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# MEMORANDUM TO THE CHAIRMAN

On behalf of the Office of the Inspector General (OIG) for the U.S. Nuclear Regulatory Commission (NRC), I am pleased to submit this *Semiannual Report* to the U.S. Congress. This report summarizes significant OIG activities during the period from October 1, 1999, through March 31, 2000, in compliance with Sections 4 and 5 of the Inspector General Act of 1978, as amended.

During this reporting period, our office completed 7 performance and financial audits and 1 special evaluation of the NRC's programs and operations. This work led the OIG to make several recommendations and suggestions to the NRC for program improvement. In addition, the OIG completed 22 investigations and 1 Event Inquiry, and made 55 referrals to NRC management. Finally, the OIG analyzed 23 contract audit reports issued by the Defense Contract Audit Agency. Overall, these analyses caused the OIG to question \$113,637 in costs.

As detailed later in this report, the audit and investigative activities carried out during this period, together with other initiatives that are still in progress, have specifically addressed 9 of the 10 most serious management challenges facing the NRC, which the OIG identified to Congress in December 1999.

As always, I am proud and appreciative of the work and accomplishments of the NRC's OIG staff, as presented in this semiannual report. I look forward to continuing our professional and productive relationship with the NRC as we continue our pursuit of excellence to ensure the highest degree of integrity and success in government during the year 2000 and beyond.

Sincerely,



Hubert T. Bell  
Inspector General

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# EXECUTIVE SUMMARY

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

## AUDITS

- The Office of the Inspector General (OIG) initiated a review of the license fee development methodology used by the U.S. Nuclear Regulatory Commission (NRC). The NRC is required to recover 100 percent of its budget authority, less the Nuclear Waste Fund and General Fund appropriations, by collecting fees from its licensees. The OIG's review confirmed a previously reported noncompliance in the fee development process, and identified a potential noncompliance with the intent of the Omnibus Budget Reconciliation Act of 1990. The OIG also identified weaknesses in the methodology used to develop fees. Strengthening the management of the fee setting process would help to ensure that the fees developed by the NRC fully meet the intent of the applicable laws and regulations. The OIG's report made eight recommendations for corrective actions.
- In 1998, the OIG surveyed the NRC staff's perception about the agency's safety culture and climate. Based in part on the survey results, the OIG performed a special evaluation of the role and structure of the NRC's Commission. The objective of this evaluation was to identify ways that the Commission could enhance its effectiveness. The evaluation identified that (1) from time to time, Commissioners interpret their roles and that of the Chairman differently, which can adversely affect the Commission's collegiality; (2) the Commission has not memorialized goals and objectives specific to its role and structure; (3) staff perceptions identified in the OIG survey that senior management lacks trust in their judgment and the agency lacks a clear sense of direction is influenced in some part by the large size of the Commissioners' and Chairman's staffs and the structure of the Executive Council; and, (4) new Commission members and their staffs do not receive a formal orientation. As a result, the OIG identified five matters that the Commission should consider to enhance its effectiveness.
- In accordance with the Chief Financial Officers Act of 1990, the OIG contracted with an independent public accounting firm to audit the NRC's Principal Financial Statements for Fiscal Year (FY) 1999. The auditors issued an unqualified opinion regarding the Balance Sheet and the Statements of Changes in Net Position, Net Cost, Budgetary Resources, and Financing. However, the auditors concluded that management's assertion was not fairly stated, because management did not identify as material weaknesses the lack of (1) managerial cost accounting, (2) a program cost accounting system, and (3) management controls for license fee development. The auditors also identified seven new reportable conditions, and closed one prior-year reportable condition. In addition, with regard to the NRC's compliance with laws

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and regulations, the auditors carried over two noncompliances from the FY 1998 audit and newly identified a third. Two of the three are considered substantial noncompliances with the Federal Financial Management Improvement Act of 1996.

- In 1994, the NRC began to integrate the support of the agency's numerous computer systems into a single contract through the Comprehensive Information Systems Support Consolidation (CISSCO) program. The NRC contracted with the General Services Administration (GSA) to procure and manage the services required under CISSCO. In June 1998, the OIG surveyed the program, and reviewed the agency's controls over CISSCO funding. These activities raised questions about the adequacy of related management controls. Subsequently, the OIG initiated a review of the quality, timeliness, and reasonableness of the costs for work performed under CISSCO. In general, the OIG found that, while improvements can be made, the agency has established an adequate process to ensure that quality products are delivered in a timely manner. In contrast, the OIG found that the NRC has not provided the same degree of assurance with regard to the cost of work performed under CISSCO. Additionally, the OIG found that the skills and experience levels of CISSCO Task Managers vary widely, and many do not feel that they are sufficiently trained to effectively manage information technology work. Finally, the OIG found that the agency had not formally evaluated the performance or effectiveness of GSA's involvement in the CISSCO program. In response to these issues, the NRC's Office of Administration formed a task group to develop guidance regarding the award and administration of the NRC's Interagency Agreements, such as that with GSA. The

OIG's report made three recommendations to improve the CISSCO program.

- The electric utility industry is experiencing complex new business arrangements, including sales, mergers, and early shutdowns of nuclear power reactors. In response to many concerns related to these events, the OIG initiated an audit of the NRC's decommissioning fund program. The objectives of this audit were to assess the adequacy of the NRC's (1) review of the licensees' decommissioning fund status reports, and (2) formulas for estimating total decommissioning costs. This assessment disclosed that management controls over the process need improvement. Specifically, existing controls failed to ensure data accuracy. As a result, the usefulness of the accumulated decommissioning data is limited. The OIG also believes that the NRC should reassess the reasonableness of its decommissioning formulas. Specifically, the agency should evaluate the relationship between the formula-based and site-specific estimates, and should consider using the site-specific data from the licensees to help reassess the reasonableness of the formulas. The OIG's report made four recommendations for improving the agency's decommissioning fund program.

## **INVESTIGATIONS**

- The OIG conducted an inquiry into systemic problems discovered in applying travel procedures at the NRC's regional offices. This inquiry revealed that NRC travel personnel improperly interpreted the agency's temporary duty (TDY) policy when they authorized the use of privately owned automobiles (POAs) for government travel solely on the basis of a comparison of the costs of airfare and POA mileage.

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The OIG also learned that the NRC did not consider the availability and cost of a government contract rental vehicle as an alternative before authorizing or paying POA mileage and determining the maximum amount that would be paid to the traveler for POA mileage as required by the Federal Travel Regulations. In addition, the OIG found that the government would have realized savings if the NRC had used the cost of a government contract rental vehicle to determine the maximum amount of POA mileage to pay the traveler.

- The OIG conducted an investigation into information that an NRC contractor, detailed to a region, submitted false time and attendance (T&A) documents to the contractor's corporate office for work performed on an NRC contract. In addition, the OIG looked into an allegation that the contractor's supervisor, an NRC regional employee, was aware of and condoned the submission of the false timecards. OIG's investigation determined that the NRC contractor submitted time sheets to the corporate office containing times and dates which the contractor did not work. The OIG also determined that the regional supervisor's responsibilities did not include reviewing or confirming the accuracy of the hours on the contractor employee's time sheets.
- The OIG conducted an investigation regarding information that an NRC employee fraudulently charged work absences to a T&A leave category designated for authorized leave related to workers' compensation (continuation of pay). This investigation revealed that the employee had not submitted the required documentation and had not obtained Department of Labor approval of workers' compensation status for a medical condition associated with carpal tunnel syndrome. The OIG also found that the NRC supervisor, who also served as the employee's T&A certifying official, did not verify the accuracy of the employee's time records before signing them.
- At the request of a member of Congress, the OIG conducted an investigation regarding an NRC response to questions that the Congressman posed to the former NRC Chairman. The Congressman was concerned that the NRC provided him with inaccurate or misleading information regarding the events surrounding the release of a draft Office of the Secretary of the Commission (SECY) paper on generic communications to the Nuclear Energy Institute (NEI). The OIG investigation revealed that the NRC's letter to the Congressman contained certain inaccurate and misleading information with respect to the timing of the NRC staff's release of the draft SECY document to the NEI and the public.
- The OIG conducted an investigation into information that a former NRC regional division director may have engaged in post-employment negotiations with a consulting firm while still employed by the NRC. In addition, the information alleged that the former director may have participated in regulatory activities that may have had a direct effect on the financial interest of the consulting firm. OIG determined that the former NRC director engaged in post-employment discussions with the owner of the consulting firm while still employed by the NRC to perform contractual work for an NRC licensee. However, the OIG determined that the former NRC director did not render any advice or make any recommendations concerning the licensee subsequent to engaging in post-employment discussions with the consulting firm.





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# THE OFFICE OF THE INSPECTOR GENERAL

In passing the Inspector General (IG) Act of 1978, the U.S. Congress sought to ensure a level of integrity and efficiency that fulfills the American people's expectation for excellence and accountability in the Federal Government and its programs. In the 21 years since the Act was passed, the IG concept has proven to be of significant benefit to the Federal Government. Each year, billions of dollars are returned to the government, or are better spent, as a result of recommendations from IG reports. Because of this success, the IG concept has gradually been expanded to most of the Federal agencies. In Fiscal Year (FY) 1999, 57 Offices of the Inspector General provided oversight to 59 Federal agencies and entities.

To accomplish their broad mandate, the IGs have substantial independence and authority to conduct audits and investigations of agency programs. They have direct access to agency

records and materials; have ready access to agency heads; issue subpoenas for all necessary information, data, reports, and other documentary evidence; administer oaths for taking testimony; hire their own staffs; and request assistance from other Federal, State, and local government agencies. They also act as independent fact gatherers, often undertaking initiatives at the request of the agency head, and provide assessments in such areas as financial management systems and internal controls. In such instances, the IGs and agency management pursue the same ultimate goal — efficient and effective program operation and service delivery.

The existence of the IGs also relieves agency program managers and executives from being solely responsible for gathering objective data and evidence in circumstances where wrongdoing is suspected and where intense

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*NRC Chairman  
Richard A. Meserve  
(center) visits Calvert Cliffs  
Nuclear Power Station*



scrutiny and controversy exist. In this capacity, an IG is the focal point of responsibility for conducting audits and investigations related to an agency's programs and operations.

In the case of the U.S. Nuclear Regulatory Commission (NRC), Congress established an independent Office of the Inspector General (OIG) through the 1988 amendment to the IG Act. Today, the OIG's primary mission is to assist the NRC by ensuring integrity, efficiency, excellence, and accountability in the agency's programs to regulate the civilian use of byproduct, source, and special nuclear materials in a manner that adequately protects the health and safety of the public, as well as the environment, while promoting the Nation's common defense and security. Specifically, the NRC's OIG supports the agency by carrying out its mandate to (1) independently and objectively conduct and supervise audits and investigations related to the NRC's programs and operations; (2) prevent and detect fraud, waste, and abuse; and (3) promote economy, efficiency, and effectiveness in the NRC's programs and operations. The OIG also keeps the NRC Chairman and members of Congress fully and currently informed about problems, recommends corrective actions, and monitors the NRC's progress in implementing such actions. In FY 2000, the NRC's total budget authority is \$470 million, which includes an appropriation of \$5.0 million for the OIG.

## **ORGANIZATION AND FUNCTIONS OF THE NRC'S OIG**

The NRC's OIG includes an audit staff, an investigative staff, an independent counsel, and a resource management and operations support (RMOS) staff. The OIG's audit program is designed to provide assurance to the Chairman and to Congress that NRC programs and operations are working

efficiently and effectively. Consequently, the audit staff conducts performance and financial audits, as well as special evaluations. Performance audits focus on the NRC's administrative and programmatic operations. Financial audits focus on the NRC's internal control systems, transaction processing, and financial systems. In special evaluations, the OIG considers the implications of NRC programs that affect national issues.

The mission of the OIG's investigative program is to perform investigative activities related to the integrity of the NRC's programs and operations. Consequently, the investigative staff conducts investigations and Event Inquiries (EIs). The majority of the OIG's investigative activities focus on violations of law or misconduct by NRC employees and contractors, as well as allegations of irregularities or abuse in NRC programs and operations. The staff also conducts EIs, which yield investigative reports documenting the examination of events or agency actions that do not specifically involve *individual* misconduct. Instead, these reports identify *institutional* weaknesses that led to or allowed the occurrence of a problem. In addition, the OIG periodically performs root cause analyses, and implements other preventive initiatives such as integrity awareness training.

The OIG's General Counsel (GC) provides independent legal advice on issues concerning criminal law and procedures, evidence, and Constitutional law as they relate to the OIG's investigative program. The OIG GC also develops legal interpretations of appropriation law, financial management statutes and regulations, and procurement and funding rules in support of the OIG's audit program. In addition, the OIG GC performs in-depth reviews and comments on existing and proposed legislation, regulations, directives, and policy issues that affect NRC programs and operations. The intent of these reviews is to assist the

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agency in prospectively identifying and preventing potential problems.

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

## **10 MANAGEMENT CHALLENGES FACING THE NRC**

In response to a Congressional request in September 1999, and consistent with the goal of improving agency programs and operations, the OIG has developed and reaffirmed the following list of what it considers to be the 10 most serious management challenges facing the NRC:

- (1) Developing and Implementing a Risk-Informed, Performance-Based Approach to Regulatory Oversight
- (2) Developing Information Management Systems and Being Able to Anticipate and Measure the Benefits to be Gained
- (3) Responding to the Impact of Industry De-Regulation and License Transfers
- (4) Administering and Overseeing Agency Procurement Under Government Contracting Rules. Government Contracting Rules Allow the Opportunity for Fraud to Occur
- (5) Effectively Communicating with the Public and Industry
- (6) Maintaining an Unqualified Financial Statement Opinion in Light of New and Existing CFO Requirements

(7) Ensuring that NRC's Processes, such as Spent Fuel Cask Certification and License Renewal, are Responsive to Industry Needs

(8) Ensuring that NRC's Enforcement Program has an Appropriate Safety Focus and Reflects Improved Licensee Performance

(9) Refocusing NRC's Research Program to Reflect a Mature Industry

(10) Responding to External Influences for Changing NRC's Operations. For Example, the Ability to Meet NRC's Mission and Requirements of the Government Performance and Results Act (GPRA), as the Result of a Proposed Agency Reorganization, Poses a Significant Challenge to NRC

The OIG's audits and investigative activities since September 1999, together with other initiatives that are still in progress, have specifically addressed challenges 1– 8 and 10. In a September 1999 letter, Congress asked the Inspector General to update the listing of the agency's most serious management challenges. The request also asked for a description of the problems, previous work by the OIG and the General Accounting Office, and significant open audit recommendations. Further, the request asked the Inspector General to assess the agency's efforts to resolve the issues; compare/contrast this year's listing with those of previous years, with some explanation; and identify programs that "have had questionable success in achieving results." To gather sufficient information to respond to the Congressional request, the NRC OIG will conduct a special evaluation of the NRC's 10 most serious management challenges.



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# THE AUDIT PROGRAM

*To help the agency improve its effectiveness during this period, the OIG completed 7 performance and financial audits and 1 special evaluation, which resulted in several recommendations and suggestions to NRC management. In addition, the OIG analyzed 23 contract audit reports issued by the Defense Contract Audit Agency (DCAA), which caused the OIG to question \$113,637 in costs.*

## **AUDIT SUMMARIES**

### ***NRC's License Fee Development Process Needs Improvement***

The NRC is required to recover 100 percent of its budget authority, less the Nuclear Waste Fund and General Fund appropriations, by collecting fees from its licensees. To meet this requirement, the NRC assesses two types of fees. First, the NRC assesses user charges under the authority of the Independent Offices Appropriation Act of 1952 (IOAA). Second, the NRC assesses annual fees, under the authority of the Omnibus Budget Reconciliation Act of 1990 (OBRA-90), as amended.

In the FY 1998 audit of the NRC's financial statements, the OIG identified an IOAA noncompliance in the license fee development process. As a result, the OIG initiated an in-depth review of the NRC's license fee development methodology. The objectives of this review were to determine (1) if the overall process complies with pertinent laws and regulations, and (2) whether the agency has adequate management controls over the fee development process.

The OIG's review confirmed the previously reported noncompliance in the fee development process, and identified a potential noncompliance with the intent of OBRA-90. The OIG also identified weaknesses in the

methodology used to develop fees. Specifically, these weaknesses concern (1) the effects of using the percent change methodology to recover annual fees over an extended period; (2) a lack of criteria for achieving full cost in the hourly rate; and (3) management control weaknesses, including lack of adequate criteria, lack of aggressive quality control, and incomplete public information during the rulemaking comment period.

Left unaddressed, these issues have the potential to undermine the agency's credibility with the public as it relates to the NRC's ability to prepare and calculate fees that fully reflect the intent of appropriate legislation. Strengthening the management of the entire fee setting process by instituting more aggressive and comprehensive controls and oversight would help to ensure that the fees developed fully meet the intent of the applicable laws and regulations. The OIG's report made eight recommendations for corrective actions. *(Addresses Management Challenge #5, in part)*

### ***Senior Management Support Needed to Ensure Timely Implementation of the LSN***

The Nuclear Waste Policy Act of 1982 (NWPAA) requires the NRC to issue a final decision regarding the construction authorization for a high-level radioactive waste repository within 3 years (with a possible 1-year  
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extension) of receiving an application from the U.S. Department of Energy (DOE). Effective January 1999, the *Code of Federal Regulations* (CFR), Title 10, Part 2, Subpart J, “Procedures Applicable to Proceedings for the Issuance of Licenses for the Receipt of High-Level Radioactive Waste at a Geologic Repository” (LSN Rule), among other provisions, renamed the Licensing Support System (LSS) as the Licensing Support Network (LSN). Like the LSS, the LSN is an electronic information management system to house documentary material to facilitate the licensing process. In addition, the LSN allows the parties to take advantage of advances in information technology since the enactment of the original rule in 1989. In accordance with the requirements of the LSN Rule and DOE’s current schedule, the LSN must be deployed by August 2001 to facilitate the NRC’s ability to complete the licensing process in the timeframe mandated by the NWPA.

Funding uncertainties and technical design issues are among the key obstacles that delayed progress on the LSN. Interestingly, more than 10 years after the effective date of the LSN Rule, these very same obstacles continue to threaten the timely and effective implementation of the LSN. Since placing the role of the LSN business sponsor with the Atomic Safety and Licensing Board Panel (ASLBP) in July 1999, the NRC has taken several positive actions regarding the design and development of the LSN. Despite the aggressive approach, much remains to be done within a fixed and relatively short timeframe. At the time of the OIG’s report, areas for which significant work remained included reaching LSN Advisory Review Panel consensus regarding the technical design solution, obtaining LSN approval through the NRC’s Capital Planning and Investment Control process, conducting public outreach to promote the availability of documentary material, and resolving key

funding issues. Subsequent to the OIG’s issuance of the report, LSN Advisory Review Panel members provided their input on the technical design solution. However, several NRC offices still must work quickly and harmoniously to ensure successful implementation of the LSN Rule. The challenging time constraints within which the LSN must be deployed leave little to no room for mistakes, reversals of key decisions, or inefficiencies.

Because the NRC is mandated to conduct a timely licensing proceeding, senior management needs to take a strong leadership role to ensure that this mandate is met. The OIG therefore believes that it is crucial for the ASLBP to keep the Commission informed (at least quarterly) of LSN progress, in order for the program to benefit from the Commission’s guidance and support. Additionally, adequate funding must be provided to implement the LSN Rule. As a result, the OIG made two recommendations for helping to ensure timely progress on the LSN. (*Addresses Management Challenges #2 and #5*)

### ***Special Evaluation of the Role and Structure of the NRC’s Commission***

In 1974, Congress created the NRC as an independent agency headed by a five-member Commission, with one member designated by the President to be the Chairman. The agency’s purpose is to ensure the safe use of civilian nuclear materials in the United States. Five years after the NRC’s inception, this Nation’s most serious nuclear accident occurred at the Three Mile Island nuclear power plant. As an aftermath to several independent reviews regarding the cause of this accident, President Carter proposed, and Congress enacted, the Reorganization Plan No. 1 of 1980, as amended. The purpose of this plan was to strengthen the Chairman’s role to clarify where agency responsibility resided, while maintaining

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the collegiality of a commission form of organization. This Plan is the blueprint by which the Commission operates today.

Achieving the agency's mission is a formidable task, and the NRC continues to face many challenges within the nuclear arena. Simultaneously, along with other Federal agencies, the NRC has been directed through the Government Performance and Results Act (GPRA) to improve its internal management and program effectiveness. In response, the NRC has several major initiatives underway. For example, in 1998, the agency contracted with Arthur Andersen and Company to perform internal program assessments. Also, in 1998, to evaluate the impact of such agency initiatives on the NRC staff, the OIG surveyed the staff's perception about the agency's safety culture and climate. In this way, the OIG established a benchmark against which future survey results can be compared to evaluate the effect of agency initiatives on the organizational safety culture and climate.

Based in part on the survey results, the OIG decided to perform a special evaluation of the role and structure of the NRC's Commission. The overall objective of this evaluation was to identify ways that the Commission could enhance its effectiveness. To assist in this effort, the OIG contracted with the National Academy of Public Administration to act as a sounding board during the fieldwork. The evaluation identified that from time to time, Commissioners have different interpretations of the Plan, and this can adversely affect the Commission's collegiality. The OIG also found that the Commission has not memorialized goals and objectives specific to its role and structure. Furthermore, the NRC staff indicated in the OIG survey that senior management lacks trust in their judgment, and the agency lacks a clear sense of direction. The OIG found that these

perceptions are influenced in part by the large size of the Commissioners' and Chairman's staffs and the structure of the Executive Council. In addition, the OIG found that new Commission members and their staffs do not receive a formal, customized orientation. Consequently, the OIG's report identified five matters that the Commission should consider to enhance its effectiveness. (*Addresses Management Challenges #5 and #10*)

### ***Independent Auditors' Report and Principal Statements for the Year Ended September 30, 1999***

The Chief Financial Officers Act of 1990 requires the OIG to conduct annual audits of the NRC's Principal Financial Statements. The independent auditors' report contains (1) the principal statements and the auditors' opinion on those statements, (2) the auditors' opinions regarding management's assertion about the effectiveness of internal controls, and (3) a report on the NRC's compliance with laws and regulations. In addition, an appendix to the report contains written comments that the auditors obtained from the Chief Financial Officer (CFO).

The independent auditors issued an unqualified opinion regarding the Balance Sheet and the Statements of Changes in Net Position, Net Cost, Budgetary Resources, and Financing. In the opinion regarding management's assertion about the effectiveness of internal controls, the auditors concluded that management's assertion was not fairly stated. The auditors reached this conclusion because management did not identify as material weaknesses the lack of (1) managerial cost accounting, (2) a program cost accounting system, and (3) management controls for license fee development.

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The auditors also identified seven new reportable conditions, and closed one prior-year reportable condition. Specifically, the new conditions concern (1) the lack of program cost accounting, (2) the lack of management controls over fee development, (3) an inadequate financial statement preparation process, (4) inadequate segregation of duties for the NRC's integrated payroll and personnel system (PAY/PERS), (5) inadequate controls over PAY/PERS authorized users, (6) inadequate controls over small entity certifications; and (7) inadequate controls over General Services Administration (GSA) credits.

The auditors' report concerning the NRC's compliance with laws and regulations disclosed three noncompliances. First, the NRC's license fee rates under 10 CFR Part 170 are not based on full cost. Second, managerial cost accounting was not implemented as required. Third, the general ledger did not support program cost accounting. The first and second issues are carry-overs from FY 1998, and the second and third issues are considered substantial noncompliances with the Federal Financial Management Improvement Act of 1996 (FFMIA).

The prior year's reportable condition related to business continuity plans for the general ledger system remained in substantial noncompliance with FFMIA. However, the NRC is dependent on the Department of the Treasury to resolve this condition. Tests of compliance with selected provisions of other laws and regulations disclosed no other instances of noncompliance. (*Addresses Management Challenges #6 and #10*)

### ***Review of NRC's Controls Over Work Performed Under CISSCO***

In 1996, the NRC's Office of Information Resources Management, now the Office of the

Chief Information Officer, began to integrate the support of the agency's numerous computer systems into a single contract through the Comprehensive Information Systems Support Consolidation (CISSCO) program. CISSCO consists of a single contractor, using several subcontractors, to provide a wide range of information technology services. The NRC contracted with the Federal Systems Integration and Management Center of the General Services Administration (GSA/FEDSIM) to procure and manage the services required under CISSCO. In August 1996, GSA/FEDSIM engaged Computer Sciences Corporation as the prime contractor for meeting the needs of CISSCO.

In June 1998, the OIG surveyed the program, and reviewed the agency's controls over CISSCO funding. These activities raised questions about the adequacy of related management controls. Subsequently, the OIG initiated a review of the quality, timeliness, and reasonableness of the costs for work performed under CISSCO. In general, the OIG found that, while improvements can be made, the agency has established an adequate process to ensure that quality products are delivered in a timely manner. In contrast, the OIG found that the NRC has not provided the same degree of assurance with regard to the cost of work performed under CISSCO.

In addition, the OIG found that more than 150 agency staff could be assigned the duties of a CISSCO Task Manager (TM), which includes evaluation and assessment of the cost, timeliness, and quality of CISSCO products and services. The OIG also found that the skills and experience levels of TMs vary widely, and many do not feel sufficiently trained to effectively manage information technology work. In the OIG's opinion, assigning TM duties to such a large number of individuals, with widely varying levels of skills and experience, may not be the most efficient or effective method for



managing CISSCO work. Consequently, the OIG believes that the agency should identify the skills needed to successfully accomplish TM duties, and should ensure that the staff appointed as TMs are able to effectively manage work under CISSCO.

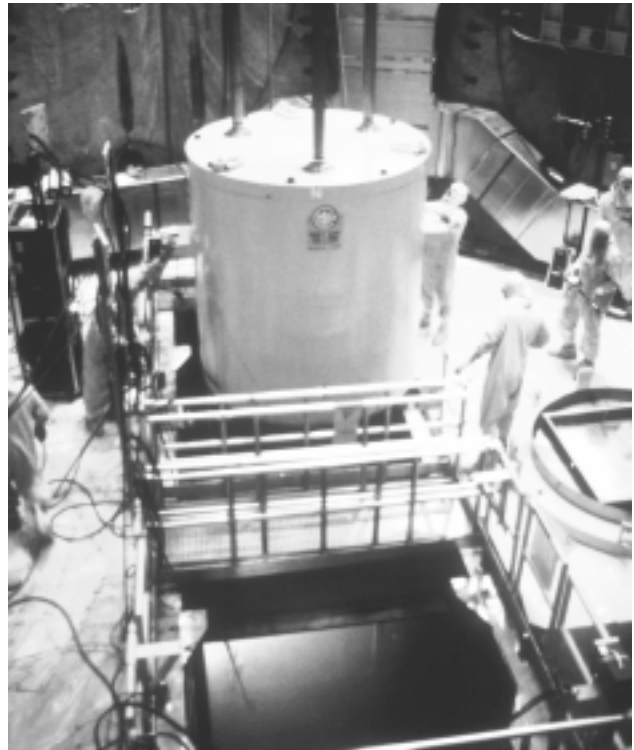
The OIG also found that the agency had not formally evaluated the performance or effectiveness of GSA/FEDSIM's involvement in the CISSCO program. As a result, the OIG questioned whether the agency had sufficient assurance that it was effectively expending its resources on the GSA/FEDSIM agreement.

Finally, in response to issues raised during the OIG's review, the Office of Administration formed a task group to develop guidance regarding the award and administration of the NRC's Interagency Agreements, such as that with GSA/FEDSIM. The OIG's report made three recommendations to improve the CISSCO program. (*Addresses Management Challenges #2 and #4*)

### ***Review of NRC's Decommissioning Fund Program***

Traditionally, the electric utility industry has functioned as a monopoly, with the rates closely regulated by State Public Utility Commissions and the Federal Energy Regulatory Commission. Utilities and their rate commissions have factored the cost of decommissioning into the current utility rate structures to be collected through utility charges to consumers.

In recent years, however, the electric utility industry has experienced complex new business arrangements, including sales, mergers, and early shutdowns of nuclear power reactors. The NRC has expressed concerns about the timing of these asset divestitures in relation to deregulation of the industry. These changes to the traditional structure of the industry have also contributed to concerns that deregulation could



*Decommissioning of the Ft. St. Vrain reactor in Colorado.*

have profound impacts on the long-term ability of power reactor licensees to obtain adequate funds to operate and decommission their plants. In response to these concerns, the OIG initiated an audit of the NRC's decommissioning fund program. The objectives of this audit were to assess the adequacy of the NRC's (1) review of the licensees' decommissioning fund status reports, and (2) formulas for estimating total decommissioning costs.

In September 1998, the agency amended its regulations regarding financial assurance requirements for decommissioning nuclear power plants. The amended regulations required licensees to report on the status of their decommissioning funds by March 31, 1999, with subsequent reporting every 2 years thereafter. The NRC subsequently reviewed the licensees' reports and prepared summaries of the collected data.

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The OIG's assessment of the NRC's review process disclosed that management controls over the process need improvement. Specifically, existing controls failed to ensure data accuracy. As a result, the usefulness of the accumulated decommissioning data is limited. Since this is the first reporting/review cycle under the new regulations, this is an opportune time to correct and strengthen the process for future reviews.

The OIG also believes that the NRC should consider reassessing the reasonableness of its decommissioning formulas. Significant differences exist between the formula-based and site-specific estimates. The OIG spoke with many licensees who stated that they use the formulas to fulfill NRC requirements, while placing greater reliance on the site-specific estimates. Consequently, the OIG believes that the agency should evaluate the relationship between the formula-based and site-specific estimates, and should consider using the site-specific data from the licensees to help reassess the reasonableness of the formulas.

The OIG's report made four recommendations for improving the agency's decommissioning fund program. (*Addresses Management Challenges #3 and #5*)

### ***Controls Over TDY Travel Reimbursements Are Generally Adequate***

The OIG initiated a review of the NRC's controls over temporary duty (TDY) travel reimbursements after learning of recent concerns about the adequacy of these controls. The objective of this review was to conduct substantive testing to determine whether the NRC has adequate controls over travel reimbursements. In particular, the review focused on compliance with Federal travel regulations, and did not address issues related to the cost-effectiveness of approved travel.

The OIG also looked at the use of ground transportation, and discussed those results with agency officials. The NRC subsequently issued agency-wide Announcement Number 082, *Reminder to All Employees on the Approval of Ground Transportation While on Official Travel*.

The NRC also provides specific direction for its employees in its Management Directive (MD) system. MD 14.1, *Official Temporary Duty Travel*, provides employees and others traveling for the agency with procedures, regulations, requirements for official government travel, and the means to properly claim reimbursement for expenses.

In general, the OIG found that the NRC appears to have sufficient controls over TDY travel reimbursements to preclude risks to the agency. However, the OIG found a high percentage of errors for Region III and Headquarters for one of the tested control attributes. Most of these errors were of an administrative nature, and did not indicate increased risk to the agency.

The OIG's report made four recommendations to improve the agency's TDY travel reimbursement process.

### ***Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for Fiscal Year 1999***

Continuing disclosures of Federal waste, loss, unauthorized use, and misappropriation of funds or assets associated with weak internal controls and accounting systems resulted in the passage of the Federal Managers' Financial Integrity Act (FMFIA) in September 1982. The FMFIA requires Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal controls and accounting systems for which they are responsible.

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In 1995, the NRC redesigned and streamlined its management control program in accordance with the National Performance Review recommendations and the Office of Management and Budget's (OMB's) 1995 revision to Circular A-123, *Management Accountability and Control*. The redesigned program required offices designated as the highest risk to submit management control plans and reasonable assurance letters to an Executive Committee for Management Controls. In FY 1999, the NRC again revised its program and required designated offices to address management control issues in their operating plans and annual reasonable assurance statements. An extended Executive Council oversees this process.

The OIG conducts an annual review of the NRC's program to assist the agency in evaluating its management controls. During the current reporting period, the OIG found that the NRC complied with the procedural requirements of the FMFIA during FY 1999, and that the Agency has taken action on the recommendations presented in the OIG's December 1998 report on FMFIA implementation. However, the OIG reported two material weaknesses for FY 1999 including (1) the continued lack of managerial cost accounting, including the inability to aggregate pay transactions to the strategic arena level, and (2) inadequate controls over NRC's license fee development process.

The OIG disagreed with the agency's determination that the absence of a managerial cost accounting process, including the inability to aggregate pay transactions to the strategic arena level, is not a material weakness. Managerial cost accounting is intended to be an integral process for managing government operations, and it is a vital component for implementing the GPRA. The OIG also

disagreed with the agency's determination that inadequate controls over the NRC's license fee development process is not a material weakness. This process lacks formal procedures and a quality control process, both of which are basic management control objectives, as described in OMB Circular A-123, which represents the implementing guidance for FMFIA. (*Addresses Management Challenges #6 and #10*)

## **RESULTS ACT REVIEW PLAN**

In 1993, Congress passed the GPRA, which mandated that Federal agencies must establish strategic plans and prepare annual performance plans. The first performance plans, due for FY 1999, are to establish measurable goals that define accomplishments expected during the year. The GPRA also requires agencies to submit annual reports to Congress comparing actual performance to the goals expressed in the performance plan. The first of these reports, for FY 1999, was due on March 31, 2000.

The GPRA does not require IGs to audit agency performance information. However, the Chief Financial Officers Act of 1990 requires IGs to annually audit their agency's financial statements. The implementing guidance, OMB Bulletin 98-08, "Audit Requirements for Federal Financial Statements," requires that financial statement audits must include an examination of performance data to provide reasonable assurance that "transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management."

The OIG adopted a two-tiered approach to reviewing the NRC's performance information:

*(continued on next page)*

- For financial statement reporting purposes (first tier), the OIG will review and evaluate the data used to support the NRC's broad **outcome goals**. Specifically, OMB Bulletin 98-08 requires the OIG to "obtain an understanding of the components of internal control relating to the existence and completeness of assertions relevant to the performance measures included in the Overview of the Reporting Entity." The Bulletin states that the objective of this work is to report deficiencies in the design of internal controls, rather than to plan the financial statement audit. With this requirement and objective in mind, as part of the Independent Auditors' Report and Principle Statements for the Year Ended September 30, 1999, the OIG examined the control process for several performance measures, and concluded that there were no deficiencies to report.
- To meet the intent and spirit of the GPRA (second tier), the OIG will examine the data supporting the NRC's **output measures** as part of regularly scheduled audit activity. As part of the audit planning process, the OIG will select specific output measures for examination. Most of the data used to measure performance goals comes from the NRC's abnormal occurrence data, which originates from external sources, such as Agreement States and NRC licensees. The NRC has a high degree of confidence regarding the reliability of this data because the information needed from external sources is required to be reported to the NRC by regulations. Additionally, the NRC maintains an aggressive inspection program that, among other activities, audits licensees and evaluates Agreement State programs to verify that information is being reported as required by the regulations. Finally, there are agency procedures for reviewing and evaluating licensees.

The NRC systems that support this process include the Sequence Coding and Search System (SCSS), the Accident Sequence Precursor (ASP) Database, the Nuclear Materials Events Database (NMED), and the Radiation Exposure Information Report System (REIRS). The SCSS and ASP systems support the performance goals in the reactor safety arena, while the NMED system supports performance goals in the nuclear materials safety and nuclear waste safety arenas, and the REIRS system supports exposure performance goals in the nuclear reactor safety and nuclear materials safety arenas. The NRC has also identified the primary data systems that provide the information necessary to support the agency's outcome performance measures.

Beginning in FY 2000, after the first required annual GPRA report comparing actual agency performance to the goals expressed in the NRC's performance plan has been submitted to Congress, the OIG will initiate an audit to verify and validate selected output measures. In each subsequent year, the OIG will perform a similar audit. The number of selected output measures audited each year will depend on the validity of the reported output measures, based on the adequacy and accuracy of the information used to support the initial measures selected for review. The OIG believes that this approach satisfies the requirements of the Chief Financial Officer Act of 1990, as well as the intent and spirit of the GPRA.

## AUDITS IN PROGRESS

### *Review of the Development and Implementation of NRC's Integrated Financial Management System (STARFIRE)*

The OIG initiated a review of the NRC's integrated financial management system. The broad objectives of this review are to determine whether the NRC has a sound methodology in

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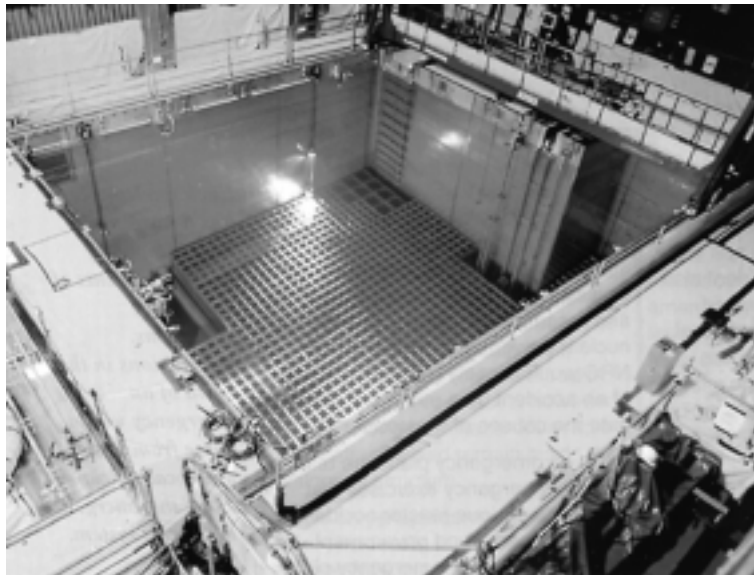
place to implement an integrated financial management system that meets expectations, at the expected cost, and within expected timeframes. (Addresses Management Challenges #2, #4, and #6)

### ***Audit of NRC's Operating Licensing Program***

The OIG previously completed a survey of the NRC's Operating Licensing Program, which resulted in the development of audit objectives pertaining to operator licensing. The objectives of this audit are to determine (1) the circumstances and criteria under which the NRC will exercise its discretion and reject a licensee's determination to prepare, proctor, and grade the written examinations and prepare the operating tests; (2) how the pilot program results support the decision to implement a new initial examination process on a voluntary basis; and (3) whether operating licenses for power reactors are renewed as required. (Addresses Management Challenges #1 and #7)

### ***Review of NRC's Spent Fuel Pool Inspection Program***

The OIG initiated a review of the NRC's spent fuel pool inspection program at dormant



Spent Fuel Pool

nuclear power plants. There are currently 18 nuclear power plants in various stages of decommissioning, and licensees may decide to retire additional plants in the foreseeable future. Although these plants are no longer in service, the spent fuel accumulated during the years of operation will remain onsite at some locations for an extended period of time. The objectives of this audit are to determine (1) if inspection requirements for spent fuel pools at dormant reactors are being met, (2) if discernable evidence of deterioration exists at the spent fuel pools, and (3) if discernable evidence of deterioration exists, whether NRC's initiatives in the area of spent fuel pool risks will address the deficiencies. (Addresses Management Challenges #1, #3, #7, and #8)

### ***Critical Infrastructure Assurance Program***

The OIG initiated a review of the NRC's Critical Infrastructure Assurance Program, which the agency developed in response to *The Clinton Administration's Policy on Critical Infrastructure Protection: Presidential Decision Directive 63* (PDD-63). The President issued this directive in May 1998 to initiate a national effort to ensure the security of the Nation's critical infrastructures. In particular, this directive requires the NRC to develop a program to eliminate any significant vulnerability to both physical and cyber attacks on its critical infrastructures. An initial capability is to be developed in the year 2000. In reviewing the NRC's program, the OIG's overall objective is to assess the adequacy of NRC's Critical Infrastructure Protection Program in the context of PDD-63. (Addresses Management Challenges #2 and #10)

(continued on next page)

### ***Review of CISSCO Contract Arrangements***

Since June 1998, the OIG has reviewed several aspects of the CISSCO program, and reported on potential improvements that the agency could make to lessen the risks associated with the program. During the OIG's ongoing reviews, questions have surfaced related to the basis for the structure of the CISSCO program. In addition, the Congress and the OMB are currently scrutinizing how Federal agencies, including the NRC, are using multiple award contracts. Consequently, the OIG's overall objective for this audit is to determine the appropriateness of the CISSCO structure. (Addresses Management Challenges #2 and #4)

### ***Review of NRC's Audit Recommendation Follow-Up System***

The OIG initiated an audit of the NRC's audit follow-up system. Audit follow-up is the system that Federal agencies use to resolve audit recommendations resulting from audits of programs and operations, implement and track corrective actions, and fulfill reporting requirements. The system is an integral part of good management, and is a shared responsibility of agency management officials and auditors. The OIG's objectives for this review are to determine if (1) the NRC's follow-up system complies with applicable requirements, and (2) the system adequately meets the intent of those requirements. (Addresses Management Challenge #2)

### ***Best Practices in Implementing Managerial Cost Accounting***

The OIG initiated a "best practices" evaluation to assist the NRC in developing managerial cost accounting, as required by Statement of Federal Financial Accounting

Standard No. 4, "Managerial Cost Accounting Standards." The NRC is expected to use managerial cost accounting to produce (1) the Statement of Net Cost as part of the NRC's financial statements, and (2) cost information for management purposes (including planning, budgeting, and fee development). As part of this evaluation, the OIG will meet with representatives from other Federal agencies to learn about their experiences in implementing and using managerial cost accounting.

(Addresses Management Challenges #6 and #10)

### ***Review of NRC's Differing Professional View/Differing Professional Opinion Program***

The OIG initiated an audit of the NRC's Differing Professional View/Differing Professional Opinion (DPV/DPO) policy, which is intended "...to maintain a working environment that encourages employees to make known their best professional judgements even though they may differ from a prevailing staff view, disagree with a management decision or policy position, or take issue with proposed or established agency practices." To foster this policy, the agency implemented a program with an informal process called the DPV and a formal process called the DPO.

Results from the OIG's 1998 Safety Culture and Climate Survey, however, suggest that the DPV/DPO program is not fostering an atmosphere in which employees feel comfortable or encouraged to make their best professional judgements known when they may differ from the prevailing view. Consequently, the OIG's objectives for this review are to determine if (1) the DPV/DPO policy is effective, (2) the process is timely, and (3) employees are protected from retaliation after expressing a differing viewpoint.

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### ***Special Evaluation Regarding the Status of NRC's Website***

In a letter dated February 28, 2000, and received by the OIG on March 7, 2000, members of Congress requested that the IG join with the Chief Information Officer (CIO) and CFO, as applicable, in determining the status of the agency's Website and other related issues. In response, the OIG initiated a special evaluation to address the eight specific questions posed by the members of Congress. (*Addresses Management Challenges # 2 and #5*)

### **SIGNIFICANT RECOMMENDATIONS NOT YET COMPLETED**

The Omnibus Budget Reconciliation Act of 1990 (OBRA-90) requires the NRC to recover approximately 100 percent of its budget authority by assessing fees. Accordingly, NRC assesses two types of fees to its licensees and applicants. One type, specified in 10 CFR Part 171, consists of annual fees assessed to power reactors, materials, and other licensees. The other type, specified in 10 CFR Part 170 and authorized by the Independent Offices Appropriation Act (IOAA) of 1952, is assessed to specific licensing actions, inspections, and other services provided to licensees and applicants.

In 31 U.S.C. Section 970 1(b), the IOAA states that each charge shall be fair and based on the costs to the government. OMB Circular A-25, *User Charges*, provides additional guidance for assessing fees under the IOAA. Specifically, Circular A-25 states that user charges will be sufficient to recover the full cost to the Federal Government of providing the

service, resource, or goods when the government is acting in its capacity as sovereign. Further, that full cost includes all direct and indirect costs to any part of the Federal Government of providing a good, resource, or service.

Each year, the Office of the Chief Financial Officer (OCFO) computes the hourly rates used to charge for the time incurred by NRC personnel in providing services regulated by 10 CFR Part 170. These rates are based on budgetary data, and are used to price individually identifiable Part 170 services.

On March 1, 1999, the OIG issued the FY 1998 audit of the NRC's financial statements. The audit reported that the NRC was not in compliance with the IOAA because the FY 1998 rates were not based on the full cost of providing Part 170 services. For example, the calculations excluded certain contract support costs. These costs were excluded because, based on the OBRA conference agreement, the OCFO classified these costs as "generic activities" that generally benefit licensees. Thus, the NRC recovered these costs through the annual fees governed by 10 CFR Part 171.

The OIG's report recommended that the CFO initiate an analysis of all contract support costs that were classified as "generic activities" and were excluded from the rate. In response, the CFO advised the OIG that it would establish a multi-office team to determine whether the costs currently identified as "generic" continue to meet the definition contained in the Conference Report to OBRA. The OIG received the study report on March 6, 2000, and plans to perform an in-depth analysis of the study results to determine whether there is justification to close this recommendation.





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# THE INVESTIGATIVE PROGRAM

*During this reporting period, the OIG received 140 allegations, initiated 22 investigations and 3 Event Inquiries, and closed 23 cases and Event Inquiries. In addition, the OIG made 55 referrals to NRC management.*

## **INVESTIGATIVE CASE SUMMARIES**

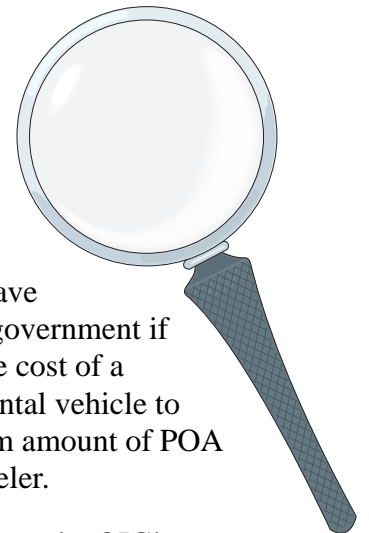
### ***Possible Wasteful Travel Practices at NRC Regional Offices***

The OIG conducted an inquiry into systemic problems discovered in applying travel procedures at the NRC's regional offices. During two previous investigations, the OIG found that NRC travel personnel improperly interpreted the agency's temporary duty (TDY) policy when they authorized the use of privately owned automobiles (POAs) for government travel solely on the basis of a comparison of the costs of airfare and POA mileage. In other words, the NRC travel personnel authorized the use of a POA if the cost of using a POA was determined to be less than the cost of airfare.

The OIG learned that the NRC did not consider the availability and cost of a government contract rental vehicle as an alternative lower-cost comparison before authorizing the use of a POA and determining the maximum amount that would be paid to the traveler for POA mileage. Such considerations are required by the Federal Travel Regulations (FTR) and NRC Management Directive (MD) 14.1. Moreover, interviews with NRC travel personnel disclosed a lack of knowledge concerning these FTR and NRC requirements.

As part of its inquiry, the OIG examined FY 1999 travel vouchers within the NRC's headquarters and three regional offices. This

examination revealed that the agency paid POA mileage on 453 of the 1,159 vouchers examined at the Regions. Of these 453 vouchers, 219 would have yielded savings to the government if the agency had used the cost of a government contract rental vehicle to determine the maximum amount of POA mileage to pay the traveler.



Within Headquarters, the OIG's examination revealed that the agency paid POA mileage on 75 of the 530 examined vouchers. Of these 75 vouchers, 31 would have yielded savings to the government if the agency had used the cost of a government contract rental vehicle to determine the maximum amount of POA mileage to pay the traveler.

As a result of this OIG inquiry, the NRC issued an announcement to clarify the use of POAs while on official travel. This announcement should eliminate this wasteful travel practice. The NRC also implemented administrative changes to the travel authorization process to ensure the utilization of the most cost-effective TDY travel method.

### ***Time Charge Abuse by NRC Contractor***

The OIG conducted an investigation on the basis of information that an NRC contractor, detailed to a region, submitted false time and

*(continued on next page)*

attendance (T&A) documents to the contractor's corporate office for work performed on an NRC contract. An NRC employee discovered irregularities on the contractor's time sheets and reported the discrepancies to regional management. It was also alleged that the contractor's supervisor, an NRC regional employee, was aware of and condoned the submission of the false timecards.

During the OIG's investigation, the NRC contractor, the regional employee who discovered the irregularities on the time sheets, and other regional personnel confirmed that the NRC contractor submitted time sheets to the corporate office containing times and dates on which the contractor did not work. The OIG also determined that the regional supervisor's responsibilities on the corporate contract did not include reviewing or confirming the accuracy of the hours on contract employees' time sheets. Rather, the time sheets were reviewed by a representative of the corporate office after they were submitted by the contract employees.

The OIG presented this matter to the Assistant United States Attorney, who declined prosecution. As a result of the OIG investigation, the corporate supervisor implemented new administrative time keeping procedures that will preclude future occurrences of time sheet irregularities. (*Addresses Management Challenge #4*)

### ***False Time and Attendance Reporting by NRC Employee***

The OIG initiated an investigation on the basis of the following information and allegations:

- An NRC employee fraudulently charged work absences to a T&A leave category designated for those authorized leave related to workers' compensation (continuation of pay).
- The employee had not submitted the required documentation, and had not obtained Department of Labor (DOL) approval of workers' compensation status for a medical condition associated with carpal tunnel syndrome.
- NRC Payroll Operations and the Office of Human Resources (HR) had not identified the employee's erroneous time charges.
- The supervisor, who also served as the employee's T&A certifying official, did not verify the accuracy of the employee's T&A records before signing them.

The OIG investigation revealed that between April 1996 and September 1998 (37 pay periods) the NRC employee fraudulently claimed 274 hours of continuation of pay (COP) status on T&A records and improperly input the COP status into the automated T&A system. As a result, the NRC paid the employee approximately \$4,397 for COP leave that she was not authorized to take.

The OIG also determined that the employee's supervisor certified 34 out of 37 of the employee's T&A records during the aforementioned period in which the employee improperly claimed COP status. Although the supervisor knew about the employee's medical condition, the supervisor never verified or discussed the nature of the leave reported on the T&A records with either HR or the employee.

The OIG learned that all workers' compensation claims, including COP, submitted to DOL on behalf of NRC employees must be approved by the employee's supervisor and coordinated through HR. The OIG also determined that, although the supervisor signed the employee's DOL compensation claims for occupational disease, the supervisor did not question whether these claims allowed time off without using leave.

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During the course of the investigation, NRC Payroll Operations corrected the employee's T&A records for those periods when the employee improperly claimed COP status and reflected the time as "leave without pay" status.

### ***Misleading NRC Response to Congressional Request for Information***

At the request of a member of Congress, the OIG initiated an investigation regarding an NRC response (dated July 19, 1999) to questions that the Congressman posed to the former NRC Chairman. The Congressman was concerned that the NRC provided him with inaccurate or misleading information regarding the events surrounding the release of a draft Office of the Secretary of the Commission paper on generic communications (SECY-99-143) to the Nuclear Energy Institute (NEI).

The OIG determined that the NRC's letter to the Congressman contained inaccurate and misleading information with respect to the NRC staff's release of the draft SECY document to the NEI and the public. Specifically, the version of the events provided in the NRC's response to the Congressman inaccurately depicted that the NRC staff simultaneously provided the draft SECY sent to the NEI and the public. In fact, the staff sent the NEI a copy of the draft SECY on March 30, 1999, but the draft SECY was not made available to the public until April 14, 1999. The OIG determined that, in preparing the response to the Congressman, the staff did not

exercise due care to ensure the accuracy of the information contained in the response to the Congressman. (*Addresses Management Challenge #5*)

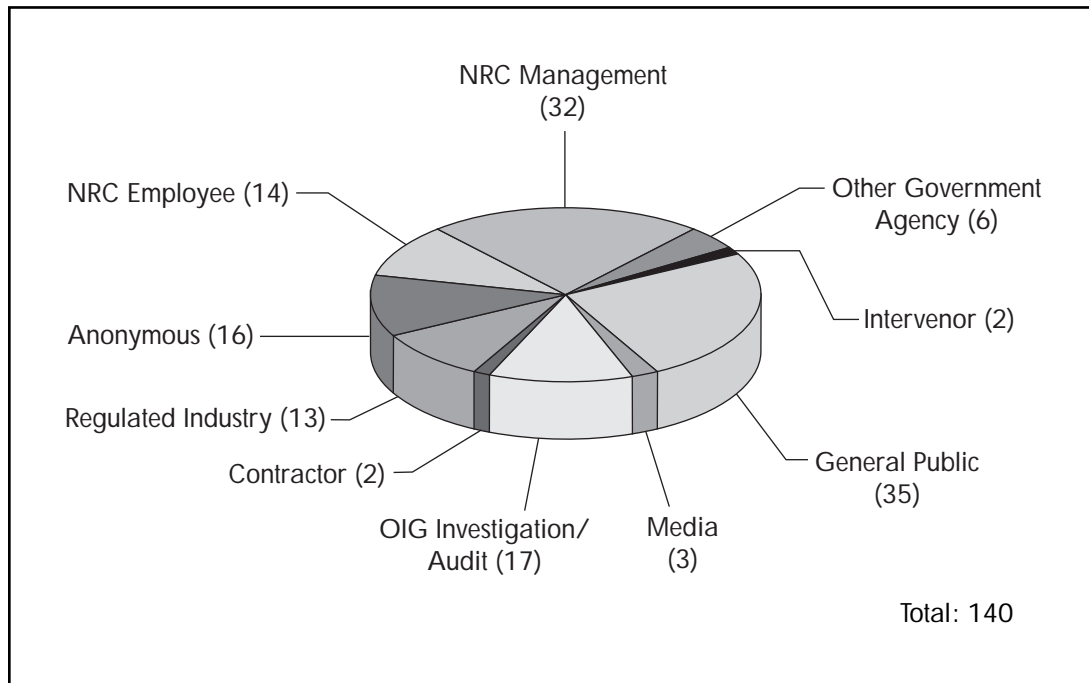
### ***Post-Employment Conflict of Interest***

The OIG conducted an investigation into information that a former NRC regional division director may have engaged in post-employment negotiations with a consulting firm while still employed by the NRC. In addition, the information alleged that the former director may have participated in regulatory activities that may have had a direct effect on the financial interest of the consulting firm.

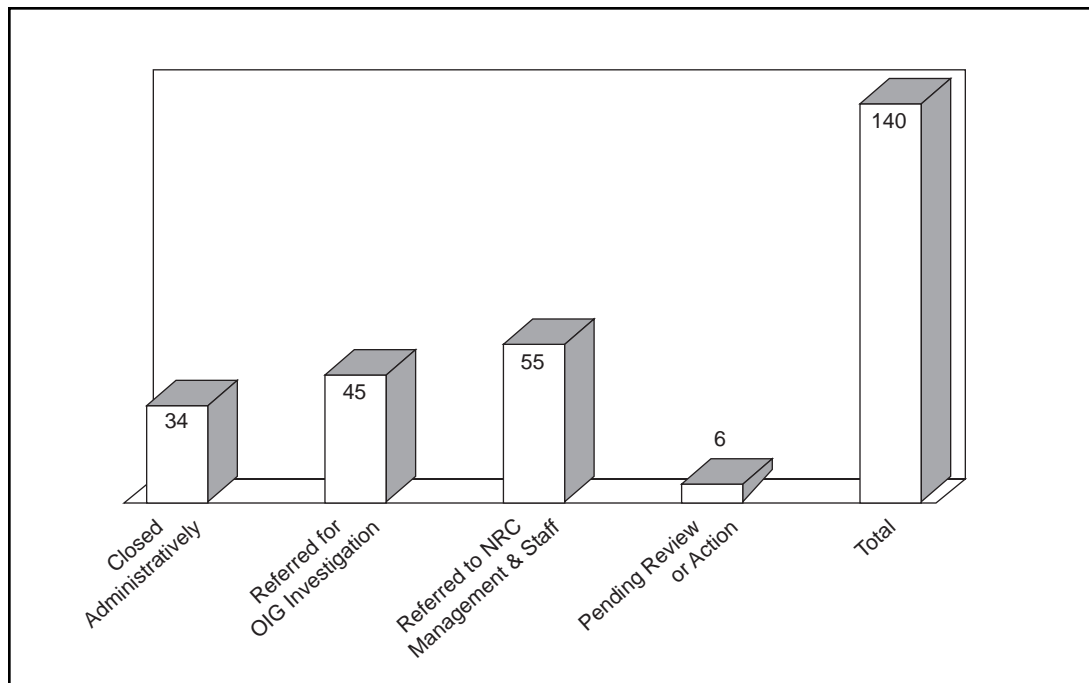
The OIG's investigation revealed that the former NRC director engaged in post-employment discussions with the owner of the consulting firm in December 1998, while still employed by the NRC. Specifically, before he retired from the NRC on December 31, 1998, the former NRC director engaged in discussions with the owner of the consulting firm to perform contractual work for an NRC licensee. Further, the OIG determined that the director was a primary participant in the region's regulatory decisions concerning the same licensee during 1998, and in December 1998, he did not disqualify himself from being involved with the licensee. However, the OIG also found that the former NRC director did not render any advice or make any recommendations concerning the licensee during December 1998.

## INVESTIGATIVE STATISTICS

### Source of Allegations — October 1, 1999 through March 31, 2000



### Disposition of Allegations — October 1, 1999 through March 31, 2000



## Status of Investigations

DOJ Referrals	8
DOJ Declinations	6
Pending DOJ Action	2
Indictments and Arrests	0
Convictions	0
PFCRA Referrals	0
PFCRA Recoveries	0
Other Recoveries	\$385.29
NRC Administrative Actions:	
Terminations and Resignations	0
Suspensions and Demotions	2
Other Administrative Actions	9
Counseling	1

## Summary of Investigations

<i>Classification of Investigations</i>	<i>Carryover</i>	<i>Opened Cases</i>	<i>Closed Cases</i>	<i>Cases In Progress</i>
A - Conflict of Interest	5	3	4	4
B - Internal Fraud	0	1	1	0
C - External Fraud	1	4	2	3
D - False Statements	4	0	3	1
E - Theft	0	1	0	1
F - Misuse of Government Property	0	2	0	2
G - Employee Misconduct	2	5	3	4
H - Management Misconduct	3	3	1	5
I - Technical Allegations – Other	7	1	7	1
J - Whistleblower Reprisal	0	2	1	1
<b>Total Investigations</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>
<b>Total Event Inquiries</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>5</b>
<b>Investigative Initiatives</b>	<b>0</b>	<b>12</b>	<b>0</b>	<b>12</b>



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# SPECIAL FEATURE: WORKING WITH THE NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

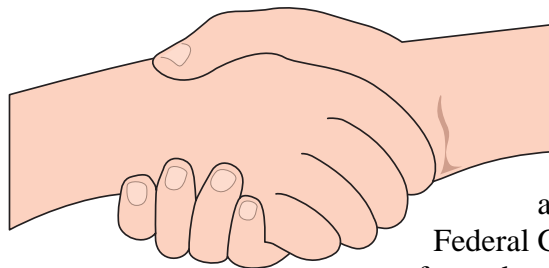
*In early 1999, representatives from the National Academy of Public Administration addressed the President's Council on Integrity and Efficiency (PCIE). Comprised of the Presidentially appointed Inspectors General, the PCIE promotes collaboration regarding integrity, economy, and efficiency issues that transcend individual governmental agencies, and strives to increase the professionalism and effectiveness of IG personnel throughout the government. As part of their presentation, the Academy representatives indicated a desire to work cooperatively with the IGs in meeting their Congressional mandate. Soon after this presentation, the NRC's OIG found the need for external expertise and contracted with the Academy to assist in the performance of a special evaluation concerning the role and structure of the NRC's Commission.*

The National Academy of Public Administration (the Academy) is an independent, nonprofit organization chartered by Congress to identify emerging issues of governance and to help Federal, State, and local governments improve their performance. It exists solely to help government achieve excellence.

The unique source of the Academy's expertise is its membership, which, as of September 1999, included more than 500 current and former Cabinet officers, members of Congress, governors, mayors, legislators, jurists, business executives, public managers, and scholars. The members are elected as Fellows because of their distinguished contributions to the field of public administration through scholarship, civic activism, or government service.

Since its establishment in 1987, the Academy has responded to a multitude of requests for assistance from various agencies,

and has undertaken numerous studies on issues of particular interest to Congress. In addition, the Academy has conducted projects for private foundations, and has begun to work closely with corporations.



In 1999, the OIG initiated a special evaluation to identify ways that the NRC Commission could enhance its effectiveness. Under the Government Performance and Results Act (GPRA), the Federal Government was being reformed to improve internal management, program effectiveness, and the confidence of the American people. In helping to meet the GPRA goals, the NRC contracted with Arthur Andersen and Company to perform internal assessments of the agency. In late 1998, as part of these assessments, Arthur Andersen was asked to look at the NRC's management and support activities to determine if the agency had benchmarks in the administrative functions arena, and if the

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agency was following “best practices” in conducting its work. However, as part of this effort, Arthur Andersen did not look at the offices of NRC’s Chairman and Commissioners.

In June 1998, while initial Arthur Andersen assessments were underway, the OIG sponsored an agency-wide Safety Culture and Climate Survey. Statistical results from that survey identified a wide disparity regarding the perception of the agency, as reported by the staff in the offices of the NRC’s Chairman and Commissioners’ and the Office of the Executive Director for Operations, compared to the rest of the agency. On average, the staff’s perception of the agency was 18 percent more favorable in these offices than the perception held by the staff of the NRC overall. In addition, anecdotal information provided by NRC employees indicated that communication was not working well at the Commissioner level, and that there was uncertainty among the staff regarding the strength of the leadership at the top. Ultimately, the mission of the agency was suffering as a result of these negative perceptions.

Moreover, the nuclear power industry had been voicing its concern to Congress that the NRC was inefficient, took too long on licensing actions, and employed an overly restrictive body of regulations. In response, Congress proposed amendments to the NRC’s budget that would have resulted in major budgetary and staffing reductions. While discussions between the agency and Congress avoided the proposed drastic measures, Congress continued to carefully examine the NRC’s regulatory approach and programs.

It was against this backdrop that the OIG initiated its special evaluation and performed the necessary fieldwork to evaluate whether opportunities existed for the Commission to enhance its effectiveness. However, given the sensitive nature of the resulting report, the OIG wanted to ensure that an independent, expert,

outside opinion was provided about the report’s message. As a result, the OIG contracted with the Academy to provide feedback to the special evaluation team on the work and its results.

The Academy provided the necessary qualified personnel, facilities, materials, and services to conduct a series of meetings. The Academy also assembled a panel of five Academy Fellows with experience and backgrounds in the fields of government organization, government commissions, and regulatory matters. This panel acted as a sounding board for both the approaches taken and the issues developed by the special evaluation team. The Academy also assisted by disseminating and reviewing background materials prepared by the OIG for the panel.

After the panel had disseminated and reviewed the background materials, the OIG team held a first meeting with the panel. The purpose of this meeting was to provide the panel with more in-depth background information, and to receive the panel members’ feedback and perspectives on the specific approaches being taken by the OIG team. In a second meeting with the panel, the OIG team members provided preliminary conclusions and recommendations developed from their work. Again, the panel provided further feedback and constructive advice. Finally, in a third meeting, the OIG team presented both its final conclusions and resultant suggestions to the panel, who provided a final critique.

By providing feedback to the OIG on its evaluation approach, tentative conclusions, and associated suggestions for improvement, the panel assisted the OIG in meeting its overall objective. The OIG believes that the Academy’s involvement in this special evaluation provided a level of expertise and advice that helped to ensure that the final report conveyed a message that was well founded and properly communicated.



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# OTHER ACTIVITIES

## **REGULATORY REVIEW**

The Inspector General Act, 5 U.S.C. App. 3, Section 4(a)(2), requires the OIG to review existing and proposed legislation and regulations, and to make recommendations concerning the impact of such legislation or regulations on the economy and efficiency of programs and operations administered by the agency. The OIG conducts its regulatory reviews by examining agency documents reflecting regulatory, statutory, and policy actions. Proposed actions and revisions to existing documents are measured against standards of fraud potential, efficiency, and effectiveness, as well as requirements of the Inspector General Act. The review also encompasses issues raised in OIG investigations, audits, and prior regulatory commentaries.

The goals of the regulatory review program are to assist in the prevention and detection of fraud, waste, and abuse within the agency. It is also intended to advise agency managers of the importance of considering aspects of agency policy and procedures that impact the OIG's mission-related functions and responsibilities. In addition, comments are used to address issues related to preserving the independence and integrity of the OIG under its statutory precept. These objectives are met through formal memoranda, as well as collegial meetings and discussions.

From October 1, 1999, through March 31, 2000, the OIG reviewed more than 190 agency documents, including approximately 115 documents issued by the Office of the Secretary (SECYs) and 75 *Federal Register* notices, regulatory actions, and statutes. Upon completing

these reviews, the OIG provided the following commentaries on the most significant issues.

It is notable that the majority of the Management Directives receiving substantive comments required direction as to the correct, complete citation of the role and authority of the Inspector General.

Two significant comments were addressed to the agency's Office of Human Resources. These shared common characteristics as to source and content. Both directives addressed issues raised in audit actions within the past year. Also, each entailed unusually extensive review and more critical comments than is usual.

The draft Management Directive 10.72, "Incentive Awards," required clarification on a number of matters. In particular, the draft conveyed inconsistent direction regarding the award category system, as well as certain eligibility limitations on individual agency-level awards. The most serious issues apparent in the draft directive concerned Senior-Level Service (SLS) pay raises and awards, and included apparent inconsistencies between the amount and approval oversight for awards to SLS employees working in the Commission offices and those working in other agency offices. In addition, the draft directive needs revision to include consistent definitions of terms used to describe award criteria.

The draft Management Directive 10.8, "Clearances Before Separation or Reassignment," also appeared to represent a very preliminary effort to provide guidance in an area where problems have surfaced as a result of

*(continued on next page)*

inadequate direction. The primary substantive deficiency in this directive was the absence of direction to employees regarding compliance with conflict of interest regulations and statutes. In particular, the draft did not mention either restrictions concerning negotiation for employment, or post-employment limitations. The draft also lacked essential direction regarding the requirement for senior employees to file terminating financial interest forms. Critically, there is no reference to the availability of the Office of General Counsel (OGC) for authoritative advice to separating employees. In addition, lengthy remarks and corrections were provided to assist in producing consistent and comprehensive direction to separating employees and agency officials involved in the clearance process.

The agency readily and rapidly agreed with the OIG's comments regarding the need for Management Directive 12.6, "NRC Sensitive Unclassified Information Security Program," to include more definitive guidance concerning the IG's role and authority in this process. The agency also corrected the directions as to the assignment of responsibility for the CIO.

Supplemental instruction regarding the critical role of the OIG was identified for inclusion in Management Directive 8.17, "Licensee's Complaints Against NRC Employees." Agency authors were explicitly advised to inform employees of the well established obligation to report suspected fraud, waste, and abuse to the IG.

The comments regarding Management Directive 9.7, "Organization and Functions, Office of the General Counsel," focused on inconsistent descriptions of the OGC's responsibilities. Varying obligations are identified in the CFR, the OGC Operating Manual, and other management directives. In addition, specific assignments were suggested for the CIO and the CFO.

The OIG's review of agency comments regarding the proposed GSA Federal Advisory Committee Act resulted in remarks on two issues. The first was disappointment with an agency suggestion that certain feedback provisions should be eliminated from the regulations. While the agency has made strides in enhancing needed communications, the OIG suggested that deleting a provision for an additional venue for information exchange may deprive the agency of a valuable opportunity. The second comment responded to the agency's request for authority to provide additional reimbursement to committee members. Past OIG investigations have disclosed a lack of adequate oversight and control in the current provisions for reimbursement, and the need for this type of payment has not been demonstrated.

## **ELECTRONIC SIGNATURES**

The *Government Paperwork Elimination Act*, Public Law 105-277, requires Federal agencies, by October 21, 2003, to give persons who are required to maintain, submit, or disclose information the option of doing so electronically when practical as a substitute for paper, and to use electronic authentication, electronic signatures, and methods to verify the identity of the sender and the integrity of the electronic content. The Act specifically provides that electronic records and their related electronic signatures are not to be denied legal effect, validity, or enforceability merely because they are in electronic form.

Adoption of the electronic systems prescribed by the statute raises significant issues related to the agency's mission and function as a regulator, as well as its importance to the OIG as an investigative unit. In order to effectively plan and coordinate, the OIG and the agency's OGC established an informal exchange to identify and address these issues on an ongoing basis.

## PROACTIVE INVESTIGATIVE ACTIVITIES

During this reporting period, the OIG has undertaken several proactive initiatives to improve communication and to detect potential contractor fraud. Among these initiatives, the investigative staff has conducted a number of significant activities aimed at sensitizing NRC employees to indicators of fraud in NRC programs. The OIG also presented a fraud awareness information session to NRC procurement employees, and developed a fraud awareness bulletin to provide all NRC employees with case examples from across the OIG community on the extent to which unscrupulous individuals and contractors will go to perpetrate fraud against the government. The majority of the case examples show that the fraud schemes were detected by conscientious government employees.

The Assistant Inspector General for Investigations (AIGI) has implemented an OIG initiative to establish a Regional Liaison Program aimed at increasing the OIG's exposure and accessibility to the NRC's four regional offices. In addition, this Regional Liaison initiative will facilitate closer coordination between the OIG and in particular its investigative staff and senior regional management officials. It is anticipated that this program will also improve the OIG's effectiveness, in that it compensates for the present lack of a permanent OIG presence in the NRC regional offices. In the near future, the AIGI staff plans on conducting fraud awareness briefings in all of the regional offices.

## OIG RECOGNITION PROGRAM — NEW AND IMPROVED

In its effort to establish policies that will enhance the working environment for its



employees, the NRC's OIG formed a task group to develop an OIG Employee Recognition and Awards Program. The objective of this program is to motivate and recognize employees who demonstrate exceptional performance, and those who make contributions that support and enhance the OIG's mission. In addition to performance awards based on the annual performance evaluation, the OIG expanded its Special Act award categories and encourages the use of these awards throughout the year to recognize employees for their special achievements. The Special Act category of awards now includes (1) special achievement awards, (2) time-off awards, (3) instant cash awards, and (4) non-monetary awards.

The new OIG Recognition and Awards Program was implemented in October 1999, and was well received by OIG employees and management.



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# APPENDICES

## AUDIT LISTINGS

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

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<b>Date</b>	<b>Title</b>	<b>Audit Number</b>
12/14/99	<i>NRC's License Fee Development Process Needs Improvement</i>	OIG/99A-01
2/17/00	<i>Senior Management Support Needed to Ensure Timely Implementation of the LSN</i>	OIG/99A-07
12/23/99	<i>Special Evaluation of the Role and Structure of the NRC's Commission</i>	OIG/99E-09
2/28/00	<i>Independent Auditors' Report and Principal Statements for the Year Ended September 30, 1999</i>	OIG/99A-12
3/14/00	<i>NRC's Controls Over Work Performed Under CISSCO</i>	OIG/99A-13
2/01/00	<i>Review of NRC's Decommissioning Fund Program</i>	OIG/99A-16
2/01/00	<i>Controls Over TDY Travel Reimbursements Are Generally Adequate</i>	OIG/99A-18
3/09/00	<i>Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for Fiscal Year 1999</i>	OIG/00A-04

## Contract Audit Reports

OIG Issue Date	Contractor/ Contract Number	Questioned Costs	Funds Put to Better Use
10/27/99	Cexec, Inc. NRC-33-90-178	0	0
10/27/99	Micro Analysis and Design, Inc. NRC-04-94-085	0	0
10/29/99	Advanced Technologies and Laboratories International, Inc. RS-NMS-99-007	0	0
11/15/99	Haselwood Enterprises, Inc. RS-NMS-99-007	0	0
11/15/99	Sanford Cohen & Associates, Inc. RS-NMS-99-007	0	0
11/19/99	EnerCorp Federal Services Corp. RS-NMS-99-007	0	0
12/9/99	Applied Management Systems, Inc. NRC-33-92-203	0	0
12/9/99	Athey Consulting, Inc. NRC-26-93-289 NRC-26-98-262	0 0	0 0
12/9/99	Athey Consulting, Inc. NRC-26-98-262	0	0
12/9/99	Cexec, Inc. NRC-33-90-178	\$ 8,067	0
12/9/99	Cexec, Inc. NRC-33-90-178	\$88,025	0
12/9/99	Cexec, Inc. NRC-33-90-178	0	0
12/9/99	Sytel, Inc. NRC-33-96-194	0	0

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**Contract Audit Reports (continued)**

OIG Issue Date	Contractor/ Contract Number	Questioned Costs	Funds Put to Better Use
12/9/99	Sytel, Inc. NRC-33-96-194	0	0
12/9/99	Sytel, Inc. NRC-33-96-194	0	0
12/9/99	Westinghouse Electric Corp. NRC-04-91-049	\$17,545	0
12/23/99	Scientech, Inc. NRC-02-98-001	0	0
	NRC-04-93-064	0	0
	NRC-04-94-045	0	0
	NRC-04-96-060	0	0
	NRC-04-97-039	0	0
	NRC-08-97-302	0	0
12/23/99	Scientech, Inc. NRC-02-98-001	0	0
	NRC-04-93-064	0	0
	NRC-04-94-045	0	0
	NRC-04-96-060	0	0
	NRC-04-97-039	0	0
	NRC-08-97-302	0	0
1/10/00	Dames and Moore, Inc. RS-NMS-99-007	0	0
1/24/00	Southwest Research Institute NRC-02-97-009	0	0
1/24/00	URS, Inc. (Formerly, Dames & Moore) RS-NMS-99-007	0	0
2/15/00	Sanford Cohen & Associates, Inc. NRC-04-92-057	0	0
	NRC-04-93-058	0	0
2/25/00	Ruland Associates, Inc. NRC-33-98-180	0	0

## AUDIT TABLES

During this reporting period, the OIG analyzed 23 contract audit reports issued by the DCAA.

**Table I. Post-Award Findings**

<b>OIG Reports Containing Questioned Costs October 1, 1999 – March 31, 2000</b>			
Reports	Number of Reports	Questioned Costs (Dollars)	Unsupported Costs (Dollars)
A. For which no management decision had been made by the commencement of the reporting period	0	0	0
B. Which were issued during the reporting period	3	\$113,637	0
<i>Subtotal (A + B)</i>	3	\$113,637	0
C. For which a management decision was made during the reporting period:			
(i) dollar value of disallowed costs	3	\$113,637	0
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision had been made by the end of the reporting period	0	0	0
E. For which no management decision was made within 6 months of issuance	0	0	0



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**Table II. Pre-Award Findings**

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**OIG Reports Issued with Recommendations  
That Funds Be Put to Better Use  
October 1, 1999 – March 31, 2000**

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Reports	Number of Reports	Dollar Value of Funds
A. For which no management decision had been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	1	0
<i>Subtotal (A + B)</i>	1	0
C. For which a management decision was made during the reporting period:		
(i) dollar value of recommendations that were agreed to by management	1	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision had been made by the end of the reporting period	0	0
E. For which no management decision was made within 6 months of issuance	0	0

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## **ABBREVIATIONS**

AIGI	Assistant Inspector General for Investigations
ASLBP	Atomic Safety and Licensing Board Panel
ASP	Accident Sequence Precursor
CFO	Chief Financial Officer (NRC)
CFR	<i>Code of Federal Regulations</i>
CIO	Chief Information Officer (NRC)
CISSCO	Comprehensive Information Systems Support Consolidation
COP	Continuation of Pay
DCAA	U.S. Defense Contract Audit Agency
DOE	U.S. Department of Energy
DOL	U.S. Department of Labor
DPV/DPO	Differing Professional View/Differing Professional Opinion
EI	Event Inquiry
FEDSIM	Federal Systems Integration and Management Center
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FTR	Federal Travel Regulations
FY	Fiscal Year
GC	General Counsel (OIG)
GPRA	Government Performance and Results Act
GSA	U.S. General Services Administration
HR	Office of Human Resources (NRC)
IG	Inspector General
IOAA	Independent Offices Appropriation Act of 1952
LSN	Licensing Support Network
LSS	Licensing Support System
MD	Management Directive

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NEI	Nuclear Energy Institute
NMED	Nuclear Materials Events Database
NRC	U.S. Nuclear Regulatory Commission
NWPA	Nuclear Waste Policy Act of 1982
OBRA-90	Omnibus Budget Reconciliation Act of 1990
OCFO	Office of the Chief Financial Officer (NRC)
OIG	Office of the Inspector General
OGC	Office of the General Counsel (NRC)
OMB	Office of Management and Budget
PAY/PERS	Payroll and Personnel System
PCIE	President's Council on Integrity and Efficiency
PDD-63	Presidential Decision Directive 63
POA	privately owned automobile
REIRS	Radiation Exposure Information Report System
RMOS	Resource Management and Operations Support
SCSS	Sequence Coding and Search System
SECY	Office of the Secretary of the Commission (NRC)
SLS	Senior-Level Service
T&A	time and attendance
TDY	temporary duty
TM	Task Manager

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## REPORTING REQUIREMENTS INDEX

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

<b>CITATION</b>	<b>REPORTING REQUIREMENTS</b>	<b>PAGE</b>
Section 4(a)(2)	Review of Legislation and Regulations .....	25–26
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies.....	5–11, 17–19
Section 5(a)(2)	Recommendations for Corrective Action .....	5–11
Section 5(a)(3)	Prior Significant Recommendations Not Yet Completed.....	15
Section 5(a)(4)	Matters Referred to Prosecutive Authorities .....	18
Section 5(a)(5)	Information or Assistance Refused .....	None
Section 5(a)(6)	Listing of Audit Reports .....	29–31
Section 5(a)(7)	Summary of Significant Reports .....	5–11, 17–19
Section 5(a)(8)	Audit Reports — Questioned Costs .....	32
Section 5(a)(9)	Audit Reports — Funds Put to Better Use .....	33
Section 5(a)(10)	Audit Reports Issued Before Commencement of the Reporting Period for Which No Management Decision Has Been Made .....	None
Section 5(a)(11)	Significant Revised Management Decisions .....	None
Section 5(a)(12)	Significant Management Decisions With Which the OIG Disagreed .....	None