRC's information security program is not well integrated or consistently

implemented across the agency. NRC officials have not clearly defined the responsibility and accountability for all aspects of the information security program within its organizational structure. The evaluation report includes 28 recommendations to strengthen NRC's information security program. (*Addresses Management Challenge #3*)

Memorandum Report: Review of NRC's Protection of Social Security Numbers

In 1936, the Social Security Administration (SSA) created a numbering system designed to provide a unique identifier, the Social Security Number (SSN), for each individual. The SSA uses SSNs to track workers' earnings and eligibility for Social Security benefits and, as of December 1998, 391 million SSNs had been issued. Over the years, the SSN has become a "de facto" national identifier. Because SSNs are unique identifiers, the numbers provide an efficient way to manage records. The expanded use of the SSN provides a tempting motive for many unscrupulous individuals to acquire someone else's SSN and use it for illegal purposes.

The Chairman of the House Ways and Means Subcommittee on Social Security requested the President's Council on Integrity and Efficiency to examine the control over SSNs by Federal agencies. The objective of this audit was to assess NRC's controls over the access, disclosure, and use of SSNs by third parties. Specifically, OIG was to determine whether NRC (1) makes legal and informed disclosure of SSNs to third parties, (2) has appropriate controls over contractors' access and use of SSNs, (3) has appropriate controls over other entities' access and use of SSNs, and (4) has adequate controls over access to individuals' SSNs maintained in its databases.

To protect the rights of individuals from invasion of personal privacy, NRC has

established management controls through its policies and procedures to ensure that systems of records are established and maintained to protect SSNs. However, OIG found that NRC's protection of personal information is weakened by staff failure to follow agency-established policies and procedures. Specifically, *Privacy Act* clauses are not always included in applicable contracts, not all applicable NRC records systems are included in *Privacy Act* systems of records, and the controls over duplicate systems of records need to be strengthened. (*Addresses Management Challenges #1, 3, and 4*)

AUDITS IN PROGRESS

Audit of NRC'S FY 2002 Financial Statements

In accordance with the Chief Financial Officers Act and the Government Management and Reform Act, OIG audits NRC's financial statements. OIG is auditing NRC's financial statements in accordance with applicable auditing standards. The audit will develop an opinion on the agency's financial statements, evaluate internal controls, review compliance with applicable laws and regulations, review the performance measures included in the financial statements for compliance with Office of Management and Budget guidance, and review the controls in the NRC's computer systems that are significant to the financial statements. (*Addresses Management Challenge #4*)

Audit of NRC's Contract Administration Practices

During FY 2001, NRC obligated \$83 million in contract actions for Division of Contracts (DC) activities alone. Additional funds are obligated for contract vehicles

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outside the realm of DC. DC is responsible for (1) developing and implementing agency-wide contracting policies and procedures and (2) providing advice and assistance to NRC program officials regarding the Nuclear Regulatory Commission Acquisition Regulation (NRCAR), the FAR, and methods for meeting program objectives consistent with such regulations.

To meet the needs of NRC contract management personnel, DC is working with the Office of Human Resources to restructure and update the agency's acquisition training curriculum. The curriculum includes both mandatory and recommended modules and focuses on the entire NRC acquisition process.

The objective of this audit is to review the economy, efficiency and effectiveness of the management controls included in the NRC's contract administration program. During the verification phase OIG will primarily focus on (1) NRC contract administration/oversight of selected contracts and purchase orders, (2) acquisition workforce training, (3) backlog of contract closeouts, (4) adequacy of contract audit coverage, and (5) certain other miscellaneous matters. (*Addresses Management Challenge #4*)

Audit of NRC's Accountability for Special Nuclear Materials

NRC licenses individuals to possess and use certain amounts and types of special nuclear materials. Accurately accounting for this material is technically challenging and has a history of difficulties. The Nuclear Materials Management and Safeguards Systems (NMMSS) is designed to be the U.S. Government's information system containing current and historic data on the possession and shipment of certain nuclear materials. DOE has historically provided computer support for this

system. NRC reimburses DOE for 34 percent of the operational costs. However, significant discrepancies have been reported between the amounts of materials recorded in NMMSS and licensee records. This raises questions regarding how accurately NRC inspection staff are able to identify and account for special nuclear material entrusted to licensees. This audit is responding to longstanding public concerns regarding the accurate control and use of special nuclear materials and is primarily focusing on materials licensees.

The objective is to determine whether NRC inspection staff are able to accurately identify and account for special nuclear materials used by licensees. (*Addresses Management Challenges #1,3, and 5*)

Audit of NRC's Research and Test Reactor Program

Research and test reactors are designed and utilized for research, testing, and educational purposes. NRC currently licenses 36 non-power reactors operating in 23 States. Nine others are being decommissioned and another seven have possession-only licenses. In contrast to commercial nuclear power facilities, most non-power reactors are located in urban areas, primarily on university campuses. They typically range in size from 0.10 watts to 20 megawatts (thermal). Most of these reactors are less than 1/1000th the power of a commercial power reactor.

NRC conducts about 20 assessments of non-power reactors annually with inspection frequency based on the amount of nuclear material at the facility. These inspections are aimed at ensuring that programs are conducted in accordance with license requirements.

Because of the agency's focus on commercial power reactors, there is concern that the research and test reactor program may not be

receiving adequate attention, especially in the current heightened security environment. The audit's objective is to determine whether NRC's research and test reactor program is providing adequate oversight of these facilities. (Addresses Management Challenges #1, 2, and 7)

Audit of NRC's Protection of Safeguards Information

Safeguards information is sensitive unclassified information that specifically identifies the detailed security measures of a licensee or an applicant for the physical protection of (1) special nuclear materials and (2) certain plant equipment vital to the safety of production or utilization facilities. NRC established its Sensitive Unclassified Information Security Program to ensure that sensitive unclassified information is handled appropriately and protected from unauthorized disclosure under pertinent laws, management directives, and applicable directives of other Federal agencies and organizations. In accordance with the Atomic Energy Act of 1954 as amended, civil and criminal penalties can be levied for the unauthorized disclosure of safeguards information. NRC's requirements are spelled out in Management Directive and Handbook 12.6, *NRC Sensitive Unclassified Information Security Program*. The safeguards program is in evolution with the advent of homeland security initiatives. The definition of safeguards information is also affected by the manner in which it is defined by the DOE under section 148 of the Atomic Energy Act.

Audit objectives are to determine whether NRC's program (1) adequately ensures the protection of safeguards information, (2) prevents the inappropriate release of safeguards information to the public and NRC employees who should not have access, and (3) adequately defines what constitutes safeguards information. (Addresses Management Challenge #1)

Regional Reviews

NRC regional offices execute established agency policies and assigned programs relating to inspection, licensing, incident response, governmental liaison, resource management, and human relations. Each regional office implements an array of technical and administrative programs and other activities through one administrative and three technical divisions. The Divisions of Reactor Projects, Reactor Safety, and Nuclear Materials Safety in each region carry out a substantial part of NRC's safety mission. Also, each region's Division of Resource Management and Administration provides various administrative support functions for the entire regional office. This audit is covering the full range of each region's operations and is offering opportunities for OIG to identify issues uniquely related to NRC's regional offices. OIG initiated this body of work in FY 2002 and is in the process of writing four separate reports on the results of each regional review. A roll-up report containing common issues among the regions is also being developed. These activities will be completed in early FY 2003. (Addresses All Management Challenges)

Survey of NRC's Safety Culture and Climate

OIG is currently surveying the NRC's organizational safety culture and climate to determine what, if any, changes have taken place since its first survey in 1998. At that time, OIG competitively selected International Survey Research (ISR) to assist in completing this assessment. ISR is a recognized expert in the field and has thoroughly



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developed and tested the process for conducting surveys and providing feedback on results. OIG surveyed NRC employees from late February 1998 through March 1998. ISR compiled the survey results and shared the information with the agency in an oral briefing on June 25, 1998. Through this survey, OIG gained a thorough understanding of NRC's organizational safety culture and climate as perceived by agency employees. This information also helped the Inspector General program his available resources to the most beneficial work for the agency.

A primary objective of the first Safety Culture and Climate Survey was to establish a baseline for future measurements. The Inspector General believed this baseline was needed to understand agency staff perceptions regarding the safety culture and climate in which they worked.

The overall scope of the current endeavor is to again survey NRC's entire workforce to measure the agency's current organizational safety culture and climate. The overall objectives are to (1) compare the results from this survey with the baseline results developed from the survey conducted in 1998 and (2) facilitate OIG's programming of its resources to the highest priority areas. *(Addresses All Management Challenges)*

Special Evaluation of NRC's Most Serious Management Challenges

On January 24, 2000, Congress enacted the *Reports Consolidation Act of 2000* to provide financial and performance management

information in a more meaningful and useful format for Congress, the President, and the public. Included in the act is the requirement that each Federal agency IG summarize what he or she considers to be the most serious management and performance challenges facing his or her respective agency and assess the agency's progress in addressing those challenges. This special evaluation satisfies the congressional requirement.

The overall scope and objectives for this special evaluation are to assess the agency's efforts to address the management challenges and to identify any related agency programs that have had questionable success in achieving results. The IG will update the annual list to Congress of NRC's most serious management challenges at the end of this special evaluation. *(Addresses All Management Challenges)*

Audit of E-Mail Use in the NRC

The use of e-mail is increasing rapidly in the Government. Increased use of e-mail as an effective business tool should be encouraged because many benefits, such as more rapid and accurate communication, accrue due to its use. While e-mail offers the benefits of speed and efficiency, it also presents management with new challenges. The objectives of this audit are to determine whether (1) NRC has adequate policies and procedures (controls) covering the use of its e-mail system, (2) the overall usage of the e-mail system is consistent with agency policies, and (3) NRC has an adequate process for ensuring that appropriate e-mails become official agency records. *(Addresses Management Challenges #3, 5, and 6)*

SIGNIFICANT RECOMMENDATIONS NOT YET COMPLETED

NRC Compliance with the Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies establish a remediation plan when their financial systems do not comply with the provisions of the act. Agencies are given 3 years to implement their remediation plans, which must include resources, remedies, and intermediate target dates to bring agency systems into compliance. Section 804(b) of the FFMIA requires Inspectors General who prepare

semiannual reports to Congress to report instances and reasons when their agency has not met the intermediate target dates established in its remediation plan.

On March 1, 1999, OIG reported a substantial noncompliance with the FFMIA because NRC had not implemented a cost-accounting process as required by Statement of Federal Financial Accounting Standards No. 4. NRC's Office of the Chief Financial Officer submitted a remediation plan dated July 19, 1999, which was last revised in May 2001. Full implementation of cost accounting was intended to be completed in FY 2002.

OIG will continue to monitor the agency's progress and report, as needed, in future semiannual reports.

THE INVESTIGATIVE PROGRAM

During this reporting period, the OIG received 98 allegations, initiated 28 investigations, and closed 28 cases. In addition, OIG made 21 referrals to NRC management.

INVESTIGATIVE CASE SUMMARIES

Staff Bias in Connection with NRC Workforce Planning Contract

OIG conducted an investigation based on information developed during an OIG audit about possible improprieties by NRC's Office of Human Resources (HR) in awarding a contract to Arthur Andersen, LLP (AA). AA was selected to assist NRC with strategic workforce planning.

OIG's investigation disclosed that before NRC issued a request for quote (RFQ), the HR project officer for the NRC strategic workforce planning contract informed an AA manager that AA had already been chosen to work on the contract. In addition, prior to the RFQ's issuance, the HR employee provided solely to AA the draft statement of work which included the RFQ evaluation criteria and the Government's cost-estimate ceiling for the project.

As a result of the investigation, OIG determined that the NRC HR employee failed to provide fair and equitable consideration to prospective vendors in awarding the contract to AA. Additionally, because of the NRC employee's conduct, NRC may not have received the best value and the lowest cost alternative to meet the agency's needs as intended by GSA. (*Addresses Management Challenge # 8*)



Theft by Colonial Parking, Inc., Employees

OIG conducted an investigation upon receiving information that NRC contractor employees falsely reported to the NRC parking fees collected from employees and visitors who purchased NRC garage parking permits at \$6 a day.

As a result of OIG's investigation, OIG determined that between January 7, 1997, and August 8, 2001, two Colonial Parking, Inc., employees engaged in a scheme to defraud the U.S. Government by issuing false parking receipts to people parking in the NRC headquarters garage. As a result of this activity, the two employees stole approximately \$11,400 in parking fees from the NRC.

Consequently, the two employees were convicted in the Montgomery County, Maryland, State circuit court for violations of State laws, including theft, theft scheme, and conspiracy. Both employees were sentenced to incarceration in the Montgomery County Detention Center; one employee was sentenced for 2 years, the other for 364 days. Upon their release, each employee will be placed on

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supervised probation, perform 50 hours of community service, and make monetary restitution to NRC. (*Addresses Management Challenge #4*)

Improper Release of Proprietary Financial Information

OIG conducted an investigation concerning a potential violation of the Trade Secrets Act. The information stated that information from a confidential NRC report may have been improperly released to the public in a newspaper article. The NRC report contained proprietary financial information concerning the United States Enrichment Corporation (USEC). OIG also learned that references to the confidential report have surfaced in other trade periodicals.

OIG determined that (1) the confidential report was originally prepared by ICF Consulting (ICF) and issued to NRC on August 23, 2000; (2) ICF personnel involved with the report signed non-disclosure statements and were aware of restrictions related to releasing information obtained from USEC; and (3) NRC staff were aware of the sensitive nature of the USEC financial data.

In addition, the report was widely disseminated after its issuance to Congress, the U.S. General Accounting Office, and USEC. While only a few NRC personnel were initially privy to details contained in the ICF report, nearly all NRC personnel had access to it when it was distributed. OIG's investigation developed no specific information indicating that the release of the 18-month-old report to the newspaper was made by NRC personnel. (*Addresses Management Challenges #1, 5, and 6*)

False Claims by NRC Materials Licensee

OIG completed an investigation of an allegation that an NRC materials licensee

submitted false documentation claiming "small entity status" to receive reduced license fee assessments. Specifically, to qualify for "small entity status" and obtain a reduced license fee, the materials licensee underreported its gross revenue.

OIG determined that, for FYs 1997 through 2001, the licensee falsely certified to NRC its status as a small business entity. To support its false certification, the licensee significantly underreported its gross receipts to the NRC for the five fiscal years and underpaid the agency in the amount of \$64,000.

As a result of the investigation, the agency informed the licensee about the false information it had provided on the small entity forms. Following this notification, the licensee's attorney transmitted new, properly completed small entity forms for each year covering the period 1997 through 2001 and reimbursed NRC monies owed. (*Addresses Management Challenge #4*)

Review of NRC's Staff Approval of the Carolina Power & Light (CP&L) Request for Expansion of High-Level Radioactive Waste Storage

OIG completed an investigation into concerns raised by members of the public and elected State officials regarding NRC staff conduct during the review of a license amendment request and the related NRC Atomic Safety and Licensing Board Panel (ASLBP) hearing. The proceeding in question concerned a request by Carolina Power & Light (CP&L) to amend the operating license of the Shearon Harris Nuclear Power Plant to increase its spent fuel storage capacity. In connection with this request, it was alleged that:

- NRC staff and the ASLBP failed to adhere to NRC procedures during their review of the license amendment request,

-
- NRC staff pressured the ASLBP to expedite the approval of the license amendment and the staff did not sufficiently review all relevant contentions, and
 - NRC was biased towards CP&L and stifled public participation in the license amendment review process.

OIG's investigation did not validate claims that NRC staff acted improperly during this review. However, OIG identified several staff actions that gave the appearance that during the license amendment review process, the NRC was not an impartial arbiter. For example, OIG determined that the arrangement of the parties' tables in the ASLBP hearing room positioned NRC and CP&L officials next to each other. This seating arrangement, in addition to conversations between NRC and CP&L staffs in the rear of the court and during breaks, reinforced the public's impression that the NRC lacked impartiality and objectivity. (*Addresses Management Challenges #1, 2, and 5*)

Misuse of NRC Computer To Access Pornographic Material

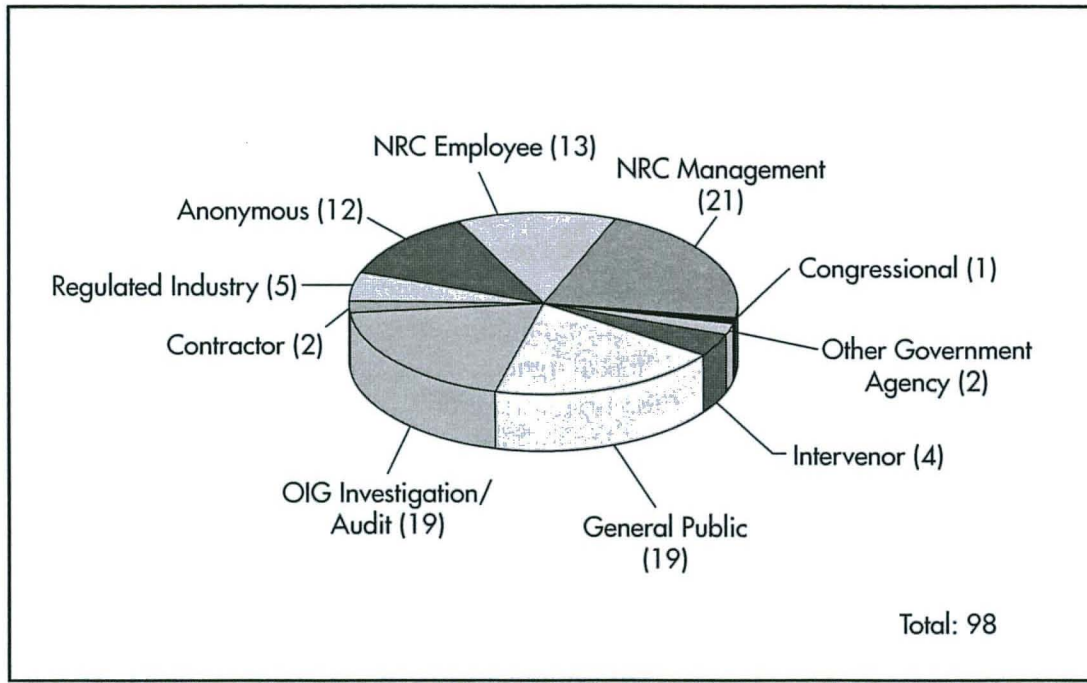
OIG completed investigations concerning three NRC employees who misused their Government computers to access one or more pornographic Internet sites. Two investigations

were based on a referral of information developed during an OIG audit of NRC Internet use. The audit identified NRC Internet Protocol addresses that had been used to visit pornographic sites. The third investigation was based on a confidential informant's report to OIG that the informant had observed pornographic images on an NRC employee's NRC computer.

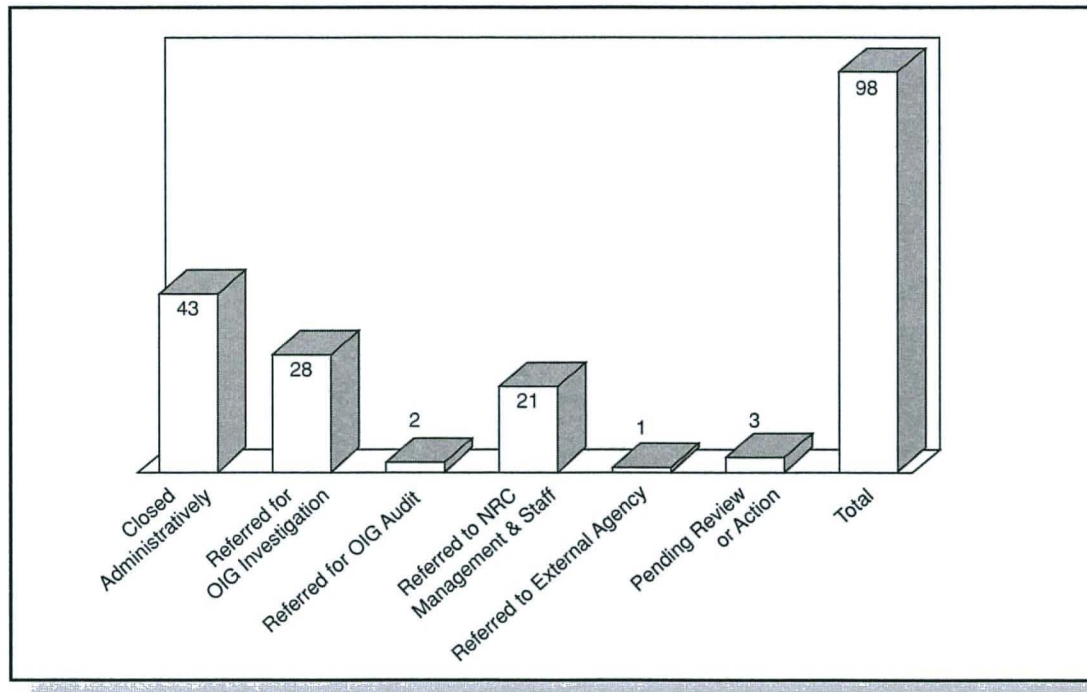
As a result of the investigations, OIG found that each of the employees accessed Internet sites containing sexually explicit material on their assigned NRC computer. OIG found that the first NRC employee downloaded a total of 3,574 graphic or video files containing images or content of a sexual nature. The second employee downloaded 53 files from sexually explicit Web sites. Additionally, OIG determined that since 1999, this employee viewed sexually explicit Web sites using his NRC computer one or two times per week for 10 to 15 minutes at a time. In investigating the third employee, OIG found 2,121 files containing images or contents of a sexual nature on the employee's computer hard drive. OIG also determined that this individual's misuse dated back to April 24, 2000. Action by the agency on all three investigations is pending. (*Addresses Management Challenge #3*)

INVESTIGATIVE STATISTICS

Source of Allegations — April 1, 2002, through September 30, 2002



Disposition of Allegations — April 1, 2002, through September 30, 2002



Status of Investigations

DOJ Referrals	4
DOJ Declinations	4
Indictments and Arrests	1
Other Recoveries	\$8,587.50
NRC Administrative Actions:	
Terminations and Resignations	2
Suspensions and Demotions	5
Other Administrative Actions	4
Counseling	3

Summary of Investigations

<i>Classification of Investigations</i>	<i>Carryover</i>	<i>Opened Cases</i>	<i>Closed Cases</i>	<i>Cases In Progress</i>
A - Conflict of Interest	1	1	0	2
B - Internal Fraud	0	1	0	1
C - External Fraud	4	3	4	3
D - False Statements	1	1	2	0
E - Theft	1	0	1	0
F - Misuse of Government Property	8	3	10	1
G - Employee Misconduct	2	0	2	0
H - Management Misconduct	4	1	5	0
I - Technical Allegations - Other	5	5	4	6
J - Whistleblower Reprisal	0	1	0	1
Total Investigations	26	16	28	14
S - Event Inquiries	6	0	3	3
P - Special Projects	8	4	12	0
PI - Preliminary Investigations	1	0	0	1

OTHER ACTIVITIES

REGULATORY REVIEW

Pursuant to the Inspector General Act, 5 U.S.C. App. 3, Section 4(a)(2), the OIG reviews existing and proposed legislation, regulations, management directives, and policy issues, and makes recommendations concerning the impact of such legislation or regulations or management directives on the economy and efficiency of agency programs and operations. NRC agency directives requiring submission of all draft legislation, regulations, and policies to the OIG facilitates this statutory review.

The review encompasses issues raised in OIG investigations, audits, and prior regulatory commentaries. In examining submitted documents reflecting regulatory, statutory and policy actions, the regulatory review program's main objective is to examine agency actions to assist in the elimination of fraud, waste, and abuse within the agency. In addition, comments are used to address issues related to preserving OIG's independence and integrity under the office's statutory precept. Comments are made through formal memoranda as well as during meetings and discussions.

From April 1, 2002, through September 30, 2002, OIG reviewed roughly 250 agency documents, including approximately 135 Commission papers (SECYs) and 75 Federal Register Notices, regulatory actions, and statutes.

During this semiannual reporting period, several comments focused on draft Management Directives forwarded by the Office of Human Resources. Four concerned administrative

personnel issues, while two others related to critical processes for employee complaints and adverse actions.

The most significant commentaries are summarized below.

Comments provided for MD 9.5, "Organization and Functions - Atomic Safety and Licensing Board Panel," and 10.153, "Administrative Judges - Compensation and Staffing," related to internal inconsistencies and approval levels for actions related to these positions and functions. Similarly, remarks provided for MD 10.46, "Credit Hours," related to conformance with directions in other directives and consistent guidance as to mandatory and optional approval actions.

Two major publications documenting the first effort to recast Manual Chapter provisions into the MD format are MD 10.101, "Employee Grievances and Appeals of Adverse Actions," (MD10.101), and MD 10.99, "Discipline, Adverse Actions and Separations." Remarks provided for these two directives related to clarification of complex aspects of the processes and consistency, both internally and with other applicable statutes and regulations. Recommendations for both of these called for the addition of a provision describing the Inspector General's authority to approve and make decisions concerning personnel matters related to IG employees. An additional recommendation for MD 10.99 was to add direction that suspected employee misconduct must be reported to the IG.

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Preliminary guidance was provided for draft MD 4.8, "Performance Measurement," to allow incorporation of OIG comments for the first formal draft. These comments related the need for more specificity in the identification of the metrics to be used and measurement and reporting requirements for those metrics.

Advice was also provided to the Office of Nuclear Reactor Regulation on its publication, "COM 102, NRR Interfaces with the Office of the Inspector General." In addition to guidance on updated procedures and organizational structure, the comments clarified the precise functions of each OIG component.

A completely updated description of OIG's structure and function was provided after review of the draft Revision 4 to NRC's "Citizen's Guide." Information about OIG's Web site was also added for inclusion in this reference.

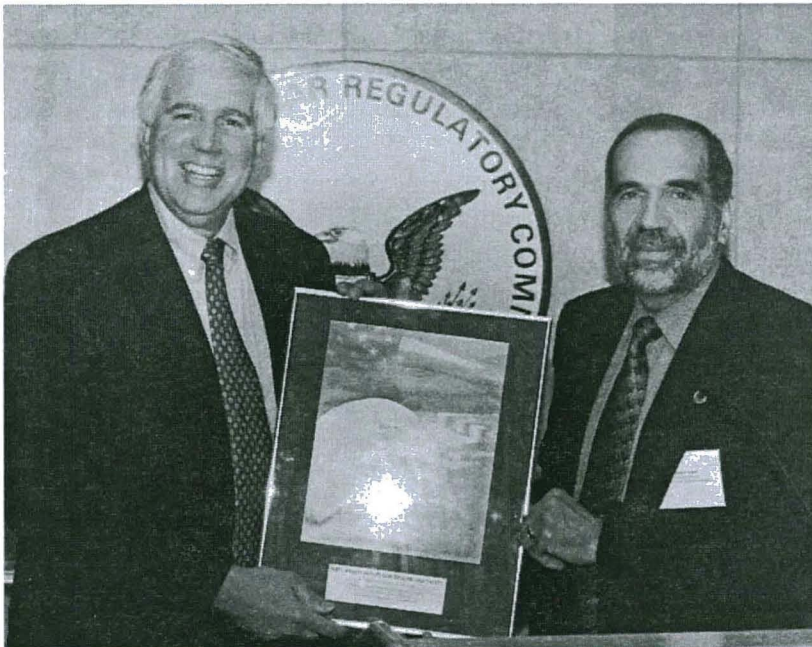
Comments on revised agency "Purchase Card Procedures" focused on deletion of outdated and erroneous information as well as clarifying definitions. A reminder to include reporting requirements for abuse of the card was also part of this commentary.

OIG INFORMATION AND PLANNING CONFERENCE

OIG held its annual Information and Planning Conference on June 12, 2002. The conference was held at the beginning of OIG's planning cycle to allow OIG to receive broader stakeholder input into its planning process.

The theme for this year's conference was "NRC's Role in Protecting Public Health and Safety in the High-Level Radioactive Waste Arena." The conference featured a keynote speaker and panel presentation.

The conference began with opening remarks by Inspector General Hubert T. Bell, who introduced the keynote speaker, Chairman Richard A. Meserve. The Chairman's speech focused on two areas of significance to the NRC: (1) the review of the potential application to build a high-level waste repository at Yucca Mountain and (2) the transportation of high-level waste. The Chairman began by stating that for several years NRC has been preparing for the eventuality of an application for a high-level waste repository. NRC issued Part 63, regulations that set out the technical requirements that a repository must meet to be licensed by NRC. Also, as required under the



Hubert T. Bell, Inspector General at the NRC (right) presents NRC Chairman Richard A. Meserve with a plaque in appreciation for his keynote speech at the OIG Planning Conference.

Environmental Protection Agency's Yucca Mountain standard, Part 63 also contains requirements for protecting groundwater. The Chairman said that these requirements are somewhat unique to the high-level waste program in that generally NRC's regulations concerning waste disposal are focused on individual protection rather than on the protection of a resource.

The Chairman discussed some of the issues concerning the transportation of high-level waste. He said that press reports on the repository program have noted that some opponents have expressed concerns about the security of the transportation of spent fuel. He explained that the Department of Transportation regulates the transport of all hazardous materials, including spent fuel, and has established regulations for shippers and carriers regarding, among other things, radiological controls, hazard communication, and training. NRC's role in this area, the Chairman explained, has been to establish design standards for the casks used to transport licensed spent fuel, and to review and certify cask designs prior to their use. NRC also conducts inspection and enforcement programs and reviews and approves physical security plans for spent fuel shipments. The Chairman stated that these activities have led to an exemplary safety record -- approximately 1,300 shipments of civilian fuel and 920,000 miles without an accidental radioactive release.

The Chairman's keynote presentation was followed by a panel discussion involving four NRC speakers: Charles Miller, Deputy Director, Licensing & Inspection Directorate, Office of Nuclear Material Safety and Safeguards (NMSS); Steven Jones, Senior Reactor Systems Engineer, Office of Nuclear Reactor Regulation; Janet Schlueter, Chief, High-Level Waste Branch, NMSS; and Mitzi

Young, Senior Attorney, Office of the General Counsel. The panel provided insights into spent fuel storage facility licensing and inspection as well as spent fuel storage and transportation cask certification and inspection. The panel also provided valuable information on the high-level radioactive waste repository hearing process.

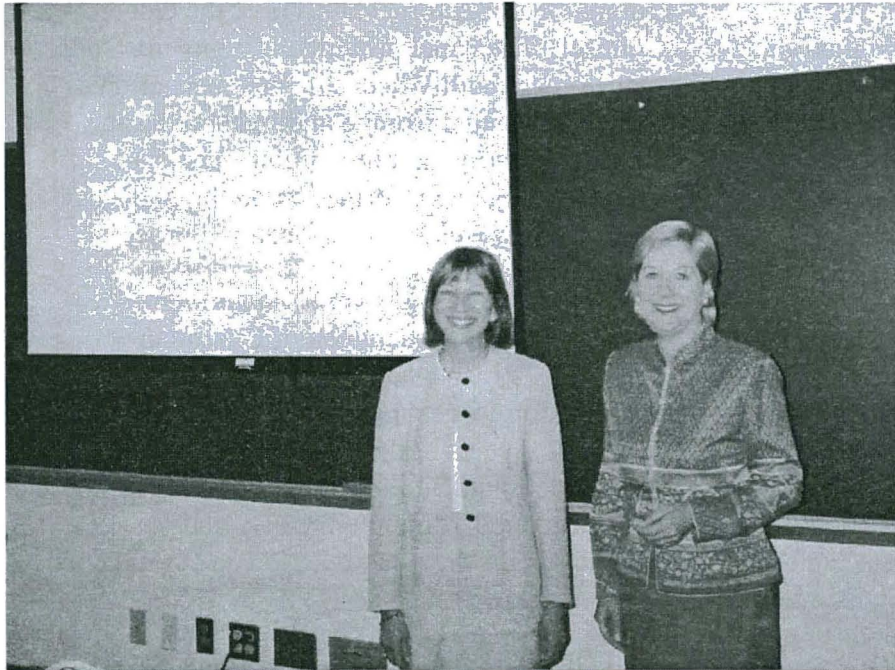
Question-and-answer sessions were conducted at the conclusion of Chairman Meserve's keynote address and the panel's presentation. Questions focused on the licensing aspects of the waste repository at Yucca Mountain and on how to increase public confidence regarding the security and safeguards for the transportation and storage of spent nuclear fuel.

OIG was able to use information obtained during the conference in developing its FY 2003 Annual Plan. The conference and its agenda generated extensive interest and the conference was well attended by NRC staff and the public.

OIG GENERAL COUNSEL PARTICIPATES IN LEGAL ISSUES TRAINING AT AMERICAN UNIVERSITY

On August 7, 2002, Maryann L. Grodin, General Counsel to the NRC Inspector General, and Alexandra Keith, the Deputy Counsel to the Environmental Protection Agency Inspector General, taught at American University's Inspectors General Institute in Washington, D.C. The class was part of a week-long seminar for Federal, State and municipal Inspectors General. In addition to preparing the text syllabus for the legal issues class, Ms. Grodin and Ms. Keith developed and led the class in discussion and exercise problems. The course topics included

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Maryann L. Grodin, General Counsel to the Inspector General, NRC (right), and Alexandra Keith, Deputy Counsel to the Environmental Protection Agency Inspector General, teaching a legal issues session at the American University's Inspector General Institute.

major Federal fraud statutes, criminal and civil prosecution processes, attorney client privilege, and jurisdiction. The focus of the presentation was aspects of these legal areas most relevant to the functions of Inspectors General. Case examples were used to illustrate various points, including sensitive matters of wrongdoing by public officials and cooperation between different agencies. During the exercise problems section of the class, students were provided an opportunity to apply the legal concepts to factual situations and present their analyses and conclusions.

NEW ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS

Brian C. Dwyer recently became the new Assistant Inspector General for Investigations (AIGI) in the NRC's OIG. Prior to becoming AIGI, Mr. Dwyer served as Special Agent-in-Charge of the Special Inquiries and Intelligence Division at the Treasury Inspector General for

Tax Administration. In this capacity, Mr. Dwyer was responsible for the Counter Terrorism Program, Contract Fraud Program, and Quality Assurance Program. He also served as the agency's Congressional Liaison on Capitol Hill. Mr. Dwyer's career also includes positions with the Internal Revenue Service, the Department of Labor, and the Department of Defense.

A New York native, Mr. Dwyer was educated in Rhode Island where he received a Bachelor of Science degree in Criminal Justice from Bryant College.

FBI RECOGNIZES NRC OIG SPECIAL AGENT

The Federal Bureau of Investigation (FBI) recognized NRC OIG Special Agent (SA) Steven J. Spring with an FBI Directors Accommodation Award for his assistance in conducting an investigation involving a former NRC janitorial service contractor and a public

official of the District of Columbia (DC) Government. The joint FBI-OIG investigation of the janitorial service company president revealed that, during a 12-year period, he paid more than \$900,000 in bribes to the DC Government official in return for the provision of favorable treatment to his company. Financial documents showed that the janitorial company received more than \$22 million from the DC Government for work performed during that period.

The FBI-OIG investigation revealed that the contractor paid the bribes to the DC public official for writing false official letters of

recommendation about the janitorial company's work. These official documents were then utilized by the contractor in janitorial bid proposals that were submitted to the Federal Government, including NRC. At the time the investigation concluded, both the company president and the public official fled the country in lieu of the pending prosecution. The company president was recently arrested in Spain and is awaiting extradition to the United States. The FBI cited SA Spring for his invaluable assistance, diligence, and exceptional proactive efforts, which led to the indictment and arrest in a significant public corruption case.



NRC OIG Special Agent Steven J. Spring (second from left) receives the FBI Director's Accommodation Award for his assistance conducting an investigation. NRC Inspector General Hubert T. Bell (far right) looks on.

APPENDICES

AUDIT LISTINGS

Internal Program Audit and Special Evaluation Reports

Date	Title	Audit Number
05/03/02	<i>Review of NRC's Simplified Acquisition Procedures</i>	OIG-02-A-10
05/28/02	<i>Memorandum Report: Audit of NRC Oversight of its Federally Funded Research and Development Center</i>	OIG-02-A-11
05/28/02	<i>Review of ADAMS</i>	OIG-02-A-12
06/12/02	<i>General Services Administration Report: Audit of Contract Costs - Computer Sciences Corporation</i>	OIG-02-A-13
08/15/02	<i>Review of Security at NRC</i>	OIG-02-A-14
08/21/02	<i>Review of NRC's Significance Determination Process</i>	OIG-02-A-15
09/18/02	<i>Memorandum Report: Review of NRC's Protection of Social Security Numbers</i>	OIG-02-A-16
09/11/02	<i>Independent Evaluation of NRC's Information Security Program as Required by the Government Information Security Reform Act (GISRA) for Fiscal Year 2002</i>	OIG-02-A-17

Contract Audit Reports

OIG Issue Date	Contractor/ Contract Number	Questioned Costs	Unsupported Costs
6/25/02	Computer Sciences Corporation GS00K96AJD0012	\$ 38,433	\$3,606,365
7/11/02	Jack Tills and Associates, Inc. RS-RES-02-061	0	0
7/15/02	Beckman & Associates, Inc. NRC-03-98-021	\$ 82,783	0
8/13/02	Hummer Whole Health Management NRC-38-00-290	0	0
8/13/02	Southwest Research Institute NRC-02-97-001 NRC-02-98-002 NRC-02-98-007	\$ 6,721	0
8/23/02	Jack Tills and Associates, Inc. NRC-04-02-061	0	0
8/23/02	Southwest Research Institute RS-02-02-012	0	0
8/26/02	SPS Consulting, LLC RS-ADM-02-136	0	0
8/28/02	Engineering Mechanics Corporation of Columbus RS-RES-02-074	0	0
9/11/02	Focus AMC, Inc. NRC-10-02-151	0	0
9/13/02	URS Grenier Woodward-Clyde NRC-04-80-192	0	0

AUDIT TABLES

During this reporting period, the OIG analyzed 10 contract audit reports issued by the DCAA and one contract issued by General Services Administration OIG.

Table I – Post-Award Findings

OIG Reports Containing Questioned Costs April 1, 2002 – September 30, 2002			
Reports	Number of Reports	Questioned Costs (Dollars)	Unsupported Costs (Dollars)
A. For which no management decision had been made by the commencement of the reporting period	0	0	0
B. Which were issued during the reporting period	4	\$127,937	\$3,606,365
<i>Subtotal (A + B)</i>	4	\$127,937	\$3,606,365
C. For which a management decision was made during the reporting period:			
(i) dollar value of disallowed costs	3	\$89,504	0
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision had been made by the end of the reporting period	1	\$38,433	\$3,606,365
E. For which no management decision was made within 6 months of issuance	0	0	0

Table II – Pre-Award Findings

**OIG Reports Issued with Recommendations
That Funds Be Put to Better Use
April 1, 2002 – September 30, 2002**

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

ABBREVIATIONS

AA	Arthur Andersen
AIGI	Assistant Inspector General for Investigations
ADAMS	Agencywide Documents Access and Management System
ASLBP	Atomic Safety and Licensing Board Panel (NRC)
CP&L	Carolina Power and Light
DC	District of Columbia
DC	Division of Contracts (NRC)
DCAA	U.S. Defense Contract Audit Agency
DOE	U.S. Department of Energy
EDO	Executive Director for Operations (NRC)
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
FFMIA	Federal Financial Management Improvement Act of 1996
FFRDC	Federally Funded Research and Development Center
FY	Fiscal Year
GC	General Counsel (OIG)
HR	Office of Human Resources (NRC)
ICF	ICF Consulting
IG	Inspector General
ISR	International Survey Research
MD	Management Directive(s)
NMMSS	Nuclear Materials Management and Safeguards System
NMSS	Office of Nuclear Materials Safety and Safeguards (NRC)

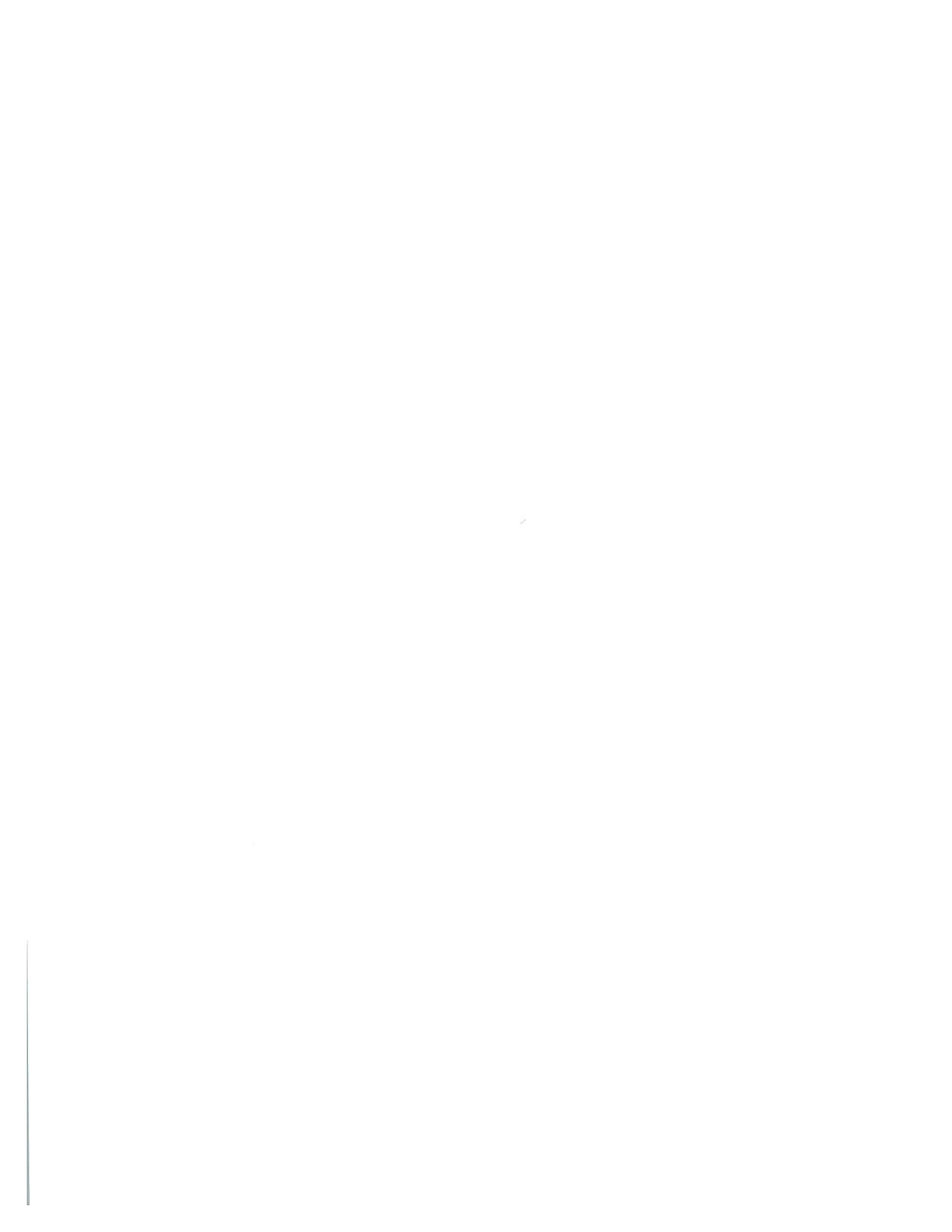
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NRC	U.S. Nuclear Regulatory Commission
NRCAR	Nuclear Regulatory Commission Acquisition Regulation
OIG	Office of the Inspector General (NRC)
RFQ	request for quote
RMOS	Resource Management and Operations Support (NRC OIG)
SA	Special Agent
SDP	significance determination process
SSA	Social Security Administration
SSN	Social Security Number
SwRI	Southwest Research Institute
USEC	United States Enrichment Corporation

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.

CITATION	REPORTING REQUIREMENTS	PAGE
Section 4(a)(2)	Review of Legislation and Regulations	21–22
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies.....	5–9, 15–17
Section 5(a)(2)	Recommendations for Corrective Action	5–9
Section 5(a)(3)	Prior Significant Recommendations Not Yet Completed.....	13
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	None
Section 5(a)(5)	Information or Assistance Refused	None
Section 5(a)(6)	Listing of Audit Reports	27
Section 5(a)(7)	Summary of Significant Reports	5–9, 15–17
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Section 5(a)(11)	Significant Revised Management Decisions	None
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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 9 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**

