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CHAPTER 4 ■ INSPECTOR GENERAL'S ASSESSMENT OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING NRC



UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

OFFICE OF THE
INSPECTOR GENERAL

October 16, 2014

MEMORANDUM TO: Chairman Macfarlane

FROM: Hubert T. Bell */RA/*
Inspector General

SUBJECT: INSPECTOR GENERAL'S ASSESSMENT OF THE MOST
SERIOUS MANAGEMENT AND PERFORMANCE
CHALLENGES FACING NRC (OIG-15-A-01)

The Reports Consolidation Act of 2000 requires the Inspector General of each Federal agency to annually summarize what he or she considers to be the most serious management and performance challenges facing the agency and to assess the agency's progress in addressing those challenges. In accordance with the act, I identified nine management and performance challenges confronting the Nuclear Regulatory Commission that I consider to be the most serious.

The agency provided comments on this report; the comments are included in a report appendix.

If you have any questions, please contact Stephen D. Dingbaum, Assistant Inspector General for Audits, at 415-5915 or me at 415-5930.

Attachment: As stated

cc: Commissioner Svinicki
Commissioner Ostendorff
M.Satorius, EDO
M.Wylie, CFO



OFFICE OF THE INSPECTOR GENERAL

U.S. NUCLEAR REGULATORY COMMISSION
DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Evaluation Report

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

OIG-15-A-01

October 16, 2014



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I. BACKGROUND AND PURPOSE

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

To accomplish this assessment, the NRC IG considered the overall work of the Office of the Inspector General (OIG), the OIG staff's general knowledge of agency operations, and other relevant information to develop and update the list of management and performance challenges and assess the agency's progress in addressing these challenges.

In addition, beginning in 2012, OIG staff performed an analysis of the past 10 years of audit findings and assigned them to performance categories, such as internal controls, accountability and communications. Approximately 540 audit findings and recommendations were analyzed. Every year since, OIG staff incorporated new audit findings into this analysis. As part of the most recent analysis – which focused on the last 5 years of audit findings and recommendations – OIG staff identified a total of eight performance categories that are supported by the audit findings. These categories represent the most serious management and performance challenges facing the agency. They relate directly to the mission-oriented management challenges in past OIG reports in that improvement in the eight performance categories supports improvement in the past mission-oriented challenge areas. The audit-based categories also support enhancing performance in NRC strategic areas and management objectives.

Likewise, the Investigations staff of OIG analyzed 5 years of investigation information for identification of performance trends and opportunities to improve performance. A total of 287 investigations were reviewed. This information was evaluated for applicability to the audit based categories already identified and sorted on that basis as it applied. Additionally, the investigation information was analyzed for any other trends and one

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additional management challenge category (cyber security) was developed.

These nine categories are more specific and actionable than those in past NRC OIG management and performance challenge reports. They represent significant opportunities for the agency to improve performance affecting its strategic goals and management objectives. Figure 1 relates these new management and performance challenges to past management and performance challenges and the agency's strategic goals and management objectives.

The agency's performance relative to the new challenge areas will be evaluated by OIG as new information becomes available, including audit and investigative findings and Issue Area Monitoring.¹ As OIG notes improved performance in a challenge, the challenge will be removed, as warranted.

¹ Through OIG's Issue Area Monitor (IAM) program, OIG staff designated as IAMs are assigned responsibility for keeping abreast of major agency programs and activities. The broad IAM areas address nuclear reactors, nuclear materials, nuclear waste, information management, security, financial and administrative programs, human resources, and international programs.

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Figure 1. OIG Assessment of Audit and Investigative Results

			Strategic Goals and Functional Areas						
			Security	Safety			Management Objectives		
			Security	Materials	Nuclear Facilities	High Level Waste	Information Technology	Human Capital	Financial Management
CHALLENGES	1	Internal Controls	X	X	X	X	X		X
	2	Guidance & Procedures	X	X	X	X	X		X
	3	Training	X	X	X		X		X
	4	Acquisitions, Contracting, & Procurement			X				X
	5	Project Management		X	X				X
	6	Internal Communication & Coordination	X	X	X	X	X		X
	7	Human Capital Management						X	
	8	Accountability	X	X	X		X		X
	9	Cyber Security	X				X		

II. ASSESSMENT RESULTS

NRC's mission is to license and 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. Like other Federal agencies, NRC faces management and performance challenges in carrying out its mission.

Congress left the determination and threshold of what constitutes a most serious management and performance challenge to the discretion of the IGs.

The NRC IG has defined serious management and performance challenges as *mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals*. Based on this definition, the IG identified the following as the most serious management and performance challenges facing NRC as of October 1, 2014:

1. Internal Controls.
2. Guidance and Procedures.
3. Training.
4. Acquisition, Contracting, and Procurement.
5. Project Management.
6. Internal Communication and Coordination.
7. Human Capital Management.
8. Accountability.
9. Cyber Security.

Each of these challenges is discussed on the following pages.

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Management Challenge #1 Internal Controls

	Internal Controls	Strategic Goals and Functional Areas						
		Security	Materials	Nuclear Facilities	High Level Waste	Information Technology	Human Capital	Financial Management
1	Internal Controls	X	X	X	X	X		X
2	Governance & Oversight							
3	Planning							
4	Acquisition, Contracting, & Procurement							
5	Project Management							
6	Human Capital Management							
7	Information Technology							
8	Financial Management							
9	Accountability							
10	Other Security							

Internal controls are the plans, methods, policies, and procedures an organization employs to ensure effective resource use in fulfilling its mission, goals, objectives, and strategic plan. A quality internal control program promotes operational efficiency, ensures that established policies are followed, safeguards assets, prevents fraud, minimizes errors, and verifies the accuracy and reliability of data.

Internal controls are essential to strong organizational performance and affect all NRC strategic areas and management objectives. Internal controls are essential for NRC's continued and successful management of its regulatory processes (reactors and materials), security programs, information technology, financial management (and procurement), and human capital.

Like all Federal agencies, NRC internal controls are expected to provide reasonable, but not absolute, assurance that agency objectives are consistently met. NRC has established internal controls for its various programs. OIG audits and investigations have consistently identified shortfalls in NRC's internal controls. Examples of performance gaps in internal controls found during OIG audits and investigations are included below. Taken together, these examples indicate the need for NRC to improve its internal controls.

Specific examples

- NRC has some issues executing certain facets of the National Environmental Policy Act (NEPA) because the agency does not have controls in place to ensure that staff is compliant. As a result, staff have varying interpretations on how to comply with NRC's regulations

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in 10 CFR Part 51. In an effort to strengthen its internal controls, NRC has proposed to develop agencywide guidance to ensure that staff appropriately follow Part 51.

- NRC's approach to contract oversight has weaknesses in verifying dollar amounts submitted on invoices by contractors. Specifically, NRC's internal control processes do not include steps to routinely use source documentation to verify amounts billed on contractor invoices. The agency has committed to develop steps to include periodic reviews and evaluation of contractor invoice source documentation.
- Until recently, NRC did not systematically track nuclear power reactor licensees' commitments, in part because the agency did not have an adequate tool for tracking them. Subsequently, NRC successfully developed and implemented an approach for systematically tracking power reactor licensee commitments. The agency's new approach to tracking commitments creates a key internal control for managing records that are relevant to the oversight of licensee activities.

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Management Challenge #2 Guidance and Procedures

	Guidance & Procedures	Strategic Goals and Functional Areas						
		Security	Materials	Safety Nuclear Facilities	High Level Waste	Information Technology	Human Capital	Financial Management
1	Internal Controls	X	X	X	X	X		X
2	Guidance & Procedures	X	X	X	X	X		X
3	Training	X	X	X		X		X
4	Accountability, Compliance, & Performance			X				X
5	Project Management		X	X				X
6	Internal Communications & Collaboration	X	X	X	X	X		X
7	Human Capital Management						X	
8	Accountability	X	X	X		X		X
9	Cyber Security	X				X		

Guidance and procedures refers to directives and other types of formal written guidance that establishes NRC management's expectations for agency staff. Policies and procedures are designed to influence and determine all major decisions and actions and all activities take place within the boundaries set by them. Together policies and procedures ensure that a point of view held by a governing body of an organization such as NRC is translated into steps that result in an outcome compatible with that view. OIG audits and investigations have consistently identified shortfalls in NRC's guidance and procedures. Examples of these gaps found during OIG audits and investigations are included below. Taken together, these examples indicate the need for NRC to improve its guidance and procedures.

Specific examples

- NRC imposed license conditions for fuel cycle and uranium recovery facilities that do not meet the intent of the Atomic Energy Act because NRC does not have adequate guidance for staff preparing the licenses. NRC has proposed to develop and implement detailed guidance for fuel cycle and uranium recovery staff to use when developing license conditions.
- NRC has not developed and incorporated within policy and guidance the existing mechanisms used for systematic and continual monitoring, collecting, and trending of age-related data for some types of components in nuclear power plants. Age-related studies have emphasized the importance of continual monitoring, collecting, and trending of age-related data for components in an ever changing

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environment. Yet, NRC has not systematically and continually collected or evaluated age-related data to determine if a specific aging component oversight program is needed or what type of program would be necessary. Currently, NRC may identify data on active component aging intermittently during Reactor Oversight Process inspections, but not through any methods of systematic data collection, analysis, and trending. At present, age-related failures are not consistently identified in existing reporting mechanisms, when they are identified at all.

- Generally, NRC's oversight of industrial radiography is effective. However, NRC's inspection guidance lacks language defining which licensee location should be visited for each routine inspection, and lacks a methodology to ensure that field station² selection is reliable. Additionally, some NRC inspectors do not know what they can require of an NRC licensee during an inspection when that licensee's facility is located in an Agreement State³ because there is no guidance for NRC inspectors conducting inspections of NRC licensees in Agreement States. NRC staff are currently revising inspection guidance to clearly define expectations, including locations that must be inspected (including field stations) and at what frequency, as well as records and other information inspectors should review for conducting an inspection of a NRC licensee who is located in an Agreement State.
- NRC's travel card program management does not maximize the agency's travel card rebates. This is because the agency does not pay the entire bill for centrally billed accounts upon receipt, but instead pays the bill as charges are matched to specific line items. The agency is in the process of developing and implementing a policy to pay centrally billed travel cards on a daily or weekly basis. Additionally, NRC is currently revising Management Directive 14.1, *Official Temporary Duty Travel*, to require cardholders who travel more than five times a year to use their Government travel card for official travel expenses.

² Field stations are facilities listed in the license.

³ Agreement States are States that have entered into an agreement assuming regulatory authority from NRC. In accordance with Section 274 of the Atomic Energy Act, as amended, NRC may relinquish its authority to regulate byproduct, source, and limited quantities of special nuclear material to States. These States must first demonstrate that their regulatory programs are adequate to protect public health and safety and are compatible with NRC's program.

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Management Challenge #3 Training

CHALLENGES	Training	Strategic Goals and Functional Areas						
		Security		Safety		Management Objectives		
		Security	Materials	Nuclear Facilities	High Level Waste	Information Technology	Human Capital	Financial Management
1	Internal Controls							
2	Material & Procedures							
3	Training	X	X	X		X		X
4	Accounting, Contracting, & Procurement							
5	Project Management							
6	Internal Communications & Coordination							
7	Human Capital Management							
8	Accountability							
9	Cyber Security							

Training comprises the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies. Training has specific goals of improving one’s capability, capacity, productivity, and performance. Through training, NRC establishes a pool of skilled employees to meet current and future organizational needs and support professional growth.

Many of the NRC programs have established training plans to enhance the knowledge base of its staff. OIG audits and investigations have consistently identified a lack of training as a cause for program weaknesses. Examples of a lack of training found during OIG audits and investigations are included below. Taken together, these examples indicate the need for NRC to strengthen its training programs.

Specific examples

- NRC employees are required to comply with personnel reporting responsibilities for continued access authorization. NRC’s Management Directive 12.3, *NRC Personnel Security Program*, requires employees to comply with a list of reporting responsibilities set forth in the directive. Specifically, employees are required to report certain events that may bring into question their reliability and trustworthiness; however, NRC employees rarely comply with personnel reporting responsibilities for continued access authorization. The agency is working to implement the needed training.
- Training for NRC’s Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) process staff is improvised. The Office of New

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Reactors provides ITAAC training to staff as determined by various managers in headquarters and Region II. However, this training has not been systematically developed in accordance with the training and development policies listed on the NRC's internal training Web site. These policies are based on the Office of Personnel Management's (OPM) training guidance. OPM/agency policies call for a training needs assessment to help agency and program managers identify appropriate subjects and methods for training. Current ad hoc training practices hinder the staff's ability to identify and conduct relevant ITAAC inspections and closure notice reviews. The agency is currently working to design and develop training needs assessment guidance and on the development and delivery of training, and anticipates the training will be accessible to users via NRC's training Web site by October 31, 2014.

- Although the agency provides staff and managers with training on the non-concurrence process, the training is limited. Providing properly implemented training that effectively communicates policies, objectives, responsibilities, authorities, requirements, and information to employees are essential human capital practices that help to ensure employees have the knowledge and skills to perform their job and accomplish the agency mission. However, training on the agency's non-concurrence process is not provided in a medium that is routinely available to all staff when they need it. Without timely training, the non-concurrence process will continue to be inconsistently implemented and staff will perceive the process as ineffective and inefficient. Agency staff are currently working to develop on-line, on-demand non-concurrence process training for all staff and managers.
- Although the agency has offered training on its core accounting system, additional training is needed on the system's report functionalities and features. Agency management acknowledges that the core accounting system reports have been a challenge for program staff to obtain and understand. Recently, the agency has conducted approximately eight training sessions related to interactive reports and plans to conduct monthly user group meetings.

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Management Challenge #4 Acquisitions, Contracting, and Procurement

	Acquisitions, Contracting, & Procurement	Strategic Goals and Functional Areas						
		Security		Safety		Management Objectives		
		Security	Materials	Nuclear Facilities	High Level Waste	Information Technology	Human Capital	Financial Management
1	Internal Controls	X	X	X	X	X		X
2	Guidance & Procedures	X	X	X	X	X		X
3	Training	X	X	X		X		X
4	Acquisitions, Contracting, & Procurement			X				X
5	Project Management		X	X				X
6	Internal Communication & Coordination	X	X	X	X	X		X
7	Human Capital Management						X	
8	Accountability	X	X	X		X		X
9	Cyber Security	X				X		

Acquisitions, contracting, and procurement refer to the process through which the government purchases ("acquires") goods and services. NRC's procurement of goods and services aims to achieve the best value for the agency's dollars in a timely manner. Agency policy provides that these activities support the agency's mission and be consistent with sound business practices and contracting principles. The agency focuses on the goals of achieving (1) a 21st century acquisition program that uses state-of-the-art acquisition methodologies for acquisition planning, execution, management, and closeout, and (2) an acquisition program that fully integrates with the agencywide program and financial planning and budget execution.

During the past few years, NRC has made several changes to its acquisitions, contracting and procurement management functions. OIG continues to monitor the impact of these changes through its audits and investigative functions. Included below, are examples of NRC's continuing challenges in acquisitions, contracting, and procurement.

Specific examples

- NRC is in the process of streamlining the agency's contracting practices. During FY 2014, NRC deployed the Strategic Acquisition System (STAQS), the new Agencywide system for acquisitions management. As expected during the first year of implementing a new system, staff had challenges adjusting to the functionalities of STAQS. Also, during the first months of implementation, there were some

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delays in migrating prior year data into STAQS. In addition, the agency continues to monitor the interface between STAQS and the core financial system to resolve any outstanding issues. The agency's Office of Administration continues to provide support to staff and is committed to improving the system's overall performance.

- NRC's administration of a \$34 million contract to implement Microsoft technologies throughout the agency lacked internal controls over the invoice review process, as evidenced by irregularities in the invoices. The agency had not provided agency staff with detailed guidance that sufficiently addresses the specifics of reviewing and approving contract invoices. Consequently, NRC lacked assurance that contract costs were being consistently and appropriately evaluated to determine whether they are allowable, allocable, and reasonable, thus leaving the agency vulnerable to potential fraud, waste, and abuse. In response to an OIG audit, the agency quickly developed interim guidance, and is in the process of developing permanent guidance and validating invoices associated with the specific contract reviewed by the OIG auditors.
- NRC's contract award policies and procedures need improvement. Specifically, the agency needs to determine what policies and procedures are required for an efficient and effective contract award process, develop or update them, and establish a process to regularly maintain them. During FY 2014, the agency updated Management Directive 11.1, *NRC Acquisition of Supplies and Services*, which establishes a more effective and efficient contract award process.
- NRC staff involved in contract administration and oversight need to maintain diligence to prevent and deter fraud, waste, and abuse in NRC's contracts. An OIG investigation found that a university associate research scientist and two other university employees did not perform work on an NRC contract as claimed and their hours were improperly billed to the NRC contract. The U.S. Department of Justice (DOJ) accepted this contract fraud case for civil litigation; subsequently, a settlement agreement was executed in October 2012 in which the university agreed to pay single damages (\$278,674.03) plus investigative costs (\$192,395.63) for a total of \$471,069.66. In another example, OIG investigated an allegation that an information technology contractor may have inappropriately billed one NRC regional office for the same work the contractor had previously billed a

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different regional office. OIG determined that the contractor used a set of documents it prepared for one region as templates for documents for the other region and left information in the documents pertaining to the first region. The contractor apologized to the project officer, removed its quality assurance project manager due to the issues raised by NRC and corrected the documents.

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Management Challenge #5

Project Management

CHALLENGES	Project Management	Strategic Goals and Functional Areas						
		Security	Safety			Management Objectives		
		Security	Materials	Nuclear Facilities	High Level Waste	Information Technology	Human Capital	Financial Management
1	Internal Controls	X	X	X	X	X		X
2	Guidance & Procedures	X	X	X	X	X		X
3	Training	X	X	X		X		X
4	Acquisitions, Contracting, & Procurement			X				X
5	Project Management		X	X				X
6	Internal Communications & Coordination	X	X	X	X	X		X
7	Human Capital Management						X	
8	Accountability	X	X	X		X		X
9	Cyber Security	X				X		

Project management is the discipline of planning, organizing, motivating, and controlling resources to achieve specific goals within a defined, limited time period, within budget and with appropriate quality.

The American taxpayer, the rate-paying consumer, and licensees are all entitled to the best possible management and administration of regulatory activities. Effective project management is key to ensuring success whether the project is related to NRC's regulatory processes (reactors and materials), security programs, information technology, financial management (and procurement), or human capital management.

OIG audits and investigations continue to identify areas for improvement regarding NRC's project management. Examples of performance gaps in project management found during OIG audits and investigations are included below. Taken together, these examples indicate the need for NRC to improve its project management.

Specific examples

- NRC provided insufficient oversight of development of the Construction Inspection Program Information Management System, which is a database used to document inspection items and report the results of construction- and vendor-related inspections. The database is also used to support the Commission in making informed findings for permitting licensees to load fuel into a newly constructed reactor. NRC staff members responsible for oversight were unfamiliar with the agency's own "Project Management Methodology" requirements.

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Moreover, the agency failed to appoint a single project manager to oversee the database development, resulting in coordination issues and confusion among database stakeholders. The agency addressed the issue for this particular project in an expedient manner, and the recommendations have been closed.

- The National Source Tracking System (NSTS) was developed by NRC and deployed in 2008. NSTS was designed primarily to be an Internet-based system enabling licensees to directly enter data on the movement of certain nuclear material. However, a majority of the licensee user population did not fully adopt the technology required for direct access to NSTS. This trend was caused by challenges inherent in the development of the NSTS credentialing process, as well as technical problems encountered by licensees in using the associated smart card devices. Further, licensees were not able to get help in resolving application and set-up problems. NRC staff re-evaluated its credentialing strategies and implemented a targeted outreach strategy for NSTS users.
- Management Directive 2.8, Project Management Methodology (PMM), is outdated. It is the sole guidance used for the information technology (IT) investment management process, yet is more than 6 years old and incomplete. The directive does not address how IT aligns with the agency's objectives, and does not even use or define the term "IT governance." Furthermore, NRC's Project Management Methodology Web page depicts an older IT governance structure. The Office of Information Services subsequently worked with the Office of Administration to establish a timeline for a revision and issuance of Management Directive 2.8 in February 2016. The first revision has been drafted.
- NRC conducted limited outreach activities in preparation for implementation of the logical access control systems (LACS) for Homeland Security Presidential Directive 12 (HSPD-12). HSPD-12 established standardized identification to gain physical access to Federal facilities and logical access to Federal information systems. Outreach activities for this project occurred several months after the use of the new standardized identification cards became mandatory for physical access at NRC headquarters. This delay occurred for two main reasons. First, NRC lacked a communications plan for educating employees about LACS and for coordinating outreach activities with

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LACS implementation schedules. Second, some policies and procedures for using LACS equipment were still evolving after the equipment's use became mandatory at NRC headquarters. Effective project management includes controls to ensure that communications and training necessary to project success are completed in a timely manner. Subsequently, NRC developed and implemented a LACS communication and outreach plan and also developed on demand training for the new access system.

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Management Challenge #6 Internal Communications and Coordination

CHALLENGES	Internal Communication & Coordination	Strategic Goals and Functional Areas						
		Security		Safety		Management Objectives		
		Security	Materials	Nuclear Facilities	High Level Waste	Information Technology	Human Capital	Financial Management
1	Internal Controls	X	X	X	X	X		X
2	Guidance & Procedures	X	X	X	X	X		X
3	Training	X	X	X		X		X
4	Acquisitions, Contracting, & Procurement			X				X
5	Project Management		X	X				X
6	Internal Communication & Coordination	X	X	X	X	X		X
7	Human Capital Management						X	
8	Accountability	X	X	X		X		X
9	Cyber Security	X				X		

Internal communications and coordination refers to vertical and horizontal communication linkages designed to provide managers and staff with relevant information for decision making, coordination, evaluation, and control. Communications and coordination are especially important to ensure regulatory and operational consistency across multiple physical locations and program areas. Licensees, other governmental and nongovernmental organizations, and the public are dependent upon NRC being a well-coordinated and informed regulator. As such, effective communication and coordination support NRC's stated goals regarding an open, collaborative work environment, and are key enablers of NRC's organizational values and "Principles of Good Regulation."

Communication and coordination is also essential to adhering to and implementing internal controls. Managers and staff need quality information to support internal control systems. Effective information and communication is vital for an organization to run and control its operations. Therefore, managers and staff need access to relevant and reliable information and communication regarding events and activities that potentially impact the effectiveness and efficiency of the agency's mission.

OIG audits and investigations have regularly identified opportunities to improve NRC's communication and coordination. Examples of performance gaps in communication and coordination found during OIG audits and investigations are included below.

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Specific examples

- The agency's information technology governance framework and processes have not been effectively communicated to stakeholders. OIS management has not communicated key evaluation and approval process requirements, including details of individual roles and responsibilities, service followup, project tracking, and matrices to measure the success of its decisions that directly affect program and regional offices. This has resulted in a lack of stakeholder buy-in. Specifically, there is a lack of assurance that IT services and management can be adequately provided to the agency. Some stakeholders believe that OIS has not provided sufficient customer service and have yet to be convinced that OIS can be counted upon to deliver an acceptable level of service. As a result, some stakeholders have been circumventing OIS and the governance process by approving or creating their own shadow IT systems. This, in turn, creates a less effective IT governance process which may result in possible IT security breaches, compliance issues, and investment waste. As a result of our audit, the agency has committed to developing and implementing a comprehensive information technology governance communication strategy.
- Agency managers' roles and responsibilities for supporting resident inspectors could be clarified and communicated. NRC asserts that the director in each of the four regional Divisions of Reactor Projects serve in a champion-like capacity for resident inspectors. However, there is no documentation that describes the regional directors' roles and responsibilities in this capacity. Consequently, there is a need for the Executive Director for Operations to take measures to ensure that the roles and responsibilities for existing support systems for resident inspectors' needs and concerns are communicated and understood by the appropriate management and staff, and are effectively executed. The agency has committed to communicating roles and responsibilities during "available meetings and communications opportunities," and to provide training to selected headquarters staff and management as well as to attendees at regional counterpart meetings.
- NRC's oversight of new reactor construction involves multiple agency stakeholder organizations across headquarters, Region II, and the construction sites. OIG observed a lack of sustained coordination

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during the development and revision of key guidance documents, the creation of a key database, and implementation of vendor inspections. For example, NRC does not have formal documentation that outlines a comprehensive strategy for the inspection of modular assembly facilities. Consequently, agency staff were making decisions without the benefit of a structured and systematic evaluation to determine what systems, structures and components assembled or manufactured off-site need to be inspected prior to arrival at the construction site in support of construction inspection closure activities. During FY 2014, the agency completed a number of steps to address these concerns.

- Although NRC had identified significant agencywide lessons learned, agency staff were generally unaware of the agency's formal Lessons Learned program and activities. The purpose of the program is to ensure that knowledge gained from significant lessons learned is retained and disseminated in a manner which maximizes its benefit and usefulness to staff. However, the program's purpose/intention had not been effectively communicated to staff, and management's attention to and support for certain aspects of the program had diminished over time. As a result, NRC was missing opportunities to identify and inform NRC staff of significant agencywide lessons learned that would improve agency operations. In response, NRC staff and managers completed a communication plan and took additional specific actions to better inform staff and managers of the Lessons Learned program.

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Management Challenge #7 Human Capital Management

CHALLENGES	Human Capital Management	Strategic Goals and Functional Areas						
		Security	Materials	Safety	High Level Waste	Information Technology	Human Capital	Financial Management
1	Internal Controls	X	X	X	X	X		X
2	Incidents & Proceedings	X	X	X	X	X		X
3	Training		X	X		X		X
4	Acquisition, Contracting, & Procurement			X				X
5	Project Management		X	X				X
6	Internal Communications & Coordination	X	X	X	X	X		X
7	Human Capital Management						X	
8	Accountability	X	X	X		X		X
9	Cyber Security	X				X		

Human Capital Management is the process of acquiring, training, managing, and retaining employees for them to contribute effectively to the goals of the organization. Attributes of human capital management include effective programs for selection and hiring, knowledge management, career development, training and succession planning.

Like many Federal agencies, NRC continues to face increasing challenges related to human capital management. The agency continues to respond to a challenging Federal Government budget environment while trying to streamline processes and maintain or improve the level of service that agency offices provide to each other. Included below, are examples of NRC's continuing challenges in human capital management as identified by OIG audits and investigations.

Specific examples

- At NRC, staff levels have stabilized and it is unlikely that there will be any growth over the next several years. In response, the NRC has adjusted its human capital strategies to ensure that the agency continues to meet its mission of protecting public health and safety and security. For example, NRC implemented a strategy to redistribute work across agency offices by centralizing and streamlining several processes to reduce inefficiencies and overhead. During FY 2014, the agency initiated a project aimed at identifying key strategies and recommendations in NRC programs and processes required during the next 5 years. This project will evaluate, among other items, how

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human capital factors such as attractiveness of Government service and millennials in the workforce influence the agency's ability to carry out its mission.

- The agency needs to make improvements to agency programs aimed at providing employees with a flexible work environment. For example, the agency's recordkeeping and training compliance related to its full-time telework program need improvement. In addition, the agency needs to make improvements to its flexible work schedule program, called NEWFlex, specifically in the areas of training compliance, establishing performance measures, and providing program information to employees. The agency is committed to making improvements in this area.
- OIG's most recent Safety Culture Climate Survey at NRC (2012) showed significant improvement since 2005 in (1) "open collaborative work environment," which was viewed favorably by 78 percent of respondents, up 11 points from 2005, and (2) Differing Professional Opinion/Non-Concurrence, which was viewed favorably by 60 percent of respondents, up 7 points from 2005. At the same time, the survey demonstrated that in comparison with 2009 survey results, NRC was well below external benchmarks on recognizing and respecting value of human differences, there was a significant decline in recruiting/retaining talented employees and developing people to their full potential, and that the agency lost ground on Differing Professional Opinion/Non-Concurrence.

These outcomes indicate that while many employees have positive perceptions towards the workplace environment, such views are not universal, and NRC should continue its efforts to promote an Open Collaborative Work Environment that encourages all employees and contractors to promptly raise concerns and differing views without fear of reprisal and make further improvements related to the NRC Differing Professional Opinion Program/Non-Concurrence Process.

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Management Challenge #8 Accountability

CHALLENGES	Accountability	Strategic Goals and Functional Areas						
		Security	Safety	Management Objectives				
		Security	Materials	Nuclear Facilities	High Level Waste	Information Technology	Human Capital	Financial Management
1	Internal Controls	x	x	x	x	x	x	x
2	Business & Procedures	x	x	x	x	x	x	x
3	Training	x	x	x	x	x	x	x
4	Appointments, Contracting, & Procurement	x	x	x	x	x	x	x
5	Project Management	x	x	x	x	x	x	x
6	Internal Communication & Coordination	x	x	x	x	x	x	x
7	Human Capital Management	x	x	x	x	x	x	x
8	Accountability	x	x	x	x	x	x	x
9	Cyber Security	x	x	x	x	x	x	x

Accountability refers to holding an individual responsible, with appropriate incentives and disincentives, for carrying out a defined set of duties or tasks, and for conforming to rules and standards applicable to their posts. Accountability is driven by the tone at the top of an organization and supported by the commitment to integrity and ethical values, organizational structure, and expectations of competence, which influence the control culture of the organization. Accountability for performance of internal control responsibility supports day-to-day decision making, attitudes, and behaviors.

OIG audits and investigations have identified opportunities to improve accountability among managers and staff alike at NRC. Examples of accountability issues found during OIG audits and investigations are included below. These examples illustrate the need for NRC to improve the culture of accountability in the agency.

Specific examples

- Accountability can be established through the implementation of effective internal controls. Currently, however, there are few controls over financial management system codes. One type of financial management system code is a budget object code. These codes are used to classify budget activity by type of cost; for example, supplies, equipment, or personnel. Budget object codes also indicate type of item acquired, such as training and telephone services. Each fiscal year, the Office of the Chief Financial Officer issues a list of budget object codes; however, according to agency managers the use of budget object codes is inconsistently enforced. The agency is

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currently exploring how to enforce the use of these codes. Supervisory review over staff implementation of important management expectations and controls establishes accountability. For example, in calculating licensee fees, NRC's Office of the Chief Financial Officer uses various spreadsheets. However, OIG auditors found that the Office of the Chief Financial Officer needs to develop quality control checklists to use during the preparation of the license fee calculation spreadsheets. In addition, NRC needs to ensure a supervisor reviews the completed checklists and documents the review and approval on the quality control checklists. The agency, in response to the OIG advisory, promptly took action to develop such quality control checklists and to include supervisory review.

- Clear roles and responsibilities for managers and staff are important for ensuring organizational accountability. NRC's process to identify bankrupt materials licensees is not as efficient as it could be because staff are performing duplicative tasks. Multiple NRC staff members—both in headquarters and some in regional offices—conduct Internet and other searches to determine if organizations declaring bankruptcy are NRC licensees. Lacking written guidance, it is up to each staff member to (or not to) determine the sources of information to examine and the extent of the review to perform, resulting in an inefficient use of resources. Currently, agency staff are working to develop guidance that provides clear roles and responsibilities for identifying bankrupt NRC materials licensees.
- Organization leaders also need to seek information about ways to better support staff and follow through with appropriate support. Resident inspectors, for example, are tasked with a wide variety of activities associated with their role as the agency's onsite presence at individual facilities for inspection and assessment of licensee performance and conformance with regulatory requirements. OIG found that resident inspectors generally receive sufficient support to enable them to adequately perform their roles and responsibilities. However, the residents—via a survey instrument—did identify opportunities for the agency to enhance the type and level of support currently being provided. Agency management had not been aware of a number of these issues, because the agency does not have a formal mechanism for obtaining resident inspectors' concerns, including feedback and perspectives on support-related issues. NRC has

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committed to taking specific programmatic steps and computer support solutions to address resident inspector support issues.

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Management Challenge #9 Cyber Security

CHALLENGES	Cyber Security	Strategic Goals and Functional Areas						
		Security		Safety		Management Objectives		
		Security	Materials	Nuclear Facilities	High Level Waste	Information Technology	Human Capital	Financial Management
1	Internal Controls							
2	Governance & Procedures							
3	Training							
4	Acquisition, Contracting & Assessment							
5	Project Management							
6	Information & Communications							
7	Human Capital Management							
8	Accountability							
9	Cyber Security	X				X		

Cyber security refers to measures taken to protect a computer or computer system against unauthorized access or attack. Cyber security threats are a major concern for all Federal entities. Given the importance and sensitivity of NRC's activities, along with the vast array of data it processes and maintains, cyber security has become a crucial aspect of NRC's overall security posture.

Although NRC has implemented countermeasures during the recent years, security challenges and threats to the agency's information systems continue and are constantly evolving. Adversaries routinely attempt to compromise the information technology assets of the agency. In the recent past, targeted spear phishing attempts, credential harvesting and attacks of NRC's public Web site have highlighted the importance of protecting these systems as well as the difficulty and diligence required to guard against such intrusions.

It is critical that cyber security protective measures keep pace with the growing threat as evidenced by the examples included below.

Specific examples

- Several recent cyber-attack attempts against the agency's networks and systems have underscored the importance and urgency of a strong cyber security program. In April 2014, several senior NRC managers were targets of credential harvesting phishing emails, in which two senior NRC managers who received the e-mail, clicked on the link and provided their login credentials, which resulted in more than 2,000 e-mails being sent from one of the senior manager's

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compromised e-mail account to various recipients on the manager's contact list, both inside and outside of NRC. In June 2013, an e-mail was sent to over 5,000 NRC e-mail accounts, directing users to click on a link and input their logon credentials to update the storage space in the email box. More than 50 NRC employees clicked on the link and input their logon credentials.

- In March 2012, a hacker notified NRC of a vulnerability on NRC's public facing NRC.gov Web site and NRC discovered questionable documents as well as a vulnerability used by an unknown person to gain access to the server.
- The Federal Information Security Management Act of 2002 (FISMA) established the requirement for Federal agencies to develop, implement and manage agencywide information security programs, and provide acceptable levels of security for the information and systems that support the operations and assets of the agency. As part of OIG's responsibilities under FISMA, OIG conducts an annual independent evaluation of NRC's implementation of FISMA. The most recent FISMA evaluation for fiscal year (FY 2013) found that while the agency has continued to make improvements in its IT security program and has made progress in implementing the recommendations resulting from previous FISMA evaluations, information system security program weaknesses exist pertaining, for example, to the agency's contractor oversight program and inconsistent application of configuration management procedures.
- The US-CERT continues to report that spear phishing attempts are increasing governmentwide. CSO CSIRT's analysis reveals that recent phishing attempts are typically carried out by sending emails to target personnel attempting to acquire information such as usernames, passwords, and other personally identifiable information by masquerading as a trustworthy entity. Additionally, phishing awareness exercises performed by CSO found that NRC is up 1 percentage point to 17 percent of NRC users receiving a test phishing email clicking on the link to provide their login information.
- The Office of Information Services' (OIS) Security Operations Center (SOC) reported for FY 2013, that there were three US-CERT Category 3, Malicious Code, reportable events. A US-CERT Category 3 event is

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the successful installation of malicious software (e.g., virus, worm, Trojan horse, or other code-based malicious entity) that infects an operating system or application. In January 2013, OIS discovered that an NRC workstation had been infected with malicious files. Additionally, in July 2013, OIS discovered an NRC workstation was attempting to make outbound calls to known malware sites, and it was determined that the computer was infected with a virus.

- The Computer Security Office's Computer Security Incident Response Team (CSIRT) performs ongoing trend analysis as a means to evaluate and report security incident information to senior agency officials. During FY 2013, NRC experienced 51 US-CERT Category 5 (scans, probes, and attempted access) reportable events at NRC – an increase from 25 incidents reported during FY 2012. A US-CERT Category 5 event is a category that “includes any activity that seeks to access or identify a Federal agency computer, open ports, protocols, service, or any combination for later exploit. This activity does not directly result in a compromise or denial of service.”

III. AGENCY COMMENTS AND OIG'S RESPONSE TO COMMENTS

On September 9, 2014, OIG issued a discussion draft of this report to the Executive Director for Operations (EDO) and the Chief Financial Officer (CFO) and requested formal and/or informal comments. On October 6, the Office of the Chief Financial Officer notified OIG that the office had no comments concerning the report. On October 9, 2014, the EDO provided formal comments, which conveyed the following main points:

- The discussion draft report and process involved in its development differ significantly from recent years in that NRC was not asked to provide suggested challenges and information supporting the challenges. The new format appears to be an assessment of NRC's past 5 years of performance rather than an assessment of the challenges facing NRC.
- The examples used to illustrate the challenges are past OIG recommendations that NRC has recognized as areas for continued improvement, has addressed, and continues to address.
- The tone of the discussion draft could be read to convey numerous programmatic weaknesses across the agency's processes and not as specific, challenging areas for enhancement or improvement. Many of the examples cited in the report do not rise to the threshold OIG has established for the challenges.

In addition to these general comments, the EDO provided specific technical and editorial comments for OIG's consideration. The EDO's comments are presented in their entirety in the appendix to this report.

OIG agrees that its approach to developing and presenting the 2014 management and performance challenges report differs from prior years. OIG described this new approach to representatives from the Office of the Executive Director for Operations and the Office of the Chief Financial Officer during a June 27, 2014, management challenges kickoff meeting, and in a July 1, 2014, memorandum from OIG to the EDO and CFO. During the briefing and in the memorandum, OIG explained that as part of the new approach, the office would not be requesting early input from the agency and that, instead, the 2014 challenges and assessment would be based on OIG's collective significance analysis of findings and recommendations from OIG audit reports, findings and issues identified in

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OIG investigative reports, agency action in response to OIG reports, and information gathered through OIG's Issue Area Monitoring Program.

OIG's intent was to prepare an independent assessment based primarily on OIG audit and investigative findings and agency actions and plans for action in response to OIG reports. The management and performance challenges identified in this year's report reflect trends that emerged over the past 5 years and remain apparent, based on audit and investigative findings and audit recommendations for which agency action is not yet completed. The examples described under each challenge area are intended to convey both areas needing improvement and progress made to address the challenges. Individual examples do not, in and of themselves, serve as evidence of a challenge, but viewed collectively, they do. Moreover, each of the nine challenges identified through OIG's evidence-based approach meet the IG's threshold for what constitutes a serious management and performance challenge.

OIG anticipates that in future years, as the agency completes actions to address prior OIG findings, and as OIG identifies new areas that warrant management attention, the list of management and performance challenges will change and evolve as some challenges drop off the list and others, potentially, are added. This 2014 list is intended to be more actionable than prior year lists and, therefore, to serve as a tool for continuing and positive agency change.

OIG appreciates the EDO's comments concerning the draft, and made modifications to two examples in the report based on those comments.

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IV. SCOPE AND METHODOLOGY

This report presents the IG's annual assessment of the most serious management and performance challenges facing the NRC. The challenges represent critical areas or difficult tasks that warrant high level management attention. To accomplish this work, OIG reviewed and analyzed pertinent laws and authoritative guidance, agency documents, and OIG reports, and analyzed approximately 540 audit findings issued over the past 12 years and 287 investigative reports issued over the past 5 years to identify common themes and trends. Based on this analysis, OIG identified nine performance categories that represent the most serious management and performance challenges facing the agency.

This evaluation was conducted in accordance with the "Quality Standards for Inspection and Evaluation." OIG staff conducted this evaluation from June through August 2014 at NRC headquarters.

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APPENDIX



UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

October 9, 2014

MEMORANDUM TO: Stephen D. Dingbaum
Assistant Inspector General for Audits

FROM: *Mark A. Satorius*
Mark A. Satorius
Executive Director for Operations

SUBJECT: AGENCY COMMENTS REGARDING DISCUSSION DRAFT
REPORT, INSPECTOR GENERAL'S ASSESSMENT OF THE
MOST SERIOUS MANAGEMENT AND PERFORMANCE
CHALLENGES FACING NRC

By e-mail dated September 9, 2014, you provided the Office of the Inspector General's (OIG) discussion draft report, Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing NRC to me for agency review for any (1) formal comments the agency would like to be included in the "Agency Comments" section of the report, (2) any informal comments the agency would like considered for incorporation in the report's narrative, or (3) notification that the agency has no comments concerning the report.

The agency appreciates the opportunity to provide comments on this discussion draft report, and following extensive review, the agency is providing the following general comments and an enclosure containing more specific comments, including technical and editorial comments for your consideration.

First, the agency notes that, in general, the discussion draft report provides challenges, and states examples of past OIG recommendations that the agency has recognized as areas for continued improvement and has addressed and continues to address those areas as appropriate with respect to priority and available resources.

Second, both the discussion draft report and the process involved in its development significantly differ from recent years. This year the agency was not requested to provide suggested challenges and information supporting those challenges. In addition, the discussion draft report appears to be more of an assessment of the Nuclear Regulatory Commission (NRC) performance over the past 5 years than an assessment of the challenges facing NRC. The characterization of the challenges as broad topical areas may be less useful to the staff than more focused areas.

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S.Dingbaum

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Third, the overall tone of the discussion draft report can be read to convey numerous programmatic weaknesses across the agency's processes and not as specific, challenging areas for enhancement or improvement. Many of the examples, while factual, do not collectively and clearly convey potential or actual significant impact on the agency's mission, and do not rise to the appropriate threshold the OIG has established for the challenges as stated in the discussion draft report. Furthermore, many of the recommendations provided in the discussion draft report, lack information on the recommendations being in a "resolved" status.

Lastly, in general, the agency found the challenges of "Acquisition, Contracting, & Procurement" and "Cyber Security" to be well presented for the agency to move forward toward improvement in those areas.

Enclosure:
As stated

cc: Chairman Macfarlane
Commissioner Svinicki
Commissioner Ostendorff
SECY

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NRC's Technical and Editorial Comments for OIG's Consideration Regarding the OIG Discussion Draft Report, *Inspector General's Assessment Of The Most Serious Management And Performance Challenges Facing NRC*.

The agency notes that, for several of the Management Challenges, the draft report does not describe, and it is not clear, how the provided specific examples constitute a "vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals." In addition, some of the specific examples provided describe actions that the agency has already implemented and, therefore, would not appear to represent existing challenges to support the applicable Management Challenges.

Management Challenge #1 – Internal Controls

The Inspector General's (IG's) Management Challenge #1, Internal Controls, lists three specific examples of performance gaps in internal controls that indicate the need for NRC to improve internal controls. Comments are provided on the first and third specific examples.

The IG's first specific example for Management Challenge #1 states:

NRC has some issues executing certain facets of the National Environmental Policy Act (NEPA) because the agency does not have controls in place to ensure that staff is compliant. As a result, staff have varying interpretations on how to comply with NRC's regulations in 10 CFR Part 51. In an effort to strengthen its internal controls, NRC has proposed to develop agencywide guidance to ensure that staff appropriately follow Part 51.

Given that the statement uses qualifiers such as some issues and executing certain facets, it is not clear how this example meets the high threshold for a Management Challenge. The IG has defined serious management and performance challenges as "mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals." Also, the statements "NRC has some issues executing certain facets of the National Environmental Policy Act (NEPA) because the agency does not have controls in place to ensure that staff is compliant," and "NRC has proposed to develop agency wide guidance to ensure that staff appropriately follow Part 51," imply that NRC is not in full compliance with NEPA or following 10 CFR Part 51. In fact, the NRC is in full compliance with NEPA and NRC regulations (See ADAMS ML13198A216, "G20130489 – Hubert T. Bell re: Final Draft Report: Audit of the Nuclear Regulatory Commission's Compliance with 10 CFR (FSME)" for the NRC's comments on the OIG Draft Report, "Audit of NRC's Compliance with 10 CFR Part 51 Relative to Environmental Impact Statements"). The agency suggests that the statement be edited to state that there are differences in the manner in which each program office implements NEPA requirements, as codified in 10 CFR Part 51, and that the staff is utilizing OIG's recommendations to develop an agency-wide NEPA guidance document as part of the agency's continuous improvement efforts to enhance effectiveness, efficiency, and consistency across NRC programs and improve the NRC's public outreach efforts. In addition, the discussion draft report does not acknowledge the existing potential check on staff compliance with 10 CFR Part 51 regulations provided by the Atomic Safety and Licensing Board review.

Enclosure

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The IG's third specific example for Management Challenge #1 states:

Until recently, NRC did not systematically track nuclear power reactor licensees' commitments, in part because the agency did not have an adequate tool for tracking them. Subsequently, NRC successfully developed and implemented an approach for systematically tracking power reactor licensee commitments. The agency's new approach to tracking commitments creates a key internal control for managing records that are relevant to the oversight of licensee activities.

This third specific example describes actions the NRC has taken to address previously identified issues associated with the lack of a tracking tool to systematically track nuclear power reactor licensees' commitments. The example states that the NRC "successfully developed and implemented an approach for systematically tracking power reactor licensee commitments. The agency's new approach to tracking commitments creates a key internal control for managing records that are relevant to the oversight of licensee activities." This does not appear to be an appropriate example of a "performance gap in internal controls that indicate a need for NRC to improve its internal controls."

Management Challenge #3 – Training

The Inspector General's (IG's) Management Challenge #3, Training, lists four specific examples that indicate the need for NRC to strengthen its training program. A comment is provided on the second specific example.

The IG's second specific example for Management Challenge #3 states:

Training for NRC's Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) process staff is improvised. The Office of New Reactors provides ITAAC training to staff as determined by various managers in headquarters and Region II. However, this training has not been systematically developed in accordance with the training and development policies listed on the NRC's internal training Web site. These policies are based on the Office of Personnel Management's (OPM) training guidance. OPM/agency policies call for a training needs assessment to help agency and program managers identify appropriate subjects and methods for training. Current ad hoc training practices hinder the staff's ability to identify and conduct relevant ITAAC inspections and closure notice reviews.

This second specific example states that the training for NRC's Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) process (on page 11) has not been systematically developed in accordance with the training and development policies listed on the NRC's internal training Web site. There is no mention of the staff's actions to address this concern. A memo dated September 29, 2014, from the Assistant Inspector General for Audits to the EDO, states that the recommendation is resolved, and that the proposed actions continue to meet the intent of OIG's recommendation. The memo acknowledges the changes to the schedule based on delays in the contracting process and the new completion date of October 31, 2014, for testing and completion of online training available in iLearn. OIG will close this recommendation upon completion, issuance, and OIG review of the new training needs assessment guidance.

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Management Challenge #5 – Project Management

The Inspector General's (IG's) Management Challenge # 5, Project Management, lists four specific examples of performance gaps in project management that indicate the need for NRC to improve its project management. A comment is provided on the second specific example.

The IG's second specific example for Management Challenge #5 states:

The National Source Tracking System (NSTS) was developed by NRC and deployed in 2008. NSTS was designed primarily to be an Internet-based system enabling licensees to directly enter data on the movement of certain nuclear material. However, a majority of the licensee user population did not fully adopt the technology required for direct access to NSTS. This trend was caused by challenges inherent in the development of the NSTS credentialing process, as well as technical problems encountered by licensees in using the associated smart card devices. Further, licensees were not able to get help in resolving application and set-up problems. NRC staff re-evaluated its credentialing strategies and implemented a targeted outreach strategy for NSTS users.

The issues listed in this example (i.e., problems with the credentialing process, problems with getting the smart card devices to work, no assistance in resolving application and set-up problems) are technical, information technology, computer firm ware issues in nature and not issues related to poor project management. Licensees were still able to comply with the NSTS requirements in 10 CFR 20.2207, which allows licensees to submit transaction information to NSTS via methods (fax, email, and mail) other than online. There are some licensees who will never use the online system due to minimal transactions or information technology barriers. The NSTS Help Desk was stood up shortly after NSTS deployment to assist users with application and set-up problems.

Management Challenge #6 – Internal Communications and Coordination

The Inspector General's (IG's) Management Challenge # 6, Internal Communications and Coordination, lists four specific examples of performance gaps in communications and coordination found in OIG audits and investigations that are identified as opportunities to improve NRC's communications and coordination. A comment is provided on the third specific example.

The IG's third specific example for Management Challenge #6 states:

NRC's oversight of new reactor construction involves multiple agency stakeholder organizations across headquarters, Region II, and the construction sites. OIG observed a lack of sustained coordination during the development and revision of key guidance documents, the creation of a key database, and implementation of vendor inspections. For example, NRC does not have formal documentation that outlines a comprehensive strategy for the inspection of modular assembly facilities. Consequently, agency staff were making decisions without the benefit of a structured and systematic evaluation to determine what systems, structures and components assembled or manufactured off-site need to be inspected prior to arrival at the construction site in support of construction inspection closure activities. During FY 2014, the agency completed a number of steps to address these concerns.

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

This example states that during FY 2014, the agency completed a number of steps to address these concerns. It would be more accurate to state that the recommendation has been closed, per the OIG memo dated September 29, 2014.

Management Challenge #7 – Human Capital Management

The Inspector General's (IG's) Management Challenge # 7, Human Capital Management, lists three specific examples of NRC's continuing challenges in human capital management as identified by OIG audits and investigations. Comments are provided on the first and third specific examples.

The IG's first specific example for Management Challenge #7 states:

At NRC, staff levels have stabilized and it is unlikely that there will be any growth over the next several years. In response, the NRC has adjusted its human capital strategies to ensure that the agency continues to meet its mission of protecting public health and safety and security. For example, NRC implemented a strategy to redistribute work across agency offices by centralizing and streamlining several processes to reduce inefficiencies and overhead. During FY 2014, the agency initiated a project aimed at identifying key strategies and recommendations in NRC programs and processes required during the next 5 years. This project will evaluate, among other items, how human capital factors such as attractiveness of Government service and millennials in the workforce influence the agency's ability to carry out its mission. The agency plans to complete this project by late calendar year 2014.

It describes actions that the NRC has taken to adjust its human capital strategies to ensure that the agency continues to meet its mission of protecting public health and safety and security. It also describes actions that the NRC is taking to identify key strategies and recommendations in NRC programs and processes required during the next 5 years. Consequently, this does not appear to be an appropriate example of a continuing challenge in human capital management.

The IG's third specific example for Management Challenge #7 states:

Over the past 5 years, OIG has conducted 10 investigations pertaining to a chilled workplace environment, retaliation, and abuse of authority. OIG investigations partially substantiated wrongdoing in two of the cases and found no indication in the remaining eight cases that staff acted inappropriately or that a "chilled environment" existed. In addition, OIG's most recent Safety Culture Climate Survey at NRC (2012) showed significant improvement since 2005 in (1) "open collaborative work environment," which was viewed favorably by 78 percent of respondents, up 11 percentage points from 2005, and (2) Differing Professional Opinion/Non-Concurrence, which was viewed favorably by 60 percent of respondents, up 7 percentage points from 2005. At the same time, the survey demonstrated that in comparison with 2009 survey results, NRC was well below external benchmarks on recognizing and respecting value of human differences, there was a significant decline in recruiting/retaining talented employees and developing people to their full potential, and that the agency lost ground on Differing Professional Opinion/Non-Concurrence.

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These outcomes indicate that while many employees have positive perceptions towards the workplace environment, such views are not universal, and NRC should continue its efforts to promote an Open Collaborative Work Environment that encourages all employees and contractors to promptly raise concerns and differing views without fear of reprisal and make further improvements related to the NRC Differing Professional Opinion Program/Non-Concurrence Process.

This example describes the results of 10 OIG investigations conducted over the past 5 years, pertaining to a chilled workplace environment, retaliation, and abuse of authority. This would represent an average of 2 investigations per year. In eight of the cases, the IG did not substantiate the claim. In two of the cases, the IG "partially substantiated wrongdoing." While the goal of every manager is to create an open work environment free of retaliation and abuse of authority, and the NRC reinforces these principles with the leadership team, two partially substantiated cases in the last 5 years does not appear to represent a "perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals."

The concluding statement for the third specific example further describes "significant improvement since 2005" in employee views regarding an open collaborative working environment and Differing Professional Opinion/Non-Concurrence. The example does note some declines in some human capital survey areas between 2009 and 2012; however, the NRC has worked hard to improve the workplace environment. These actions have been successful in improving the workplace environment. The agency does recognize that there is always room for improvement. Consequently, the NRC will continue its efforts to promote an Open Collaborative Work Environment that encourages all employees and contractors to promptly raise concerns and differing views without fear of reprisal and make further improvements related to the NRC Differing Professional Opinion Program/Non-Concurrence Process. This example, as written, does not appear to represent a "perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals."

Management Challenge #8 - Accountability

The Inspector General's (IG's) Management Challenge # 8, Accountability, lists four examples of performance gaps in accountability that represent "opportunities to improve accountability among managers and staff alike at NRC." It is not apparent that "identifying opportunities to improve" represents a "perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals." A comment is provided on the fourth specific example.

The IG's fourth specific example for Management Challenge #8 states:

Organization leaders also need to seek information about ways to better support staff and follow through with appropriate support. Resident inspectors, for example, are tasked with a wide variety of activities associated with their role as the agency's onsite presence at individual facilities for inspection and assessment of licensee performance and conformance with regulatory requirements. OIG found that resident inspectors generally receive sufficient support to enable them to adequately perform their roles and responsibilities. However, the residents—via a survey instrument—did identify opportunities for the agency to enhance the type and level of support currently being provided. Agency management had not been

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

aware of a number of these issues, because the agency does not have a formal mechanism for obtaining resident inspectors' concerns, including feedback and perspectives on support-related issues. NRC has committed to taking specific programmatic steps and computer support solutions to address resident inspector support issues.

This example describes that the "OIG found that resident inspectors generally receive sufficient support to enable them to adequately perform their roles and responsibilities. However, the residents—via a survey instrument—did identify opportunities for the agency to enhance the type and level of support currently being provided." The description goes on to say that "Agency management had not been aware of a number of these issues, because the agency does not have a formal mechanism for obtaining resident inspectors' concerns, including feedback and perspectives on support-related issues." It is not apparent that the failure of the NRC to have a formal process specific to the resident inspectors to enhance the type and level of support currently being provided constitutes a "perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals."



CHAPTER 4

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES



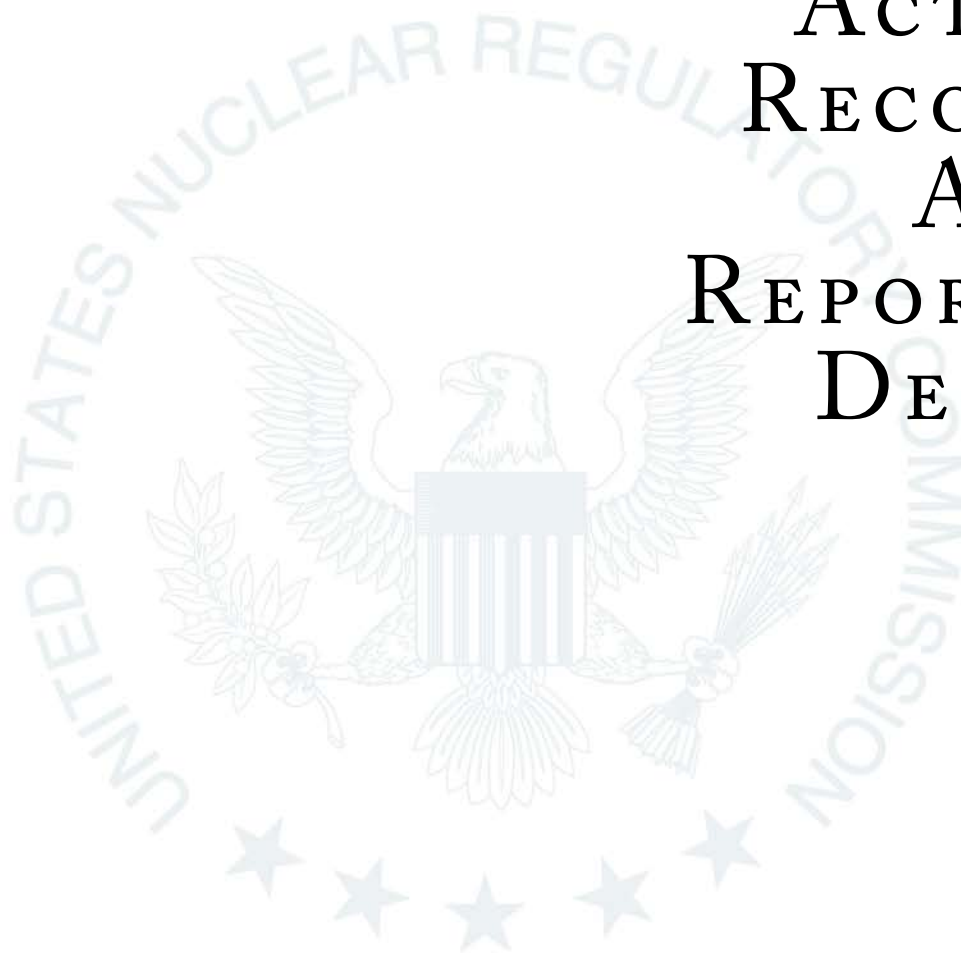


CHAPTER 4 ■ SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Summary of Financial Statement Audit for FY 2014		
Audit Opinion	Unmodified	
Restatement	No	
Material Weaknesses	No	
Summary of Management Assurances for FY 2014		
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)		
Statement of Assurance	Unqualified	
Material Weaknesses	No	
Effectiveness of Internal Control over Operations (FMFIA § 2)		
Statement of Assurance	Unqualified	
Material Weaknesses	No	
Conformance with Financial Management System Requirements (FMFIA § 4)		
Statement of Assurance	Systems conform to financial management system requirements	
Non-Conformances	No	
Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Systems Requirements	No Lack of Substantial Compliance Noted	No Lack of Substantial Compliance Noted
2. Accounting Standards	No Lack of Substantial Compliance Noted	No Lack of Substantial Compliance Noted
3. U.S. Standard General Ledger at the Transaction Level	No Lack of Substantial Compliance Noted	No Lack of Substantial Compliance Noted



CHAPTER 4
IMPROPER
PAYMENTS
INFORMATION
ACT AND
RECOVERY
AUDIT
REPORTING
DETAILS





CHAPTER 4 ■ IMPROPER PAYMENTS INFORMATION ACT AND RECOVERY AUDIT REPORTING DETAILS

IPIA REPORTING DETAILS

To comply with the *Improper Payments Information Act of 2002* (IPIA) as amended by the *Improper Payments Elimination and Reporting Act of 2010* (IPERA), and Improper Payment Elimination and Improvement Act of 2012 (IPERIA), the NRC incorporated improper payment work into its A-123 Appendix A procedures. Based on the results of improper payment work completed in FY 2011 and OMB's guidance, the NRC focused its efforts in FY 2014 toward conducting a new risk assessment around its commercial payment program and other programs that were susceptible to making significant improper payments.

The NRC performed a risk assessment as of September 30, 2014, to determine which programs would require improper payment testing using a statistically valid sample. Prior to the passing of IPERIA, which further amended IPIA, agencies were not required to review intra-governmental transactions or payments to employees. IPERIA now requires agencies to review payments to employees as well as Government charge card transactions. Intra-governmental transactions remain the lone exception to IPERIA requirements. Therefore, management identified commercial payments, grants payments, employee payments, payroll, and Government charge cards as potential areas to test pending results of an IPIA risk assessment. The NRC reviewed FY 2013 disbursements of selected programs to determine the appropriate threshold for conducting a risk assessment and possible testing. For FY 2013, total commercial payments were \$230,153,040.29; total grant payments were \$22,035,829.01; total employee payments were \$24,089,080.17; and total payroll payments were \$470,363,997.02. The NRC did not conduct a risk assessment over its purchase card (total disbursements of \$3,337,043.45) and travel card (total disbursements of \$6,386,480.57) because disbursements totals for each were below \$10 million. Conducting a risk assessment over those two programs would not produce an error rate that would meet the minimum threshold set by OMB (\$10 million and 1.5% of total program payments).

As part of our qualitative and quantitative risk assessment, the NRC used its best judgment to select samples from each program under review based on the universe of payments, which were reconciled to the general ledger. This sample was not meant to be statistically valid as testing was performed to support the risk assessment process versus conducting full

IPIA testing for high-risk programs. The testing was further refined through the identification of select attributes for each program to determine whether the right recipient received the right payment amount for the right good or services at the right time.

The results of the FY 2014 risk assessment did not identify any programs that are susceptible to making significant improper payments. While the results of the FY 2014 risk assessment identified programs as low risk, the NRC is taking this opportunity to continue to improve controls around its payment processes. The NRC will continue to monitor payment processes in FY 2015, in addition to conducting periodic reviews of key controls for IPIA programs identified by management. We will continue to conduct risk assessments every 3 years in accordance with the IPIA, as amended by IPERA and IPERIA, and OMB guidance. When OMB releases the revised Circular A-123, Appendix C, we will review the new guidance to determine the impact it has on the NRC's current IPIA program. The next IPIA risk assessment will take place in FY 2017. However, the NRC will conduct risk assessments, as needed, if there are material changes in the way programs operate or if new programs are established.

In addition to risk-assessing identified programs, OCFO staff determined there were \$101,620.11 in improper payments made during FY 2014, which have since been recaptured. This represents a significant drop from the \$4.2 million in duplicate payments identified in FY 2013, and it also demonstrates the NRC's ongoing efforts to prevent, detect, and recoup such payments. Additionally, new procedures have been put in place this year: certifiers have a new checklist to ensure that all appropriate steps are taken before certifying a payment, prompt payment reports are reviewed periodically to identify duplicate payments, and the NRC's OCFO periodically conducts audits of all payments certified on a schedule to identify improper payments.



CHAPTER 4

SCHEDULE OF SPENDING



SCHEDULE OF SPENDING

The Schedule of Spending (SOS) is a summary and comparison of how the NRC spent money during FY 2014 and FY 2013. The SOS presents all budgetary resources and obligations incurred for the NRC. The data used to populate the SOS come from the NRC's core accounting system and are the same data that the NRC uses to populate the SBR.

In the SOS and the SBR, obligations incurred include personnel compensation and benefits, contracts, agreements between Federal agencies, travel, training, grants, and bankcard purchases below the micro-purchase threshold. The "Total Amounts Agreed to be Spent" line of each section of the SOS agrees with the "Obligations Incurred" line in the SBR.

The NRC also reports obligation information through the Web site USASpending.gov. The information reported by the NRC in USASpending.gov includes only contract obligations, which are a subset of NRC's total obligations.

WHAT MONEY IS AVAILABLE TO SPEND?

This section presents total budgetary resources that are reported in the SBR.

Total Resources refers to budgetary resources approved for spending by law.

Amounts Not Agreed to be Spent represents amounts that the NRC was allowed to spend but did not take action on by the end of the fiscal year.

Amounts Not Available to be Spent represents amounts that the NRC was not approved to spend during the current fiscal year.

Total Amounts Agreed to be Spent represents spending actions by the NRC, including payroll and benefits, travel, training, contracts, orders, grants, and other legally binding agreements to pay for goods or services.

HOW WAS THE MONEY SPENT?

This section presents the value of goods and services that the NRC obligated for each of the NRC's two major programs: Nuclear Reactor Safety and Nuclear Materials and Waste Safety.

For the purposes of this section, the breakdown of "How was the Money Spent?" is based upon OMB budget object class definitions in OMB Circular A-11.

Payroll represents compensation, including benefits directly related to duties performed for the Government by Federal civilian employees.

Contracts represents purchases of contractual services and supplies.

Grants represents contributions to States, local governments, foreign governments, corporations, associations (domestic and international), and individuals in compliance with programs allowed by law for distributing funds in this manner.

Travel represents the NRC's payment for transportation, sustenance, and miscellaneous expenses for employees/persons on official business.

Rent, Communications, and Utilities represents the NRC's purchases of contractual services for the NRC's offices.

Structures and Equipment represents purchases of capital equipment and leasehold improvements.

WHO DID THE MONEY GO TO?

This section identifies the recipient of the money, by Federal and non-Federal entities. Amounts in this section reflect "amounts agreed to be spent."

CHAPTER 4 ■ SCHEDULE OF SPENDING

SCHEDULE OF SPENDING *(In Thousands)*

For the years ended September 30,	2014	2013
WHAT MONEY IS AVAILABLE TO SPEND?		
Total Resources	\$ 1,119,076	\$ 1,069,830
Less Amount Available but Not Agreed to be Spent	(53,295)	(41,022)
Less Amount Not Available to be Spent	(169)	(1,757)
Total Amounts Agreed to be Spent	\$ 1,065,612	\$ 1,027,051
HOW WAS THE MONEY SPENT?		
Spending within NRC Major Programs		
Nuclear Reactor Safety		
Payroll	\$ 461,430	\$ 463,196
Contracts	256,573	257,295
Grants	22,388	11,949
Travel	18,994	18,264
Rent, Communications, and Utilities	44,794	47,583
Structures and Equipment	20,180	4,868
Total money spent for Nuclear Reactor Safety	\$ 824,359	\$ 803,155
Nuclear Materials and Waste Safety		
Payroll	\$ 135,041	\$ 129,126
Contracts	75,093	71,731
Grants	6,552	3,331
Travel	5,559	5,092
Rent, Communications, and Utilities	13,109	13,265
Structures and Equipment	5,899	1,351
Total money spent for Nuclear Materials and Waste Safety	\$ 241,253	\$ 223,896
Total Amounts Agreed to be Spent	\$ 1,065,612	\$ 1,027,051
WHO DID THE MONEY GO TO?		
For Profit	\$ 244,248	\$ 236,663
Individuals	498,583	500,746
Federal	287,892	281,328
State & Local Government	17,872	13,210
Other	17,017	(4,896)
Total Amounts Agreed to be Spent	\$ 1,065,612	\$ 1,027,051

In accordance with OMB Circular A-136, Section 11.5.1, the Schedule of Spending is not a required part of the Financial Statements and, therefore, it is not audited.



CHAPTER 4

ACRONYMS AND ABBREVIATIONS



CHAPTER 4 ■ ACRONYMS AND ABBREVIATIONS

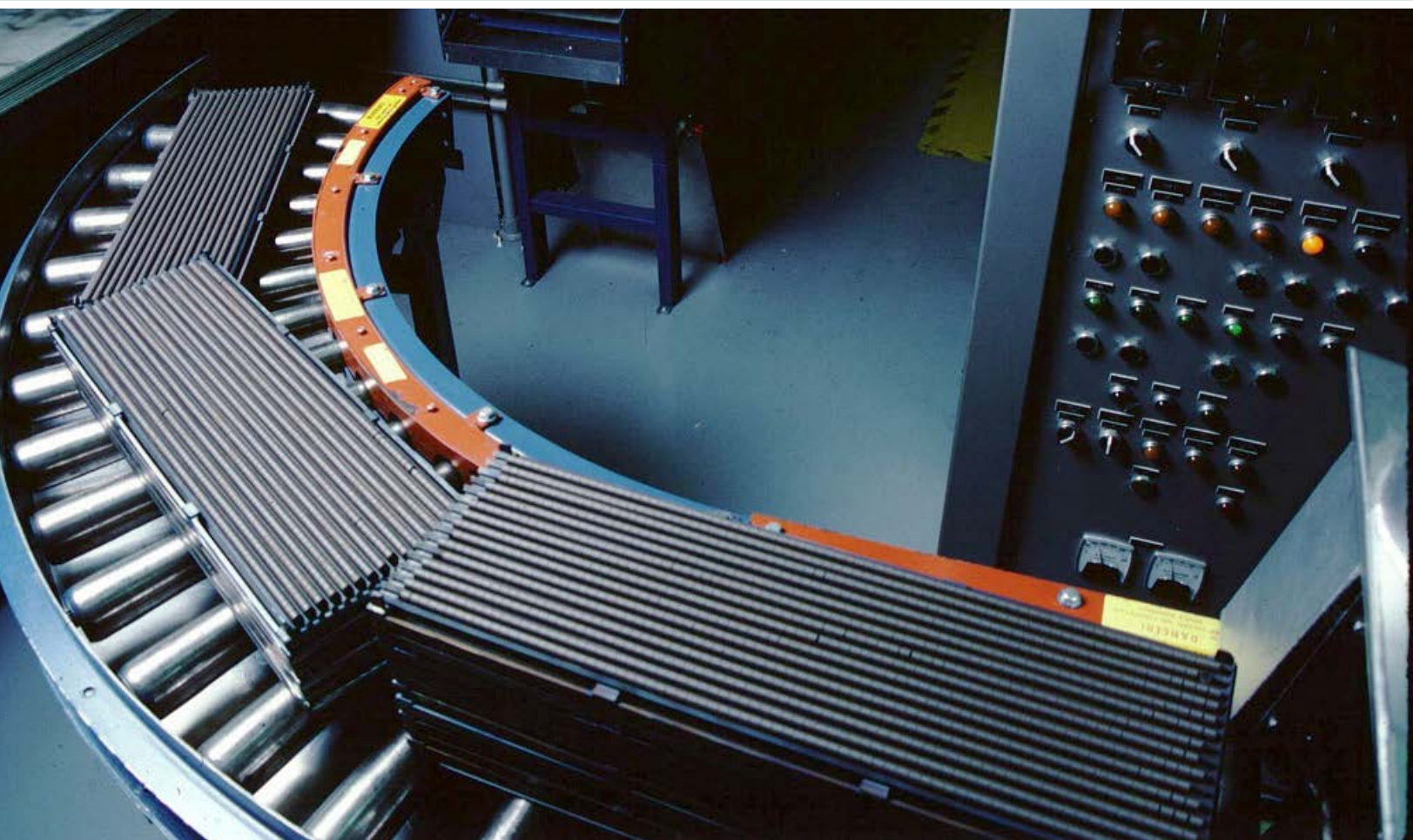
ACRONYM	
10 CFR	Title 10 of the <i>Code of Federal Regulations</i>
ABWR	Advanced Boiling-Water Reactor
ACHP	Advisory Council on Historic Preservation
ADAMS	Agencywide Documents Access and Management System
ADR	alternative dispute resolution
AGA	Association of Government Accountants
AIT	Augmented Inspection Team
ALC	agency location code
AO	Abnormal Occurrence
ASME	American Society of Mechanical Engineers
ASP	Accident Sequence Precursor
BWR	Boiling-Water Reactor
CAL	Confirmatory Action Letter
CAP	corrective action program
CCDP	conditional core damage probability
CER	Cumulative Effects of Regulation
CFD	computational fluid dynamics
CFO	Chief Financial Officer
CFR	<i>Code of Federal Regulations</i>
CNS	Convention on Nuclear Safety
CO	Confirmatory Order
CoC	Certificate of Compliance
COL	combined license
COOP	continuity of operations
cROP	Construction Reactor Oversight Process
CRT	Contingency Response Tool
CSRS	Civil Service Retirement System
CSS	Content Search Services
DC	design certification
DHS	U.S. Department of Homeland Security
DOE	U.S. Department of Energy
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
DOT	U.S. Department of Transportation
DSRS	design specific review standards
ECIC	Executive Committee on Internal Control
EDO	Executive Director for Operations
EEO	equal employment opportunity
EJ	environmental justice

ACRONYM	
ELAP	extended loss of alternating power
EPA	U.S. Environmental Protection Agency
EPR	Evolutionary Power Reactor
EPRI	Electric Power Research Institute
ESP	early site permit
FDA	U.S. Food and Drug Administration
FECA	<i>Federal Employees Compensation Act of 1993</i>
FEIS	final environmental impact statement
FERS	Federal Employees Retirement System
FFMIA	<i>Federal Financial Management Improvement Act of 1996</i>
FMFIA	<i>Federal Managers' Financial Integrity Act of 1982</i>
FOIA	<i>Freedom of Information Act of 1966</i>
FR	<i>Federal Register</i>
FY	fiscal year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDP	gaseous diffusion plant
GSA	General Services Administration
HEU	High-enriched Uranium
HOC	Headquarters Operations Center
HRA	human reliability analysis
IAEA	International Atomic Energy Agency
IEC	International Electrotechnical Commission
IG	Inspector General
IM	information management
IMC	Inspection Manual Chapter
IMPEP	Integrated Materials Performance Evaluation Program
INPO	Institute for Nuclear Power Operations
Integrity Act	<i>Federal Managers' Financial Integrity Act of 1982</i>
IP	Inspection Procedure
IPERA	<i>Improper Payments Elimination and Reporting Act of 2012</i>
IPIA	<i>Improper Payments Information Act of 2002</i>
IPPAS	International Physical Protection Advisory Service
IRP	Integrated Response Plan

CHAPTER 4 ■ ACRONYMS AND ABBREVIATIONS

ACRONYM	
IRRS	Integrated Regulatory Review Service
ISG	interim staff guidance
ISFSI	independent spent fuel storage installation
ISMP	Integrated Source Management Portfolio
IT	information technology
ITAAC	inspections, tests, analyses, and acceptance criteria
IT/IM	Information Technology and Information Management
JC	Joint Convention
KM	knowledge management
LEU	Low-enriched Uranium
LLW	low-level waste
LSN	Licensing Support Network
LWA	limited work authorization
LWR	Light-water reactor
MACCS2	MELCOR Accident Consequence Code System Version 2
MD	Management Directive
MDEP	Multinational Design Evaluation Program
MELCOR	mature accident simulation tools
Mo-99	molybdenum-99
MSI	minority serving institution
MWe	Megawatt electric
MWt	Megawatt thermal
NDE	nondestructive examination
NEA	Nuclear Energy Agency
NEPA	<i>National Environmental Policy Act</i>
NHPA	<i>National Historic Preservation Act</i>
NIST	National Institute of Standards and Technology
NMIP	Nuclear Materials Information Program
NPP	nuclear power plant
NPT	Nuclear Non-Proliferation Treaty
NRC	U.S. Nuclear Regulatory Commission
NSTS	National Source Tracking System
NTAS	National Terrorism Advisory System
NUREG	Nuclear Regulatory Commission document identifier
NWF	Nuclear Waste Fund
OBRA-90	<i>The Omnibus Budget Reconciliation Act of 1990</i>

ACRONYM	
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	U.S. Office of Personnel Management
PC	Portfolio Council
PNNL	Pacific Northwest National Laboratory
PRA	probabilistic risk assessment
PRM	Petition for Rulemaking
PWR	pressurized water reactor
REIRS	Radiation Exposure Information and Reporting System
REM	Roentgen Equivalent Man
RFCOP	Revised Fuel Cycle Oversight Process
RIC	Regulatory Information Conference
RIS	Regulatory Issue Summary
ROP	Reactor Oversight Process
SDP	Significance Determination Process
SEIS	supplemental environmental impact statement
SER	Safety Evaluation Report
SFFAS	Statement of Federal Financial Accounting Standards
SFI	Safeguards information
SGI	Safeguards information
SMR	small modular reactor
SOARCA	State-of-the-Art Reactor Consequence Analyses
SONGS	San Onofre Nuclear Generating Station
SRP	Security Review Plan
SRS	Savannah River Site
TVA	Tennessee Valley Authority
UF ₆	uranium hexafluoride
UO ₂	uranium dioxide
UR	uranium recovery
USAID	U.S. Agency for International Development
US-APWR	U.S. Advanced Pressurized Water Reactor
WIR	Waste Incidental to Reprocessing



CHAPTER 4

BIBLIOGRAPHIC DATA SHEET





CHAPTER 4 ■ BIBLIOGRAPHIC DATA SHEET

NRC FORM 335 <small>(9-2004) NRCMD 3.7</small>		1. REPORT NUMBER <small>(Assigned by NRC, Add Vol., Supp., Rev., and Addendum Numbers, if any.)</small> NUREG-1542, Vol. 20	
2. TITLE AND SUBTITLE U.S. Nuclear Regulatory Commission Fiscal Year 2014 Performance and Accountability Report		3. DATE REPORT PUBLISHED	
		MONTH November	YEAR 2014
		4. FIN OR GRANT NUMBER N/A	
5. AUTHOR(S) David Holley, James Coyle, et. al		6. TYPE OF REPORT Annual	
		7. PERIOD COVERED Fiscal Year 2014	
8. PERFORMING ORGANIZATION - NAME AND ADDRESS <small>(If NRC, provide Division, Office or Region, U. S. Nuclear Regulatory Commission, and mailing address; if contractor, provide name and mailing address)</small> Division of Planning and Budget Office of the Chief Financial Officer U.S. Nuclear Regulatory Commission Washington, DC 20555-0001			
9. SPONSORING ORGANIZATION - NAME AND ADDRESS <small>(If NRC, type "Same as above", if contractor, provide NRC Division, Office or Region, U.S. Nuclear Regulatory Commission, and mailing address)</small> Same as above			
10. SUPPLEMENTARY NOTES			
11. ABSTRACT <small>(200 words or less)</small> The Fiscal Year 2014 Performance and Accountability Report (PAR) presents the agency's program performance and financial management information. The PAR gives the President, Congress, and the American public the opportunity to assess the agency's performance in achieving its mission and the stewardship of its resources.			
12. KEY WORDS/DESCRIPTORS <small>(List words or phrases that will assist researchers in locating the report)</small> Performance and Accountability Report (PAR) Fiscal Year (FY) 2014		13. AVAILABILITY STATEMENT Unlimited	
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		15. NUMBER OF PAGES	
		16. PRICE	



CHAPTER 4
AVAILABILITY
OF
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CHAPTER 4 ■ AVAILABILITY OF REFERENCE MATERIALS IN NRC PUBLICATIONS

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