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NUCLEAR REGULATORY COMMISSION
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**OFFICE OF THE
INSPECTOR GENERAL**

MEMORANDUM TO: Chairman Burns

FROM: Hubert T. Bell \RA\
Inspector General

SUBJECT: INSPECTOR GENERAL'S ASSESSMENT OF THE MOST
SERIOUS MANAGEMENT AND PERFORMANCE
CHALLENGES FACING THE NUCLEAR REGULATORY
COMMISSION (OIG-17-A-01)

In accordance with the Reports Consolidation Act of 2000, I am providing what I consider to be the most serious management and performance challenges facing the U.S. Nuclear Regulatory Commission (NRC) in Fiscal Year (FY) 2017. Congress left the determination and threshold of what constitutes a most serious management and performance challenge to the discretion of the Inspectors General. I have 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.*

INTRODUCTION

NRC is an independent Federal agency established to license and regulate the Nation's civilian use of radioactive materials to ensure adequate protection of public health and safety, promote the common defense and security, and protect the environment.

NRC performs critical functions to ensure the safe and secure use of radioactive materials in the United States and to protect both the public and radiation workers from radiation hazards that could result from the use of radioactive materials. NRC provides licensing and oversight activities for approximately 100 commercial nuclear power

reactors; research, test, and training reactors; and radioactive materials used in medicine, academia, and industry.

NRC's principal regulatory functions are to establish regulatory requirements and conduct confirmatory research to support requirements; issue licenses to facility operators and owners, possessors, and users of nuclear materials; oversee these licensees to ensure they are in compliance with NRC requirements and operate safely and securely; and respond to emergencies involving regulated activities. NRC also participates in international work that is integral to the agency's mandate to protect public health and safety and promote the common defense and security. To carry out its mission, NRC's FY 2017 budget is approximately \$982.4 million, including 3,525 full-time equivalent positions.

Based on NRC's mission and objectives, the Office of the Inspector General (OIG) annually identifies what it considers to be the most serious management and performance challenges facing NRC. Our goal is to focus attention on these issues to enhance the effectiveness of NRC programs and operations.

MANAGEMENT CHALLENGES

The FY 2017 management and performance challenges are directly related to NRC's mission areas (commercial nuclear reactors and nuclear materials) and address security, information technology, financial programs, and administrative functions. Our work in these areas indicates that while program improvements are needed, NRC is continually making progress to address OIG recommendations and improve the efficiency and effectiveness of its programs. The FY 2017 management and performance challenges are as follows:

1. Regulation of nuclear reactor safety programs.
2. Regulation of nuclear materials and radioactive waste programs.
3. Management of security over internal infrastructure (personnel, physical, and cyber security) and nuclear security.
4. Management of information technology and information management.
5. Management of financial programs.
6. Management of administrative functions.

These challenges represent what OIG considers to be inherent and continuing program challenges relative to maintaining effective and efficient oversight and internal

management controls. As a result, it is likely they will continue to be challenges from year to year. Challenges do not necessarily equate to problems.

Attached is a brief synopsis of each management and performance challenge along with summaries of OIG audits and planned work that has informed the decision-making process. A complete list of reports can be found at: <http://www.nrc.gov/reading-rm/doc-collections/insp-gen/2016/>.

1. Regulation of nuclear reactor safety programs.

NRC is responsible for maintaining an established regulatory framework for the safe and secure use of civilian nuclear reactors, including commercial nuclear power plants as well as research, test, and training reactors. There are currently 100 nuclear power reactors licensed to operate in the United States, which generate about 20 percent of the nation's electrical use, as well as 4 units under construction (Vogtle 3 and 4, Summer 2 and 3). There are also 31 licensed research and test reactors. NRC's regulatory oversight responsibilities in the reactor arena include developing policy and rulemaking, licensing and inspecting reactors, licensing reactor operators, and enforcing regulations. The agency implemented its nuclear reactor safety program in FY 2016 with approximately 76 percent (\$760 million) of its total budget authority and 76 percent (2,780 full-time equivalent employees) of its total staff. Thus, it is of paramount importance that the agency implement these programs as effectively and efficiently as possible.

Key reactor safety oversight challenges for NRC include the following:

- Ensuring an adequate and efficient reactor and operator licensing process, accounting for safety impacts of major changes to plant configuration, and sufficiently evaluating older plants for license extensions.
- Providing an adequate number of trained inspectors for sufficient oversight, and ensuring inspection procedures are adequate and are being followed.
- Ensuring adequate construction oversight of new power reactors, adequately reviewing and approving design changes that are occurring concurrent with the construction, and verifying whether plants are built in accordance with the intended design.
- Ensuring appropriate and reasonable application of the agency's Reactor Oversight Process and Construction Reactor Oversight Process, including through use of the Significance Determination Process or Enforcement Policy for determining regulatory violation severity, and application of the safety culture policy and Alternative Dispute Resolution.

- Incorporating operational experience from the domestic and international nuclear industries into NRC's regulatory program, including lessons learned from Fukushima and other events.

The following audit report synopses are examples of work OIG has completed or is underway pertaining to nuclear reactor safety programs.

**Audit of NRC's Operator Licensing Program for the AP1000 Power Reactor
OIG-16-A-08, February 8, 2016**

Four Advanced Passive 1000 (AP1000) Pressurized Water Reactors are under construction in the United States. This is a new reactor design for which operators have never been licensed. An operator's license authorizes the license holder to manipulate the controls of the facility, which directly affect the reactivity or power level of the reactor. By the year 2020, approximately 70 licensed operators will be needed for the AP1000.

OIG's review found that the efficiency and effectiveness in NRC's licensing of AP1000 reactor operators can be improved. Specifically, key questions concerning the new reactor operator licensing requirements governing the time interval between administration of the written examination and operating test are unresolved. Additionally, requirements for qualifying new simulators for use during the AP1000 operating test are unclear. In the meantime, one AP1000 licensee has administered the written exam to its operator candidates without having a simulator approved for use in the operating test.

These program weaknesses have occurred because NRC management and staff responsible for licensing operators held differing interpretations of regulations and guidance pertaining to the AP1000 operator licensing process, and key decisions related to examination timing and simulator requirements were undocumented.

Agency management generally agreed with the report's findings and recommendations and is taking action to address the recommendations.

The full report is available at: <http://www.nrc.gov/docs/ML1603/ML16039A297.pdf>

Audit of NRC's Reactor Oversight Process: Reactor Safety Baseline Inspection Procedures, OIG-16-A-12, April 6, 2016

NRC's Reactor Oversight Process is a risk-informed, performance-based, tiered approach to assessing nuclear power plant safety. Baseline inspections are the minimum level of inspection required to ensure plant safety and security, and are common to all operating nuclear plants. They focus on activities and systems that are "risk significant."

The audit found that NRC needs to ensure mandatory and discretionary language used in inspection procedures is clear and consistent for inspectors and managers responsible for performing and overseeing baseline inspections. Completion of inspection procedures is a key input into NRC's assessment of whether nuclear reactor licensees operate safely. OIG did not identify specific instances where unclear language led to inadequate assessments; however, there is risk associated with how NRC is assured inspectors perform activities deemed mandatory in inspection procedures. For example, there is a risk that inspectors will perform unneeded discretionary activities at the expense of mandatory activities because the distinction between mandatory and discretionary activities are unclear. NRC also risks inconsistent inspections across regions. The audit report made recommendations to make baseline inspection procedures clearer for inspectors and managers performing and overseeing baseline inspections.

Agency management generally agreed with the report's finding and recommendations and is taking action to address the recommendations.

The full report is available at: <http://www.nrc.gov/docs/ML1609/ML16097A515.pdf>

**Audit of NRC's Oversight of 10 CFR 50.59, "Changes, tests and experiments"
OIG 16-A-19, August 24, 2016**

NRC oversees nuclear power plant licensees' compliance with requirements stipulated in *Title 10, Energy, Code of Federal Regulations*, Section 50.59, "Changes, tests, and experiments" (10 CFR 50.59). 10 CFR 50.59 establishes the conditions under which licensees may make changes to their facilities or procedures, and conduct tests or experiments, without prior NRC approval for a license amendment. When implementing the provisions of 10 CFR 50.59 process, licensees use the 10 CFR 50.59 process which involves applicability review, screening, evaluation, documentation, and reporting.

In 2015 NRC staff estimated the number of licensee 10 CFR 50.59 implementation actions for each operating reactor unit to be approximately 475 screenings annually, from which result about 5 evaluations. This amounts to a combined total of about 49,000 screenings and evaluations annually.

The audit found programmatic weakness within NRC's 10 CFR 50.59 process pertaining to coordinated communication among inspectors, and headquarters and regional staff regarding 10 CFR 50.59 process related information. This weakness occurred because NRC does not employ a well-structured approach for 10 CFR 50.59 process management and NRC's 10 CFR 50.59 training was limited to the agency's immediate focus on addressing San Onofre Nuclear Generating Station lessons learned through targeted training.

Adoption of a more structured approach for managing the 10 CFR 50.59 oversight processes as well as requiring recurring formal training on the 10 CFR 50.59 process would enhance NRC's regulatory consistency and effectiveness. This is particularly important given the multiple NRC headquarters and regional organizations that play different, yet complementary, roles in the agency's oversight of licensees' compliance with 10 CFR 50.59. Additionally, NRC would be better positioned to provide nuclear power plant licensees throughout its four regions with consistent and predictable regulatory positions on 10 CFR 50.59 compliance and enforcement matters.

The audit report made recommendations to strengthen coordinated communication of 10 CFR 50.59 guidance and process-related information among involved staff and enhance the agency's post-qualification 10 CFR 50.59 training to include recurring formal training.

Agency management generally agreed with the audit reports finding and recommendations and is taking action to address the recommendations.

The full report is available at: <http://www.nrc.gov/docs/ML1623/ML16237A039.pdf>

**Audit of NRC's Significance Determination Process
OIG-16-A-21, September 26, 2016.**

The Significance Determination Process (SDP) is a process used by NRC to determine the safety significance of inspection findings identified within the Reactor Oversight Process cornerstones of safety, security, emergency preparedness, and health physics. Before the SDP is conducted, inspectors located at reactor sites and NRC regional offices perform inspections and identify potential performance deficiencies. Performance deficiencies are licensee failures to meet a regulatory requirement or self-imposed standard that a licensee should have met. NRC staff uses screening questions to assess performance deficiencies as either minor or more-than-minor. The SDP is then conducted for more-than-minor performance deficiencies or findings that are categorized from least safety significant to most safety significant, as Green, White, Yellow, or Red. Generally, findings of greater significance require more NRC oversight, which can result in additional inspection hours. Findings of greater than Green significance are subject to independent NRC audits during periodic ROP self-assessments.

The audit found programmatic weaknesses in NRC's SDP resource tracking, issue screening, and documentation of independent audits. With regard to resource tracking, NRC does not have complete information regarding time needed to complete various steps within the process. Although NRC plans to implement new SDP timeliness metrics and process enhancements, the agency has not regularly evaluated resources needed for SDP workflow and has not established or communicated clear expectations to staff and managers. Consequently, NRC could miss opportunities to identify and remedy SDP workflow problems. Regarding issue screening, the audit found that inspectors sometimes have difficulty determining whether issues should be categorized as minor or more-than-minor because issue screening instructions are unclear. As a result, staff might devote unnecessary resources to documenting minor issues, and risk inconsistent performance deficiency screening. Lastly, NRC lacks controls to ensure that independent audits of greater than Green findings are performed and documented. As a result, NRC risks misrepresenting agency performance in periodic self-assessments, and could miss opportunities to implement programmatic changes identified through independent audits.

The audit report made recommendations to strengthen NRC's management of the SDP by assessing workflow under the new timeliness metrics and process enhancements, communicating clear and consistent workflow expectations, clarifying issue screening instructions, and ensuring independent audits are performed and documented.

Agency management generally agreed with the audit report's findings and recommendations, but issued formal comments with additional detail that staff deemed necessary to reflect the status of planned and ongoing SDP enhancement activities. OIG incorporated these comments into the final report.

The full report is available at: <http://www.nrc.gov/docs/ML1627/ML16270A359.pdf>

2. Regulation of nuclear materials and radioactive waste programs.

NRC is responsible for maintaining an established regulatory framework for the safe and secure use of nuclear materials; medical, industrial, and academic applications, uranium recovery activities; and for the storage and disposal of high-level and low-level radioactive waste. NRC is authorized to grant licenses for the possession and use of radioactive materials and establish regulations to govern the possession and use of those materials. NRC's oversight of material licensees is done through its regional offices; specifically, Region I, Region III, and Region IV. Region I handles the oversight for materials licensees in the Region II area. Under Project Aim, NRC is evaluating the regional materials program to determine whether further consolidation would be more efficient. Staff recently completed its evaluation and provided a recommendation regarding consolidation of the materials program to the Commission as noted in SECY-16-0083.

Upon a State's request, NRC may enter into an agreement to relinquish its authority to the State to regulate certain radioactive materials and limited quantities of special nuclear material. The State must demonstrate that its regulatory program is adequate to protect public health and safety and compatible with NRC's program. The States that enter into an agreement assuming this regulatory authority from NRC are called Agreement States. Currently, there are 37 Agreement States and 2 States that have submitted letters of intent to become Agreement States.

NRC regulates high-level radioactive waste generated from commercial nuclear power reactors. High-level radioactive waste is either spent (used) reactor fuel when it is accepted for disposal or waste material remaining after spent fuel is reprocessed. Because of its highly radioactive fission products, high-level radioactive waste must be handled and stored with care. Since radioactive waste becomes harmless only through decay (which can take hundreds of thousands of years for high-level waste), the material must be stored, and ultimately disposed of in a way that provides adequate protection of the public for a very long time. Due to the uncertainty surrounding Yucca Mountain, the proposed permanent repository for high-level radioactive waste, NRC has been reviewing the issues associated with storing high-level radioactive waste at reactor sites for the foreseeable future.

Low-level radioactive waste is typically produced at nuclear power reactors, hospitals, research facilities, and clinics from the use of nuclear materials for industrial and medical purposes. NRC or Agreement States regulate the management, storage, and disposal of radioactive waste produced as a result of licensed activities. Low-level radioactive waste includes contaminated protective clothing, equipment and tools, medical supplies, and laboratory animal tissues. Currently, all of the country's low-level radioactive waste disposal facilities are located in, and licensed by, Agreement States.

Key nuclear materials and radioactive waste oversight challenges for NRC include the following:

- Ensuring that licensing activities are conducted consistent with NRC requirements.
- Providing effective oversight of licensees' radioactive materials programs to preclude loss or theft.
- Ensuring that Agreement State programs are adequate to protect public health and safety and the environment, and are compatible with NRC's program.
- Providing effective oversight for the safe and secure interim storage of increasing quantities of high-level radioactive waste until a permanent repository for high-level radioactive waste is operational.
- Ensuring programs for the safe storage and disposal of low-level radioactive waste produced as a result of licensed activities are being implemented in accordance with NRC regulations.

The following audit report synopses are examples of work OIG has completed or is underway in the nuclear materials and radioactive waste programs.

Audit of NRC's Oversight of Medical Uses of Nuclear Material

OIG-16-A-02, October 8, 2015

NRC provides adequate oversight of the medical uses of radioactive isotopes to protect public health and safety; however, opportunities for improvement exist with regard to clarifying NRC's medical event policy, periodically assessing medical event reporting, and providing better feedback to the Advisory Committee on the Medical Uses of Isotopes (ACMUI).

Medical event reporting requirements are inconsistently understood by licensees and NRC staff. This inconsistent understanding is due to a general lack of clarity surrounding NRC's requirements and purpose for reporting medical events. Furthermore, NRC provides insufficient medical event data to medical licensees. As a result, NRC is not effectively achieving all the possible benefits of medical event reporting.

NRC has not conducted a periodic self-assessment of its medical events reporting requirements to determine if they are effectively meeting their intended purpose. As a result, NRC is not in a position to make any informed conclusions regarding the effectiveness of its approach to collecting information on medical events.

NRC does not routinely provide sufficiently detailed feedback to ACMUI despite relying on it as a key advisory body. This lack of sufficiently detailed feedback is a result of NRC not having current, formalized policies and procedures that clearly articulate the expectations for providing feedback to ACMUI. As a result, the benefits of having the ACMUI provide expert advice may not be fully realized and the potential for miscommunication and misunderstanding remains.

Agency management generally agreed with the report findings and recommendations. All recommendations based on the report's findings have been closed.

The full report is available at: <http://www.nrc.gov/docs/ML1528/ML15281A331.pdf>

Audit of NRC's Oversight of Low-level Radioactive Waste Disposal and Waste Blending
(*Ongoing audit*)

Low-level radioactive waste (LLRW) is typically produced at nuclear power reactors, hospitals, research facilities, and clinics from the use of nuclear materials for industrial and medical purposes. LLRW disposal occurs at commercially operated disposal facilities that must be licensed by either NRC or an Agreement State. LLRW is classified at the time of disposal in terms of the concentration of specific radioactive isotopes in the waste. Most LLRW (about 95 percent) has the lowest concentration and is Class A. Class B and Class C wastes may have higher concentrations. Currently, there are four LLRW disposal facilities, all of which are licensed and regulated by Agreement States.

Blending of LLRW means mixing wastes of different concentrations to create products with more uniform radionuclide concentrations. Blending higher activity and lower activity waste can average the concentration of radioactivity, making it suitable for disposal at more locations and at a lower cost. Disposal of LLRW is an expensive endeavor for licensees, and waste blending could be a cost-cutting solution. NRC's oversight of licensees is important to ensure that concentration averaging requirements for licensees result in the safe and effective disposal of both blended and non-blended LLRW.

The audit objective is to determine if the disposal and waste blending processes at disposal facilities are done safely and effectively.

3. Management of security over internal infrastructure (personnel, physical, and cyber security) and nuclear security.

NRC must remain vigilant with regard to the security of its infrastructure and that of nuclear facilities and nuclear materials. NRC must continue to use robust, proactive measures to protect its infrastructure – the buildings, personnel, and information – from both internal and external threats. Moreover, as the nature of the threat continues to evolve, NRC faces challenges with oversight of protecting operating and decommissioned nuclear facilities and nuclear materials, the sharing of sensitive information, as well as emergency preparedness and incident response.

Key security oversight challenges for NRC include the following:

- Increasing numbers, types, and sophistication of cyber threats underscore the need to reinforce the security over NRC's information systems. For example, advanced persistent threats where an adversary that possesses sophisticated levels of expertise and significant resources can attack using multiple means such as cyber, physical, or deception to achieve its objectives, pose increasing risks.
- Directing agency-wide information resource planning to ensure that agency information technology, information management, and information technology security resources are selected and managed to provide maximum value to the agency.
- Executing the insider threat prevention and detection program for detecting, deterring, and mitigating insider threats to address protection of classified and safeguards information from exploitation, compromise, or unauthorized disclosure.
- Continuing to pursue the need for new regulations focused on unique requirements of decommissioned nuclear power plants, which present different security considerations than operating plants.
- Ensuring effective oversight of physical and personnel security at nuclear power plants.

- Executing the Federal Information Security Modernization Act of 2014, to strengthen the security of computer networks.

The following audit report synopses are examples of work that OIG has completed in the agency's security programs.

**Audit of NRC's Networks Security Operations Center
OIG-16-A-07, January 11, 2016**

NRC's Network Security Operations Center (SOC) is responsible for securing the agency's network infrastructure and monitoring the network for suspicious activity. The SOC accomplishes this through the use of automated security tools, analysis of network activity data, and participation in incident response efforts. The SOC is primarily staffed by contractors working under the Information Technology Infrastructure Support Services (ITISS) contract.

Robust SOC capabilities are particularly crucial given the sensitivity of the unclassified information processed on NRC's network, and the increasing volume of attacks carried out against Federal Government computer systems.

NRC staff described several areas in which the SOC does not meet agency needs, including proactive analysis and timely, detailed reports. This occurs because although the contract performance criteria are aligned with National Institute of Standards and Technology and NRC internal guidance, the contract does not clearly define SOC performance goals and metrics that can be used to determine whether agency needs are being met.

Additionally, SOC staff and NRC stakeholders expressed differing expectations of SOC roles and responsibilities. This occurs due to a lack of adequate definitions in agency policies and undifferentiated functional descriptions between different entities responsible for securing NRC's network.

Agency management generally agreed with the report's findings and recommendations and is taking action to address the recommendations.

The full report is available at <http://www.nrc.gov/docs/ML1601/ML16011A319.pdf>

Audit of NRC's Personal Identity Verification (PIV) Card Access System

OIG-16-A-10, March 7, 2016

NRC's PIV card access system meets its operational requirements and there is some coordination among offices. However, opportunities exist to (1) strengthen processes to ensure a greater percentage of PIV card retrieval upon termination, and (2) establish a uniform and effective way for the designated representative to notify security officials of changes to contractor and employee access rights for restricted areas.

PIV cards for terminated contractors and employees are not always retrieved. Despite having a process in place to prepare an employee to terminate from the agency, PIV card retrieval does not always occur, and retrieval procedures have not been established to ensure collection. The OIG identified that of 1,452 terminated PIV cards over a 22-month period (January 2014 through November 2015), approximately 33 percent were not physically collected or retrieved from the terminated contractor or employee. As a result, there is a risk of unauthorized physical access to NRC and other Federal facilities.

In addition, NRC receives inconsistent notification of (1) changes in staff/contractor access rights for restricted areas, and (2) a change to the designated representative for a restricted area. Consequently, the potential exists for unauthorized physical access into a restricted area by a contractor or employee who should no longer have access.

Agency management generally agreed with the report's findings and immediately sought to implement recommendations to retrieve a greater percentage of PIV cards upon termination and also to ensure that access to restricted areas is tightened.

The full report is available at <http://www.nrc.gov/docs/ML1606/ML16067A349.pdf>

4. Management of information technology and information management.

Technology advances rapidly. The challenge is supporting a future-ready workforce equipped with modern tools, technologies, skills, and knowledge necessary to meet both current and future mission needs. NRC must also meet the regulatory and statutory federal mandates for information technology/Information Management (IT/IM). The responsibility of the NRC's IT/IM program is to maintain and enhance services and infrastructure to enable the mission. This goal reflects the NRC's commitment to openness and is essential for effective agency operations.

Key information technology and information management challenges for NRC include the following:

- Ensuring that data is securely accessible from anywhere, at any time, on any device to support the agency's mobile workforce.
- Leveraging innovative technologies to coordinate and share information on the safety/security interface with both domestic and international partners.
- Managing risk-based information security strategies to protect against sophisticated cyber-attacks.

The following audit report synopses are examples of work that OIG has completed in the IT/IM programs.

**Evaluation of NRC's Agencywide Documents Access and Management System (ADAMS) Functional and Operational Capabilities
OIG-16-A-06, November 30, 2015**

The Agencywide Documents Access and Management System (ADAMS) is NRC's repository for official agency records. It has been in place since November 1999 and must meet NRC's document management needs while also complying with Federal mandates for electronic recordkeeping and public access requirements. The Office of Information Services manages ADAMS and staff at headquarters and regional offices use ADAMS for their daily mission-related activities. The public uses NRC's public site to access Web-Based ADAMS.

OIG contracted AEGIS.net, Inc., to evaluate if ADAMS meets its required operational capabilities as the agency's repository for official agency records and provides adequate functionalities such as searching, usability, document storage and retrieval, availability, performance, contingency planning, and security.

The evaluation team examined ADAMS' functionality and operational capabilities in each of three areas: Federal and NRC Guidance, User Requirements, and Information Technology (IT) System Requirements. Based on this work, the evaluation team found that ADAMS satisfies applicable records management requirements to serve as the agency's repository for official agency records. However, opportunities exist to improve ADAMS' records management, search and retrieval functionality, and management oversight over ADAMS operation.

Agency management generally agreed with the Evaluation's findings and recommendations and is taking action to address the recommendations.

The full report is available at <http://www.nrc.gov/docs/ML1533/ML15334A112.pdf>

**Audit of NRC's Implementation of Federal Classified Information Laws and Policies
OIG-16-A-17, June 8, 2016**

The Reducing Over-Classification Act of 2010 mandated that the Inspectors General of all Federal agencies with original classification authority perform at least two evaluations over proper use of classified information. The Act found that over-classification of information negatively affects dissemination of information within the government, increases information security costs, and improperly limits stakeholder and public access to information.

NRC OIG issued the first mandatory audit report in 2013. The report's recommendations have been implemented by NRC. This report represents the results of OIG's second mandatory review.

NRC's implementation of Federal classified information laws and policies protects classified information. Document reviews of NRC classification actions reported from April 2013 through January 2016 revealed no systematic misclassification. However, there are opportunities for improvement of records management of classified information at NRC.

Currently, the lack of records management of classified information within NRC has prevented timely disposition and declassification. NRC has not reviewed classified records for disposition and declassification as required and is not prepared for mandatory reviews.

Federal guidance requires agencies to implement a schedule for proper disposition. Effective records management supports timely review of classified information for exemption from automatic declassification and for disposition. However, NRC lacks a cohesive approach to records management of classified information which fosters inadequate understanding of and preparation for records management of classified information.

Agency management generally agreed with the report's findings and recommendations and is taking action to address the recommendations.

The full report is available at <http://www.nrc.gov/docs/ML1616/ML16160A373.pdf>

5. Management of financial programs.

NRC is required by the Omnibus Budget Reconciliation Act of 1990 to collect fees totaling approximately 90 percent of its annual budget authority. The agency's budget authority for FYs 2015 and 2016 was \$1,015.3 million and \$990 million, respectively. NRC estimated that \$885.3 million for FY 2015 and \$872.8 million for FY 2016 should be recovered from invoiced fees. NRC is required to establish a schedule of charges that fairly and equitably assesses the fees to license holders and license applicants. In recent years, multiple external stakeholders have questioned NRC's budget and fee structure. Moreover, in recent years, NRC has been reducing its budget and full-time equivalents. To maintain transparency, NRC must continue to implement solid internal controls over financial management and reporting.

Key financial management and reporting challenges include the following:

- Developing and implementing the agency's budget in accordance with Federal laws, regulations, and guidelines.
- Maintaining a fee structure in accordance with laws and regulations and that is fair to agency licensees.
- Improving controls over license fee billing.
- Maintaining effective controls over financial reporting, contracts, and grants.

The following audit report synopses are examples of completed or planned OIG work pertaining to financial programs.

Audit of NRC's Decommissioning Funds Program

OIG-16-A-16, June 8, 2016

NRC regulates the decommissioning of nuclear power plants, material sites, fuel cycle facilities, research and test reactors, and uranium recovery facilities, with the ultimate goal of license termination. NRC maintains strict rules governing nuclear power plant and material site decommissioning. These requirements were developed to protect workers and the public during the entire decommissioning process and after the license is terminated.

The agency has adequate processes in place for coordinating with licensees to address possible decommissioning fund shortfalls. However, OIG identified multiple opportunities for improvement in the agency's decommissioning funds review process. Specifically, NRC needs to (1) develop guidance on processing power reactor exemptions to reactor licenses, (2) re-evaluate the minimum decommissioning funding estimate formula, (3) strengthen user controls and guidance on conducting decommissioning financial assurance reviews, and (4) consistently document decommissioning financial assurance reviews for material licensees and inventory reviews of financial instruments.

The report makes recommendations to improve internal controls related to decommissioning funds reviews. When implemented, these recommendations will strengthen the agency's decommissioning funds review process.

Agency management generally agreed with the report's findings and recommendations and is taking action to address the recommendations.

The full report is available at: <http://www.nrc.gov/docs/ML1616/ML16160A208.pdf>

Audit of NRC's Process for Managing Intra-Government Payment and Collection System Payments

(To be initiated in FY 2017)

Federal agencies frequently provide services to other agencies. These services require an exchange of money when the agencies enter into an agreement and services are performed. Federal agencies use the Department of Treasury's Intra-Government Payment and Collection (IPAC) system to transfer funds from one agency to another with standardized descriptive data. While the Department of Treasury administers the IPAC system, NRC has to ensure that transactions in the system are accurate and paid in a timely manner. NRC processes approximately \$80 million a year through the IPAC system. The agency's Office of the Chief Financial Officer receives the IPAC payment or reimbursement request and then forwards the IPAC action to the corresponding NRC Contracting Officer's Representative (COR) for review and approval.

In recent years, there have been concerns about IPAC payment requests being sent to incorrect NRC CORs, payments not being submitted in a timely manner, and insufficient data being provided to review IPAC transactions.

The audit objective is to assess whether NRC has established and implemented an effective process to ensure that IPAC payments are processed in a timely and accurate manner.

Audit of NRC's Exercise of Its Buyout Authority

(To be initiated in FY 2017)

NRC received authority from the U.S. Office of Personnel Management and the Office of Management and Budget to offer a limited number of early outs and/or buyouts to eligible employees in covered positions. Over 2,000 employees were eligible to apply for up to a maximum of 212 early out and/or buyout opportunities and were encouraged to make their requests from May 6 through June 3, 2016. In mid-June, NRC notified employees whether their requests were approved or denied. Ninety-nine employees submitted applications and the process determined that only ninety-three of those employees were eligible for an early out/buyout slot. However, only a total of 86 employees were approved. Of this total, 85 employees requested the buyout and 21 of them took advantage of the early out option.

The agency requested the early out/buyout authority to help reduce the size of and reshape the workforce consistent with their Project Aim and right-sizing efforts. Early out/buyout is part of NRC's plan to accelerate attrition and move NRC forward with reducing the size of the organization.

The audit objective is to assess NRC's early out/buyout policies and procedures to determine if workforce planning documentation, personnel staffing plans, or similar documents, were developed, communicated, and applied as permitted by applicable guidance and regulation in a way that did not adversely impact the agency's mission.

6. Management of administrative functions.

NRC should continue exploring ways to gain administrative efficiencies while maintaining the appropriate corporate support to carry out agency operations. During FY 2016, NRC workforce totaled approximately 3,600 staff positions. To support the agency's technical staff, NRC provides corporate support services such as contract support and multiple human resource programs. While NRC has implemented multiple programs to support agency staff, NRC continues to operate in a Federal Government environment of stagnant or reduced agency budgets, and increasing pressure to reduce corporate support costs. Because of this, the agency needs to have an appropriate balance between administrative functions and technical needs. In addition, NRC must be able to effectively recruit, train, and transfer knowledge to new hires, if applicable. This includes maintaining up-to-date guidance to effectively transfer knowledge and train current staff. NRC initiated Project Aim with the purpose of, among other things, identifying inefficiencies in work processes, and right-sizing the agency to retain skill sets needed to accomplish the agency's mission.

Key NRC corporate support function challenges include the following:

- Reducing related costs while continuing to provide essential administrative functions that help the agency carry out its mission.
- Maintaining agency headquarters operations while complying with Federal space utilization guidelines and carbon footprint reduction targets.
- Recruiting, training, and effectively transferring knowledge to NRC new hires, if applicable.
- Providing current staff with the training and tools to maintain and/or improve the skills needed to effectively perform their jobs.
- Keeping NRC policies and procedures current.

The following audit report synopses are examples of work that OIG will conduct that pertain to NRC's administrative functions.

Audit of NRC's PMDA and DRMA Functions

(To be completed in FY 2017)

The Program Management, Policy Development and Analysis (PMDA) function at NRC headquarters offices and the Division of Resource Management and Administration (DRMA) function at NRC regional offices manage service delivery in such support areas as administration, human capital, budget, contract management, and information management/technology. These organizations exist across the agency and evolved over time to address individual office support needs depending on the specific mission of each office. They perform functions that are specific to their organization as well as functions that were transferred from other offices. The FY 2016 budget has more than 200 staff positions for PMDA/DRMA functions.

The audit objective is to determine if the activities performed by NRC's PMDA/DRMA programs produce the intended results from operational processes in a manner that efficiently and effectively uses resources.

Audit of NRC's Contract Administration Process

(To be completed in FY 2017)

The Federal Acquisition Regulation (FAR), Nuclear Regulatory Commission Acquisition Regulation (NRCAR) and Management Directive (MD) 11.1 discuss the importance of contract administration once a contract is awarded and are the criteria NRC uses for contract administration. According to the FAR, only Contracting Officers (COs), acting within the scope of their authority, are able to enter into and administer contracts. However, Cos may, when appropriate, delegate responsibility for specific contract administration or technical supervision tasks to a Contracting Officer's Representative (COR). CORs may not re-delegate any authority delegated to them by the CO.

CORs are responsible for the daily administration and technical direction of a contract during the period of performance. These responsibilities can include: verifying deliverables against contract terms, reviewing and reconciling invoices, monitoring contract funding, overseeing contractor performance, addressing security requirements for onsite contractors, on/off-boarding of contractor staff, and verifying support for Intra-Governmental Payment and Collection. COs and CORs are required to take biennial training to maintain certification as contracting professionals.

The audit objective is to assess the effectiveness NRC's compliance with applicable contract administration requirements.

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