



**UNITED STATES  
NUCLEAR REGULATORY COMMISSION**

**In the matter of:**

DISCUSSION OF OIA AUDIT PROGRAM

**Place:** Washington, D. C.

**Date:** March 19, 1980

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UNITED STATES

NUCLEAR REGULATORY COMMISSION

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Room 1130, Eleventh Floor  
 1717 H Street, N.W.  
 Washington, D.C.

Wednesday, March 19, 1980

The Commission met, pursuant to notice, for  
 presentation of the above-entitled matter, at 10:00 a.m.,

BEFORE:

- JOHN AHEARNE, CHAIRMAN
- JOSEPH M. HENDRIE, COMMISSIONER
- PETER A. BRADFORD, COMMISSIONER
- LEONARD BICKWIT, GENERAL COUNSEL

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PRESENT:  
  
ED HANRAHAN  
JAMES CUMMINGS  
GEORGE MESSENGER  
ARTHUR SCHNEBELEN  
HARRY BOULDEN  
FRED HEAR  
AL GAUTHIER

P R O C E E D I N G S

CHAIRMAN AHEARNE: Welcome to the large gathering.

Those who don't appreciate the power and might of the Office of Inspector and Audit have not been exposed to the searching keen gaze of the audit branch.

COMMISSIONER HENDRIE: My understanding, John, is that they are all in the other room watching the T.V. camera because they are a little afraid to be in the same room with the Chief Inspector and Auditor.

CHAIRMAN AHEARNE: But seriously, this morning we come to hear the presentation by from the audit side of the Office of Inspector and Audit. I have asked for this because both of the importance that the office can be as far as the Commission's functioning as well as the recommendations of the GAO that we make greater use of this office.

From my experience in the Defense Department, I found that the audit branch to be invaluable in providing an objective review of critical elements of the department's functions.

In general, they are not well loved. They are viewed in many cases as interlopers into an organization's functions. They tend to because of their role, to be critical and there are times that there is a tendency for

1 the organizations that have been reviewed, to resent  
2 that criticism.

3 I think after, at least my experience has been,  
4 organizations have lived with an audit organization for  
5 a number of years they gradually begin to appreciate that  
6 the function of the auditor is to improve the overall  
7 operation of the agency and in the long run it is extremely  
8 beneficial.

9 Consequently, I think it is critical that the  
10 Commission itself focus on what are the items that the  
11 auditor is going to review and in particular, insure that  
12 those are the items that the Commission is most interested  
13 in and also prepare itself so that when the audit is fin-  
14 ished that it can understand them and react appropriately.

15 With those opening words, Jim, it is nice to  
16 see you this morning. What can you tell us?

17 MR. CUMMINGS: Well, as you said, John, the  
18 main purpose of this morning's briefing to the Commission  
19 is to review with you our 1980 audit plan and to solicit  
20 comments, criticisms, or suggestions that the Commission  
21 might have with respect to that plan.

22 George Messenger, who is the Assistant Director  
23 for Audits is on my immediate left, and I would also like  
24 to take one moment to introduce to you the branch chiefs

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who are sitting in the first row to your right.

They are Harry Boulden, Safety & Enforcements, and his responsibility is basically the I&E function. Next to him is Fred Herr, who has the Licensing & Standards Branch. Next to him is Art Schnebelen, who does all our administrative type audits, ADP, Comptroller, and that type of audit. And, finally, Al Gauthier, who is responsible for the Research Branch.

With that I will turn it over to George.

MR. MESSENGER: Thank you.

Could I have slide 1, please?

What we intend to do is go through the slides that are in front of you and kind of briefly highlight the purpose, how our activity works and interfaces with the auditing throughout government and then get into our audit plan relating to these purposes, as Jim just related.

The first one, of course, was this document that came down to the Commission in January. Each year we are required by OMB Circular A-73 to come up with an audit plan. We use this as the vehicle to come up with that plan. At the same time we can capsulize all that we have done throughout the year at the same time, and give a total picture of where we are heading.

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Could I have the next slide, please?

Okay, going back to the establishment/authority Atomic Energy Act of 1954, they did have an IG shop under the old AEC. I recall it was under the Office of the Comptroller at that time but with the current thinking with the passage of Inspector General Act in '78, they tried to elevate the IG activity up to the top management. The purpose behind is bring the audit investigations together under one head, and to give the top management, the head of the agency, in this case, the Commission, an independent look at that rest of the organization.

If a program office, etcetera, the audit side is feeding management information into the T people and this is not valid information, the assurance comptroller is Inspector and Auditor and this goes back to the comment why we are always not loved.

The Energy Reorganization Act is, if I recall, the Commission when it was established could set up 5 separate offices. Of course, one of those that they chose to establish was the Office of Inspector and Auditor.

OMB Circular A-73, this is the guidance that really stems from GAO but is put into circular form through the Office of Management and Budget which really oversees the audit community instructionalwise throughout

1  
2 the government.

3 In stemming from this we get our standards that  
4 we follow as well as there is a body called the Federal  
5 Audit Executive Council which I am a member and represent  
6 NRC. There we meet quarterly to interchange ideas, to find  
7 out the stay with the Community. We met last Thursday,  
8 in fact.

9 Once a year we will meet two days solid to go  
10 over mutual problems. The real benefit here is when you get into  
11 things like responding to President Carter's request for  
12 more emphasis on the Fraud, Waste, and Abuse Programs.

13 When that document first came down to respond  
14 to, it was really kind of a joint pulling together of  
15 the whole audit community and responding to that. It is  
16 a lot of exchange of information so that we could give  
17 the OMB, who is the President's agent, the best possible  
18 response.

19 Also, in that circular, they tie us in to the  
20 GAO standards for auditing and they are in this little  
21 book, I will touch on them lightly. Really, they set  
22 out the types of audit that we are to do.

23 So, the circular kind of locks us in.

24 Also, while I am at it, GAO also puts out  
25 a little book here on the "Internal Auditing Federal



1 Agencies and the way it is to be Conducted". It goes  
2 further in that in here they will talk about the follow  
3 up, the rest of the standards that apply to the Auditor.  
4

5 As you recall, the follow-up has been an item  
6 of concern in government and the reason being if recom-  
7 mendations are made and they are not followed up, corrective  
8 actions not taken, the auditors job is almost rendered  
9 worthless.

10 CHAIRMAN AHEARNE: The OMB Circular doesn't,  
11 however, require follow-up?

12 MR. MESSENGER: Yes, the OMB Circular does.  
13 There is a little bit more explanation here and in essence,  
14 they are the same thing. The Circular does require the  
15 follow-up.

16 While I am on that, as they recently revised  
17 their follow-up system this year, so there was a revision  
18 to the follow-up chapter of this Circular and what it  
19 really is talking to, they want to put the onus of followup  
20 on management. So, right now really the follow-up system,  
21 although we do a close out type audit to see that every-  
22 thing is done, follow-up here in this agency is now done  
23 with the EDO, done through their work item tracking  
24 system.

25 So, when we issue a report, EDO takes those

1 recommendations, puts them on the work item tracking system,  
2 and we get print outs on that.

3 Once they drop off the system, that means that  
4 they are completed. We go out, perform sufficient checks  
5 to see that they were in fact implemented, and we will issue  
6 reports to the Commission closing out the audit.

7 MR. CUMMINGS: If we had a significant difference  
8 where the EDO would say " We have done it" and we would  
9 follow up and say, "Gee, we don't think it is done"  
10 we would have another meeting and then, theoretically,  
11 the way the paper is set out, we would come to the  
12 Commission if we had a serious difference. That has  
13 not, in fact, happened.

14 MR. MESSENGER: Going down the report by  
15 the House Committee on Government Operations, the details  
16 are listed in this little book. In effect, what they  
17 are doing was encouraging internal auditing as a must  
18 within all the government agencies departments.

19 The same is with Item 6, we are periodically  
20 subject to audit by GAO and they oversee the audit commu-  
21 nity and in this report, in fact I thought we looked quite  
22 well, because they criticized the regulatory agencies for  
23 not having an internal audit function.

24 I think right now and it may still be we are the

only regulatory agency with an internal work function,  
unless one has come down the pike soon.

MR. CUMMINGS: We don't want you to get any  
ideas.

COMMISSIONER HENDRIE: Nice station for you  
in the Southwest.

MR. MESSENGER: On this we are currently part  
of the audit plan for GAO. They keep pushing it forward  
and I don't know when they will look at us. They will  
look at us and hopefully it won't be a blue covered report,  
but it may.

Could I have the next slide, please?

COMMISSIONER HENDRIE: Will that be Dexter  
Peach's merry men?

MR. MESSENGER: Yes, it will. It comes under  
the -- the audit site out here would probably do it, but  
they are under Dexter Peach.

There is a number of other divisions at GAO.

COMMISSIONER HENDRIE: They are bound to  
criticize, that is what they are in business for. If  
you don't have an audit section, maybe they wouldn't  
audit it and then we wouldn't be criticized.

Do you realize you are creating a vulnerability  
for us, George?

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MR. MESSENGER: My point is, I try to follow their stuff rate down the line and their standards, so if they should come in, they are not --

CHAIRMAN AHEARNE: The other way of looking at it, Joe, is that at least in that case we will be doing battle with GAO with their own weapons.

MR. MESSENGER: By the way, I would say 65 to 70% of my Staff is formerly from GAO.

A battle of the wits.

COMMISSIONER HENDRIE: I can see the line offices, do you remember the story about the mountaineer and his wife and the wild animal and the standing at the side, saying, "Go it wife"?

CHAIRMAN AHEARNE: Go ahead, George.

MR. MESSENGER: Mission, this is straight out of our manual chapter but encompasses both sides, our side is primarily dealing with the effectiveness and efficiency and the investigative side primarily with the integrity, although they do interchange.

Next slide, please?

This is how we are currently set up, and on the audit side and the reason for the original setup of the four branches, they are something like, if you can use a measurement standard, 196 auditable units that I

1 would call within NRC, and that is separate activities,  
2 mainly from the branch on up. What we have tried to  
3 do is, we broke these down 4 ways.

4 So the Branch Chief, as they are set up, they  
5 cover the whole agency. The Branch Chief is responsible  
6 as well as the audits of those programs for staying on top  
7 and being current with them. So, they have a large amount  
8 of expertise.

9 The way they do this is we get every SECY paper  
10 that is issued. We get every manual chapter that is  
11 issued. We comment on every draft chapter before it is  
12 published. They are into the activities, they have  
13 their contacts. they get their management information  
14 documents. We get the DUTS printouts, we got all the  
15 memos on the PPPG, etcetera.

16 So, we have a library of this and they just stay  
17 on top of it. On the audit staff under them, while  
18 they are small, and we were geared for expansion at any  
19 time , but the audit staff we will rotate the auditors  
20 a month to cross train.

21 Primarily, they are brought in through the  
22 administration and program direction audits branch,  
23 because usually that is the easiest place for them to  
24 get a handle on the agency at the same time all the program

activities are going through either the Comptroller or  
admin one way or the other, so by the time they are  
ready to go into the other branches they are pretty well  
trained.

Of course, here we are geared just as the  
Inspector General Act set up the IG activities, Audits  
Investigations under a common directory reporting directly  
to the head of the agencies.

Next slide, please?

This is how our current body count is broken down  
and of course the slide represents the Commission approved  
bodies that were marked by OMB and I guess, probably will  
be marked by I think that the Authorization and Appropria-  
tion Acts, I don't think they have come forth yet.

So, what we are dealing with primarily now is a team  
of 14 auditors also enmeshed in that you would have the  
GAO liaison function that we do. We do investigation  
assist because on certain investigations they need the  
expertise to program areas, so they draw on the audit  
staff for that.

Also, we comment on and are asked for advice  
in the accounting area. We have CPA's on the staff and  
people well versed in accounting. So, usually if they  
have a problem systemic, they will come over an ask.

1 The same with certain other areas, like security if they  
2 have a problem, they will come over and ask and get  
3 advice.

4 Next slide, please?

5 This goes back to the little yellow book on  
6 the GAO standards and really what we are chartered to do,  
7 and back in 1972 is really the expansion of the audit  
8 function. If you go way back in time it was pretty  
9 much the financial audit and it was a compliance audit.  
10 By compliance I mean a regulation is published and all the  
11 does is go in and says — "Did they follow the  
12 book by accordance with regulations?". That has since  
13 expanded while it is still there. We still have a finan-  
14 cial responsibility, we have a compliance responsibility.

15 Where it has broadened, is into the economy  
16 and efficiency audits. Those are what we call really  
17 value received. Is the Government getting the maximum  
18 for the dollar spent? Is it wasteful use of resources?  
19 Is there duplication of effort?

20 Now we are not only looking at that procedure  
21 to see are they following it, we are looking to see is  
22 the procedure any good? Is the procedure outdated? I  
23 think you know from some of the reports, we have had  
reports in that area where we changed the procedures or

1 eliminated them.

2 That is what we are talking there. Of course,  
3 the top bullet, desired program results and objectives  
4 are being achieved effectively. Here we are talking  
5 primarily is the organization activity meeting the  
6 objectives of the program primarily as the Commission  
7 sets out.

8 I guess the most recent example would be on  
9 the resident inspector program. We are trying to look  
10 at the goals and objectives and see are they accomplishing  
11 those. Of course, I think that we did have some recommend-  
12 ations that will prove fruitful to the agency.

13 Going down to the -- well, I should touch  
14 briefly on the financial reports. We still have responsi-  
15 bility there for overseeing them, but the staffing that  
16 we have is so light in the admin area and so big that  
17 we have decided that we are going to pursue the contracting  
18 out with a CPA firm as some of the other agencies are  
19 doing.

20 In our next move, we visit a couple of agencies,  
21 we are going to go to the Comptroller of Currency, which  
22 I understand just had an audit. We will monitor, oversee  
23 that and set the scope of the audit.

24 The second surveys are fact finding studies on



1 an entity. What we do here and probably see the term  
 2 survey. We primarily do this when we go into an area that  
 3 is broad scoped, new program and we really don't know where  
 4 we want to focus until we get in there. We will see  
 5 some of those as we get into the plan.

6  
 7 From there we use the techniques of interview  
 8 observation records and review. We go in and we start  
 9 with the broad, we focus down, and again, like they say  
 10 auditors are critical, we are going to look where the  
 11 problems are and usually the correction of those problems  
 12 is where we can be the best benefit.

13 But, at the same time, what we are trying to do  
 14 is give balance reporting where we find something good  
 15 as we did with the semi-scale research program. We will  
 16 report that also.

17 That is what we really do as our survey, we go  
 18 in and try to narrow the scope of an audit. Of course,  
 19 lastly, our followup review, which I mentioned earlier  
 20 that we will -- it is a close suit system, where we close  
 21 out each job.

22 Next slide, please?

23 This is how we develop our audit plan. Probably  
 24 it is where the Commission can be of the most benefit for  
 25 us.

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The first thing we do is we request input from the Commission, EDO, and NRC offices. This is done usually in the November/December timeframe getting ready for our annual report. That is our first shot at development.

Then, we consider the audits required by government regulation or OMB. This would be the impress fund type audits which is an annual thing and now they have directed us to get into the area to figure security which is a hot item, so we have got to get that in our audit plan.

CHAIRMAN AHEARNE: To what extent, when OMB makes such a statement is that a requirement which you must follow?

MR. MESSENGER: Pretty much if you want to stay with the audit community. Usually it comes in through a circular to the head of the agency and the response will go out.

Our response on the security, I recall, was part of the overall security package. In there, there was one line item on audit. That went out from the Commission back to OMB. So, it really kind of poses a requirement.

The timeframe is kind of left open a little bit.

Consider ongoing and recently completed audits by GAO. We are really an extension of GAO. That was one

1 of the original provisions under the Accounting Procedures  
2 Act of '50 where GAO could not cover all the audit functions  
3 in government. So, what they did is they encouraged  
4 internal auditing to help them out and that is why we are  
5 bound to coordinate with GAO on our audits. We try  
6 not to --

7  
8 CHAIRMAN AHEARNE: That is under that particular  
9 law?

10 MR. MESSENGER: Yes. I think they quote it in  
11 this little book here that --

12 MR. CUMMINGS: We wouldn't purposely go into  
13 an area that they are going to audit to go in behind them  
14 and do another audit in the same area.

15 CHAIRMAN AHEARNE: I can see the logic of that  
16 but I am asking a different question, is it required by  
17 law that you coordinate your audits with GAO?

18 MR. MESSENGER: Not by law, by standard, it  
19 would be the requirement.

20 The law, through the responsibility at GAO and  
21 in there it talks about management control and the manage-  
22 ment control in the agency and them looking at that control.

23 So, this is really the advocacy of internal  
24 audit.

25 CHAIRMAN AHEARNE: I guess what I was wondering

1 is that it may just be a theoretical situation, but let  
2 us suppose that we ask you to do a particular internal  
3 audit and you go to GAO, and they say "Well, we, GAO had  
4 in mind doing that also" and our schedule is such that  
5 we can't get started for three or four months".

6 MR. CUMMINGS: I think my answer to that would  
7 be, tough.

8 MR. MESSENGER: I can give it in the nutshell,  
9 I think it says it better than I can. Under the Budget  
10 and Accounting Procedures Act of '50, the Comptroller  
11 General in carrying out sort of responsibilities is  
12 required to prescribe principle procedures, rules, and  
13 regs, for carrying out such work giving due regard  
14 to generally accepted principles of auditing, including  
15 consideration for the effectiveness of internal audit and  
16 control on related administration practices of the  
17 respective agencies.

18 The Act further requires the head of each agency  
19 to establish and maintain systems of internal control  
20 designated to provide effective control over and accounting  
21 for all funds, property, and other assets for which the  
22 agency is responsible including appropriate internal  
23 audit.

24 So, I think that is kind of the first --

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MR. CUMMINGS: I don't think it ties your question down. It does say that if we are going to prescribe to certain standards then we have to do it. We can't just have different standards throughout government.

That has not, I don't believe, ever become a problem.

CHAIRMAN AHEARNE: No, it is a more theoretical question.

MR. MESSENGER: Okay, but we do coordinate our audits. Of course, one way is through the liaison would have to know what they are doing. We try not to get into the same area, one it disturbs management at the same time.

If you take the total, we should, between GAO and us, have a very comprehensive plan.

MR. CUMMINGS: It is in our benefit, too, to have a good relation with GAO on what they are going to do and what their plans are.

MR. MESSENGER: And the other thing, of course, the internal studies that are going on in NRC, we have to consider those. So, again we don't want to go in and just totally be in the same area at the same time.

Consider priority programs, example TMI, of special interest. This again, is what we will get into later as the setting priorities of what we look at.

1 We do consider requests received from NRC offices.  
 2 Probably the bulk of these have come either from the  
 3 EDO themselves, or the Comptroller type area, cashier  
 4 operations, the recent one that the director of accounting  
 5 had a concern and they called us in.

6 EDO, of course, asked for the overall inspection  
 7 of procurement.

8 Consider the dollar value of NRC programs.  
 9 Again, we don't want to spend our effort in something  
 10 that doesn't --

11 CHAIRMAN AHEARNE: That leaves you to keep  
 12 coming back to research.

13 MR. MESSENGER: Then, consider programs within  
 14 an agency not yet reviewed by OIA and that will be the  
 15 balance of our plan in effect.

16 Next slide, please?

17 Here is what we initially sent down as we see  
 18 it the three priority audit areas. These cover -- there  
 19 is one being done in each branch, although the revised review  
 20 of the RES plant for TMI related research, while it is  
 21 being done primarily by the Branch Chief now due to one  
 22 of our auditors, had to be detailed to one of the, I guess,  
 23 would you call them investigation, Jim?

24 MR. CUMMINGS: Yes, I don't know what I am

going to call it.

MR. MESSENGER: The point being the same.

MR. CUMMINGS: Yes.

MR. CUMMINGS: Other than that, these are the 3 and I think what we have laid out is really the narrative of how we get into it, it starts on page 6. If you want to take a look at that.

In effect, we plan to first hit, to take a look on the Lessons Learned, we picked to go into the operator training and licensing 7. On 7, pretty much our approach would be as laid out there, number 1, identify and evaluate the management structure within NRR to implement, monitor, and assure timely completion of the recommended corrective actions.

We will look at the status of these changes. We will look at from the NRR side, the NRC side, and then we are going to look at from the licensee side, which will entail some visits to kind of give the Commission an independent look.

The next program on the resident inspectors is just a continuation and looking at the training, which I think is very important.

The third we want to look at, which is related somehow to the first, is the research side. We are going

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to look at all these documents, we will analyze all these reports to see those areas that research within their role should be taking a look at.

At the same time, we have ongoing which shows up later, the international agreements. So, we have two ongoing, which again should mesh because a piece of that where we can get the research that is being done by our counterparts overseas, if we are using that research which we don't know at this point, we are going to look at that, and it should mesh to get the total picture to tie in back to the Rogovin, Kemeny, all the reports that have been issued in the recommendations as such. We will trace those, of course, through the action plan.

So, those are the 3 priority areas.

Next slide, please?

Okay, going down by branch, Licensing and Standards Branch, this is headed by Fred Herr, who has a major area. Fred has under him, primarily, NMSS, NRR, Standards Development, and International Programs and State Programs. So, he has got a broad scope of responsibility, and if we get future bodies, some will definitely go right into this area.

Fred also is part of the Rogovin Task Force, so we lost him for a while and the bulk of his people. They



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should have gained a lot of knowledge while they were over there.

This Materials Licensing Regionalization Pilot Test Program, again, the Commission directed backlog on that. So, we will be looking at that.

Survey of training utilization --

CHAIRMAN AHEARNE: That is particularly important because we are now addressing the question of whether we should go to further regionalization and that was viewed as a test, not only of Materials Licensing but of a general concept of regionalization.

MR. MESSENGER: So, we will probably be somewhere, I would gather, in a couple months, we are going to look at the evaluation ones.

Survey of training and utilization of increased personnel authorized for NRR. What we have done there is we started and then we backed off.

CHAIRMAN AHEARNE: First they got to get them.

MR. MESSENGER: With the pending reorganization and everything, we decided that we got stopped.

Review of NRR implementation of TMI lessons and we just talked about that and that is in the starting stages, although it hasn't been officially announced yet.

Review of the regulatory requirements review

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Committee. This is one that we are going to, if I recall, it is the Rogovin report that talks into this area quite extensively. What we are going to do, and we have done some preliminary work on this, is analyze, and look at what they have done. We may decide not to go into that if we feel satisfied that they are -- in that something is being done as a result of what is in here.

State review of the processing operating license amendments again, we didn't put narrative in the package but we intend to take a look at this right now, there is still a backlog of amendments, and they hired the Franklin Institute, if I recall.

CHAIRMAN AHEARNE: George, I think there will be a backlog of amendments for years, but it is worthwhile, in my view, to take a look at it.

MR. CUMMINGS: I think we are interested in the second stage, even when it comes out of Franklin and gets back down. Who is going to look at it then? Is it going to be a contractor doing it?

MR. MESSENGER: Every year we hear this, so we want to go in and see, you know, the whole management system, maybe it is not geared to it. I don't know. Maybe the priorities are wrong, but we will take a look.

COMMISSIONER HENDRIE: Look beyond the management

1 system because I have got a notion that no matter how  
2 you manage them under the present licensing requirements,  
3 that you just get stuck with an awful lot of actions on  
4 which a certain amount of formalism, handling of papers,  
5 signatures here, forms, all have to be carried out. You  
6 might talk to the people who are worrying about doing  
7 something about that and see what you think of some of their  
8 thoughts about rearranging the way the technical specifica-  
9 tions set up all these conditions.

10 Is it absolutely necessary that these great numbers of  
11 detailed matters be full licensed conditions which then  
12 require formal amendments under the Act to change in any  
13 way, or is it possible to have a set of rigorous licensed  
14 conditions and then supplementing appendices which are more  
15 easily alterable upon concurrence by the agency and which  
16 wouldn't require all that process.

17 MR. CUMMINGS: Formalization.

18 MR. MESSENGER: Possibly streamlining the  
19 process or changing something could effect -- we wouldn't  
20 have this backlog.

21 MR. CUMMINGS: The regulation that they have  
22 is what is hamstringing the operation.

23 COMMISSIONER HENDRIE: If you assume that the  
24 present configuration of the regulations and the tech specs

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and the amendment process, and the whole thing is a God-given input, why then I think you will find your ability to suggest any way to deal with it more effectively than is being dealt with. I think the source of the problem is back up stream one step.

MR. MESSENGER: State programs, again, we have this on the schedule --

MR. CUMMINGS: We just never looked at State programs.

MR. MESSENGER: And it is one of the areas we have to get into.

CHAIRMAN AHEARNE: Better hurry up.

COMMISSIONER HENDRIE: That's right, you got half of them out of town already. You better snap in there and audit.

MR. MESSENGER: Also, we are going to have an added requirement with the grants that are going to be issued, I guess, for uranium mill tailing, we have an audit of grant responsibility for the first time. We will have to be looking at that.

Star, this was something we touched on when we issued a report on the upgrade rule. We realize that there are similar groups being established around a senior contracts review board that may come down the pike

TAPE 1/28

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as a result of the Authorization Act.

So, we just have some concerns, and we would like to look at it. We probably look at how they are interfacing with other agencies, as well as how they deal with the contract once it comes in. Are they only looking at it from -- say is the NRR guy only looking from an NRR's perspective? And everybody else is saying, "Oh, that is yours", so we have got that right now, that we wanted to take a harder look at.

Next, please?

This is Harry Boulden's Branch and it deals with I&E and its regional offices. He is the author of the resident inspection reports and of course the first one we mentioned. We are staying in the resident inspector training program, we are going to look at that. Then, we are going to broaden out and look at the whole I&E training program from there, which will give us a good foundation.

Then, of course, the safeguards program and the highest group of facilities. We have that schedule now, primarily because we need that to round out our audit programs, it's something we haven't looked at.

CHAIRMAN AHEARNE: I ought to mention the training program. I think that is particularly important because we

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TAPE 2/1

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have been talking to OPM about the necessity for the NRC to do more initial training of its people to focus more on getting entry level people and then train them, rather than going out and recruiting at the higher levels.

As the amount of available personnel begins to get at least harder and harder to find, we are going to have to do more of that. So, I think we will be moving more into training, so, this is the only really operating training program we have now. So, it is a good idea to have a good review of it.

MR. CUMMINGS: I think we have to keep that in perspective with I&E that they are the only ones that are really doing it.

Sometimes it is a target that gets picked on a little bit in that respect.

CHAIRMAN AHEARNE: Sure.

MR. MESSENGER: It is my understanding that the I&E type training, at least, they are the sponsor of a lot of the NRR training. A lot of it is going over, and done out of I&E.

Next slide, please?

This is our branch that deals with all the money, NRC research branch. Again, I have talked about two of them, the international research agreements and the

RES plan of TMI related research. We hope to have those going simultaneously.

The next area we wanted to look at is the capital equipment held at DOE Labs and this is really the NRC so-called purshes equipment, when say one researcher's project ends, they start another, what happens to that equipment, what is being done with that?

CHAIRMAN AHEARNE: Why do you focus on national lab?

MR. MESSENGER: Well, that is primarily where most of the research --

CHAIRMAN AHEARNE: Yes, but I thought the focus of the review was on capital equipment?

What leads you to conclude -- it might be correct.

MR. MESSENGER: Yes, that is the capital equipment that we are interested in, the one that is out there.

CHAIRMAN AHEARNE: It would be the write up that you have was review of contractor held equipment. So, it was at DOE Laboratories or contractors, here you have got at least a shorthanded DOE Labs and I wondered whether that meant that you --

MR. MESSENGER: Maybe Al can answer.

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MR. GAUTHIER: Well, the primary emphasis will be the equipment that we have at the Labs. There are the situations such as maybe the TARA contract or something that we might provide some NRC equipment. So, the primary emphasis is on the Labs.

MR. MESSENGER: I think there is 11 million there, John.

CHAIRMAN AHEARNE: It is just that I have recently read a letter from a gentleman with whom we had a research contract at the University, and he mentioned that now he has completed building the \$500,000 or \$450,000 piece of equipment that we contracted for, that his contract is running out. The problem he was addressing is, how can he continue his contract? It led me to believe that there is a large piece of equipment that we own sitting out there.

MR. CUMMINGS: I think we want to look at the accountability system, too. Do we have any system? Is it working for duplication and that type of thing?

There is a good deal of bucks in it.

MR. MESSENGER: The last one would be the survey of the waste management research program. Again, this is kind of a roundout of our audit plan.

MR. CUMMINGS: I think that survey there, as



George was saying earlier, we want to get a little better handle on that whole program. We don't really feel comfortable quite yet with that.

MR. MESSENGER: On waste management, a reason we haven't been in there too much, as you know, GAO has been in there heavily and has a current draft, I think, pending on waste management. So, we are kind of waiting for them to filter down.

Next slide, please?

The last area, sometimes we call it our bread and butter branch, is the Administration and Program Direction. This branch primarily is headed by Art Schnebelen, primarily has the Comptroller, Dan Donohue's Office, as well as this would be the branch that would audit Commission Staff offices, the EEO Staff offices, etcetera, and say program direction.

We have 4 areas right now that a draft will be issued probably within the next month. These audits, the field work is all complete on those 4 audits and we are now getting ready to issue a draft report on those. So, you should be seeing something coming down fairly soon.

The big area we were in now is technical information document control. We are initially looking at the broad area, probably coming down the focus will be on the

TARA contract which I understand is somewhere in \$12 plus million today. We are taking a look at that whole operation.

Going down the line, survey of ADP systems, here our plan initially is to look at the DUTS, and from the DUTS broaden out.

I guess we have a concern of besides always the usefulness of the information, the tie in of all of these systems.

Is management using them, are they aware of how they operate?

Next small purchase function, of course, we have looked at the contract area, but we really haven't got into in depth in the small purchase. Mainly items \$10,000 and below.

ADP security, this is a must audit but we would do this anyhow, and we will take a look at that and that will be -- we issued two reports on ADP and this will be the third.

Then, of course, a part of our round out of our program, we have to look at personnel management.

That completes the slides. Again, I feel if you all are in concurrence, this would be an initial audit plan. What we do after each job, we reassess after every job that we complete and we again look at the plan.

1 If we feel that something else has all of a sudden --  
 2 events have changed and we should go into something else,  
 3 we do use the means, we will announce it to the Commission,  
 4 and we will have an entrance conference with management  
 5 and if the Commission would like us either to change  
 6 the area audit or would like to have us look at particular  
 7 areas, that would be an ideal vehicle, that opening our  
 8 entrance letter.

9 Jim, do you have anything?

10 MR. CUMMINGS: I think the thrust of the GAO  
 11 report has been to say two things, basically, they would  
 12 like to see greater evidence of Commission participation  
 13 in the audit plan, number one. Number two, I think they,  
 14 to a certain extent, view OIA as to be kind of like the  
 15 GAO, where they can just throw people out and be very  
 16 responsive.

17 That has some problems, that type of application  
 18 to our operation from our staff, just simply has some  
 19 problems.

20 I do think that the audit plan for this year  
 21 has been very responsive to the main thrust of the GAO  
 22 report and that is the question of evaluating NRC goals  
 23 and objectives.

24 I think, for instance, the TMI study that we

are going to try to do on those three areas that we mentioned

The area of TMI related research, I think that that is very important and responsive to major goals that NRC has this year.

So, I feel that from that standpoint we really have tried to give you our best effort on being responsive to that, and I think we have. I am satisfied with it, that is why we are here.

CHAIRMAN AHEARNE: Joe?

COMMISSIONER HENDRIE: I have indicated concurrence with the '80 Audit Plan on SECY 80-121, it seemed to me that as laid out in the annual report it was a good workable plan. As always, extraordinary events come along and you have to go in other directions. We are as quick on a right turn as the next fellow.

MR. MESSENGER: One thing I might mention that we would be happy to do, as you recognize, we do cover the whole agency. If you have a concern, any Commissioner, and would like us to come down and just informally discuss something or if you feel that maybe the auditors would have an independent look, we would be happy to do that on an individual basis.

COMMISSIONER HENDRIE: With regard to some part of the organization?

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MR. MESSENGER: Right or if you have -- I know other audit shops, Inspector General activities are used that way, supposedly the independent eyes and ears and you would get an objective opinion that would be nuts.

Sometimes you get a biased opinion when the program office involved is this.

CHAIRMAN AHEARNE: Peter?

COMMISSIONER BRADFORD: Thank you for the paper. I am sorry I missed part of the presentation, but it gives me a much better feel for what your capabilities are. I will be more alert in ways in which the audit function can be helpful in the future.

CHAIRMAN AHEARNE: I have two questions.

First, myself, I would like you to think about how to audit the agencies follow up on the PPPG. We are in the process, hopefully in the final stages of putting out the PPPG for the first time.

The Commission has spent a lot of time, itself, addressing it. We have sent it down to the Staff, it was sort of their final crack at rebuttal and I would expect at the end of March, we will put it out. Here it is.

We have in a number of places now, including our response to the Congress on the GAO report pointed out that this was a major document. The agency is now

1 going to use this to lay on on the part of active involve-  
2 ment to the Commissioners in establishing the policy.

3 I think it is very important that we have an  
4 assessment of how is the agency responding to that?  
5 Is it having an effect?

6 That, I think, is going to be very important  
7 particularly to have available for us so that at the  
8 end of the year, when we go to a revision of that document,  
9 to understand its impact. I think that is a critical  
10 thing that you ought to think about.

11 MR. CUMMINGS: We were looking at that, John,  
12 in relation to DUTS. It just seems to me, and I don't have  
13 a complete handle on it, but I would hope that there is  
14 some way that we can tie those together.

15 CHAIRMAN AHEARNE: Yes, that is fine, Jim, but  
16 please be careful because DUTS basically is a tracking  
17 system who is generated primarily for the use of the  
18 Staff and EDO is to follow these performance objectives.  
19 It is important, but it is a tracking system.

20 The PPPG is primarily a guidance system, and I  
21 think it is very important that we get an assessment  
22 of the ability of the agency to handle that.

23 Second question I have is that in the OMB  
24 Circular that you talked about, and then the GAO

1 direction, the IG Act, there seems to be the flavor  
2 that the OIA should be or the Audit Branch should report  
3 to the head of the agency. Why then do you send your  
4 recommendations to the EDO?

5 MR. MESSENGER: In the past it has been  
6 they are the, I guess, executor recipient, to get them  
7 corrected. What we aim to do is to give the Commission  
8 a so-called agreed report, the final report to the  
9 Commission which shows --

10 MR. CUMMINGS: It is kind of the GAO system  
11 of getting a crack at the draft.

12 CHAIRMAN AHEARNE: But, for example, let's say  
13 you audit research, and you have the research report,  
14 why don't you send them that draft to the Director  
15 of Research for the response?

16 MR. CUMMINGS: We could, it is just that in  
17 the past --

18 CHAIRMAN AHEARNE: I am not saying that you  
19 should, I was just trying to wrestle through. It neither  
20 seemed to be that you were sending it to the head of  
21 the office --

22 MR. CUMMINGS: It is kind of a system that  
23 tries to get it resolved any way we can before bringing  
24 it up to the top.

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COMMISSIONER HENDRIE: The report at that stage is a draft report, in a sense we get GAO drafts which are pretty final but they are saying "Look, here is how we came out, what do you have to say?".

CHAIRMAN AHEARNE: Yes, but they don't send it to the head of the office that was audited, that was my puzzle.

MR. MESSENGER: It has just been a policy that has been evolved since the start, that was the agreed way we would do it.

That's who, in effect, does it.

COMMISSIONER HENDRIE: I'll tell you what it does, John. Where you have got an audit area, where here is research but the audit area has covered all of that, but some peripheral matters as well, then it saves them trying to figure out if that is the case on a given report. They send it to the EDO and figure he will have to sort that out.

MR. CUMMINGS: I think it is a tradition more than anything else that it goes to the EDO and he in turn gives it to Bob Budnitz or what have you and says come up with an answer.

MR. MESSENGER: But, the other one is the



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assistant which is Tom Reim, is really the mechanism for the EDO and the one that gets under the tracking system.

Most of our audits involve more than one office, the upgrade rule, the exit with standards, and --

CHAIRMAN AHEARNE: I understand that, that is why I use the question and research.

MR. MESSENGER: But, we could on those that don't stray, we could do that.

MR. CUMMINGS: We usually send it over there. Don't forget, they are responsible for the tracking too, for the recommendations.

CHAIRMAN AHEARNE: I think, as I said in the beginning, I believe that the office is very important. I have been in agencies where it served a very valuable function. I thought the resident inspector report was excellent and I look forward to continued very good work.

Thank you.

(Whereupon the meeting was called adjourned at 11:10 p.m.)

COMMISSION BRIEFING  
by the  
OFFICE OF INSPECTOR AND AUDITOR

March 19, 1980

## BRIEFING OUTLINE

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## INTRODUCTION

On January 31, 1980, the Office of Inspector and Auditor (OIA) issued its fourth annual report to the Commission covering OIA activities during Calendar Year 1979. OIA's proposed audit plan for 1980 was included as Attachment D to the OIA Annual Report. Also, as you will recall, on January 15, 1980, a General Accounting Office (GAO) report entitled "The Nuclear Regulatory Commission: More Aggressive Leadership Needed," recommended that the Commission "increase the Commissioner's use of the Office of Inspector and Auditor in evaluating the NRC staff's performance in meeting NRC goals and objectives."

On February 8, 1980, OIA provided the Commission, the Office of Policy Evaluation, and the Office of General Counsel, a proposed Commission response to the GAO recommendation. That proposed response indicated Commission agreement with the recommendation and, as a first step, increased Commission involvement in OIA's audit planning process and establishing audit priorities. In our memorandum transmitting the proposed response, we also identified OIA's three priority audits for 1980.

The purpose of this meeting is to discuss OIA's audit plan, 1980 audit priorities, and other approaches to implement the GAO recommendation.

## BACKGROUND

Before we get into the details of OIA's audit plan, I believe it would be helpful to briefly outline OIA's history, charter, and organization and what its audit capabilities are.

OIA was established in April 1975 to conduct audits, inspections, and investigations and to assist the Commission in the fulfillment of its statutory responsibilities. This is consistent with the requirements, provisions, and suggestions of the Atomic Energy Act of 1954, as amended; the Energy Reorganization Act of 1974, as amended; the Budget and Accounting Procedures Act of 1950; Office of Management and Budget (OMB) Circular A-73 (formerly Federal Management Circular 73-2); and the Comptroller General's audit report to the Congress entitled "An Overview of Federal Internal Audit."

The staff began coming on board in July 1975, and the first audits were started about October 1975 when the majority of the staff had reported for duty. OIA was initially authorized 25 full-time, permanent positions of which 13 were auditors.

Based upon its responsibilities, OIA recognized from the inception that a minimum staff of 34 people was needed to maintain effective audit and inspection functions. However, it was decided to phase into this staffing by initially requesting 25 positions in Fiscal Year (FY) 1976, then increasing to 34 positions during the next two to three years. With the advent of the Resident Inspection Program, OIA staffing requirements for FY 1982 increased from the original foreseen 34 to 36.

Due to OMB marks, OIA was held to 25 positions for FY 1977, 26 for FY 1978, and 28 for FYs 1979 through 1981. The Commission approved a staff increase of five positions for FY 1981 and two positions for FY 1982. However, OMB marked no increase for FY 1981. NRC's FY 1981 budget is currently being reviewed by Congressional authorization and appropriation committees.

OIA is organizationally split to conduct audits and investigations under separate assistant directors. This paper deals with the audit activity of OIA. The audit activity is divided into four functional branches of specialization to assure complete coverage of the agency and give the offices uniform coverage and expertise for the 198 auditable units within the Nuclear Regulatory Commission (NRC). There are fourteen professionals divided among four branches, each headed by a branch chief. The majority of the professional staff had extensive auditing experience with other Federal organizations when they were hired by OIA. Of the fourteen auditors, eight came to the NRC from GAO, two from Air Force Audit, three from NRC's Office of the Controller and one from the accounting firm, Price Waterhouse. The Assistant Director for Audits is formerly Assistant Director of the U.S. Government Interagency Auditor Training Center and previously from the Internal Revenue Service Inspector General's Office. The staff consists principally of experienced auditors with wide ranging backgrounds including certified internal auditors, certified public accountants, and employees with advanced degrees.

The overall objective of internal auditing is to assist agency management in attaining its goals by furnishing information, analyses, appraisals, and recommendations pertinent to management's duties and objectives.

Internal auditing is a staff and advisory function, not a line-operating function. Thus, the internal auditor should not have authority to make or direct changes in his agency's procedures or operations. His job is to independently and objectively analyze, review, and evaluate existing procedures

and activities; to report on conditions found; and, whenever he deems it necessary, to recommend changes or other action for management and operating officials to consider.

An internal auditor should not be given direct operating responsibilities. Rather, he should be expected to concern himself primarily with the performance of others, to retain an independent outlook in all of his work, and to direct particular attention to matters requiring corrective action. His function is to present his views and suggestions constructively in such a manner as to stimulate or encourage action on his suggestions by others.

OIA conducts internal audits of NRC programs and administrative functions at all levels of operations in accordance with OMB Circular A-73 and the GAO "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" to determine whether: (1) desired program results and objectives are being achieved effectively; (2) resources are managed and used economically and efficiently; (3) there is compliance with applicable laws and regulations; (4) financial operations are conducted properly; and (5) financial reports are presented fairly. OIA recommends improvements where appropriate. During these audits, a continuous effort is made to detect any fraudulent practices or mismanagement and to eliminate waste and error.

To date, OIA's audits have been primarily the program results, efficiency and economy, and compliance type audits of NRC programs. Major audits of these types which OIA has completed include audits of the materials licensing and inspection programs; export licensing; the Office of Nuclear Reactor

Regulation's (NRR) standardization policy for nuclear power plants; the Office of Nuclear Regulatory Research's (RES) use of Department of Energy (DOE) labs; the semiscale research program; fuel cycle licensing; and, most recently, the Resident Inspection Program. Numerous aspects of the management of NRC's administrative and accounting activities have been audited.

OIA's principal interface with NRC on audit reports is through the Executive Director for Operations (EDO). Draft audit reports are issued to the EDO for comment before they are issued in final form to the Commission. The EDO is also responsible for tracking OIA audit recommendations on its Work Item Tracking System to assure that recommendations which the staff agrees to implement are, in fact, implemented. After the EDO has advised OIA that all recommendations have been implemented, OIA performs sufficient checks to assure satisfactory implementation and issues a followup (closeout) report.

#### THE OIA AUDIT PLAN

Each January, OIA prepares an audit plan to guide its activities during the coming year and to inform the Commission of our plans. Traditionally, we have solicited input to our audit plan from the Commission, the EDO, and all NRC offices to insure that we are auditing programs which have significance. However, we have received only limited responses to our requests. As a result, OIA's Calendar Year 1980 audit plan, like those for prior years, was primarily self-initiated. In developing our audit plan we consider:

1. Audits required by Government regulation or OMB;



2. Ongoing and recently completed audits by GAO;
3. Ongoing studies of NRC programs;
4. NRC priority programs we believe should be reviewed;
5. Requests received from NRC offices;
6. Dollar value of NRC programs; and
7. NRC programs which OIA has not yet audited.

#### PRIORITY AUDITS FOR 1980

The three audits we have designated as having the highest priority in our audit plan for 1980 are:

1. Review of NRR's Implementation of Three Mile Island (TMI) Lessons Learned;
2. Review of the Training Program for Resident Reactor Inspectors; and
3. Review of RES's plan for TMI-related research.

Following is a brief discussion of our proposed audit approach in each of these areas:

#### Review of NRR's Implementation of the TMI Lessons Learned

Following the accident at TMI, NRR initiated several studies to identify lessons to be learned from the accident. These studies included the Lessons Learned Task Force, the Bulletin and Orders Task Force, and studies of specific licensing problems, such as operator licensing, by existing organizations within NRR. These studies resulted in recommendations in three broad areas:

1. Operator training;
2. Design and analysis (e.g., emergency power supply for power-operated relief valves and pressurizer heaters; containment isolation; improved auxiliary feedwater systems); and
3. Plant operations (e.g., in-plant emergency procedures, shift/supervisors responsibilities, shift technical advisors).

Our audit objective will be to determine the status of actions underway within NRR to implement recommendations resulting from these studies. Our initial effort will be in the area of operator training and licensing and will generally involve:

1. Identification and evaluation of the management structure within NRR to implement, monitor and assure timely completion of the recommended corrective actions;
2. Determination of the status of NRR program changes required by TMI; and
3. Determination of the status of licensee implementation of NRR-required corrective actions.

As currently planned, our initial report, dealing with operator training and licensing, will set out the status of NRR's implementation of the lessons learned and will identify problems delaying or preventing their full implementation.

Review of the Office of Inspection and Enforcement (IE) Training Program for Resident Reactor Inspectors

This is the third in a series of OIA audits of IE's Resident Inspector Program. At the present time, IE Headquarters has a centralized training program for inspectors which is supplemented by regional training programs. The objectives of our audit will be to: (1) evaluate the adequacy of the Headquarters' training program for meeting the established IE goals and objectives; (2) compare and evaluate the various regional training programs; and (3) evaluate the qualifications of resident inspectors, including education, work, and training experience, against the established IE standards. We will also monitor IE's progress in filling resident inspector positions.

Survey of NRC's Revised Research Plans Developed in Response to the TMI Accident

This survey will compare NRC's revised research plan to address safety issues raised by the TMI accident to those areas identified as requiring further research in the Kemeny, Lessons Learned and Rogovin reports. The principle objective of the survey will be to identify areas of TMI-related research contained in the above-mentioned reports that are not being addressed by NRC or require greater or reduced emphasis. If such research areas are identified, they will be the subject of a more detailed review.

BALANCE OF THE AUDIT PLAN

At the completion of each audit, the audit plan is reevaluated with due consideration given to changes in priority and other factors in order to determine the next area of audit. Normal procedure is to advise the office

scheduled for audit of our initial plans and to set up an entrance conference. The Commission is also advised of the start of an audit should they have any comments or desire emphasis in certain areas.

The currently scheduled balance of the 1980 audit plan for each audit branch follows:

Licensing and Standards Audits Branch

1. Monitoring Materials Licensing Pilot Test Program--Final Evaluation

When the Commission authorized the pilot test to regionalize the materials licensing program in May 1977, OIA was directed to be "one of the participants in both the planning and evaluation stages." OIA will be reviewing the final evaluation document prepared by the Office of Nuclear Material Safety and Safeguards later this year to assure that a comprehensive evaluation was performed and that the conclusions and recommendations logically flow from the facts.

2. Review of Regulatory Requirements Review Committee (RRRC)

The RRRC plays a very important role in stabilizing the reactor licensing process while assuring that all important safety issues are backfitted as necessary. We are currently considering the coverage of the RRRC by the Special Inquiry and may cancel our plans in this area if we are satisfied with the Special Inquiry coverage.

3. Survey of the Office of State Programs (Except Emergency Planning)

Our survey in this area will look at the Agreement States Program, the program of providing grants to states for uranium mill licensing, and the State Liaison Officer Program, specifically its implementation in the regions.

4. Review of the Safeguards Technical Assistance and Research Coordinating (STAR) Group

During our recently completed audit of the safeguards physical security upgrade program, we noted areas in the functioning of the STAR group warranting review. Since other groups similar to the STAR group have been considered within NRC, we believe a review of the STAR group could have broader applicability within the agency.

Safety and Enforcement Audits Branch

1. Comprehensive IE Training Program

This is contemplated to be a broad-based look at the total IE training program, what it is, what it does and does not do, a history of the program, a review of prior studies, etc. The review is intended to cover the training encompassed by the formal IE Headquarters administered education and training programs and the less formal training conducted at and by the regional offices but will exclude those aspects of the resident training program covered and reported to the Commission in our current ongoing review. Although we have not yet formulated our detailed audit plans for this assignment, we have in mind to consider the qualifications needed by the various categories of IE inspectors and the skills and training which are, or ought to be, provided by NRC to both new hires and regular employees to maintain or upgrade their qualifications. We expect to ascertain the views of supervisors and journeymen on various aspects of training such as perceived training needs and the adequacy of training received, improvements needed, etc. As a result of our review, we would like to be able to express an opinion of what is good about IE training and reach some conclusions as to those improvements which are most needed to assure that IE

inspectors are well qualified to perform the types of inspections which are required of them. This review will cover all four IE inspection program areas--reactor operations, reactor construction, fuel facility and materials safety, and safeguards--but will exclude training for administrative, clerical and senior executive service personnel.

2. Safeguards Program (Safeguards Group I Facilities)

This is a lower priority OIA assignment and is scheduled because this is the only major IE program area which OIA has not yet examined in any meaningful way. A review of the Safeguards Inspection Program is required of OIA's initial coverage of IE's major programs. It has been a part of OIA's overall plan to examine all NRC major program areas within the first several years after establishment of our office. We have looked into the Safeguards Inspection Program briefly and have become familiar with several facets of the program in connection with our other reviews. At this time, we do not believe it should be accorded a high priority except that it should be accomplished at some time to complete OIA's coverage of IE.

Research Audits Branch

1. Survey of International Research Agreements

This survey will concentrate on agreements between NRC and foreign countries for the exchange of reactor safety research information or for the mutual participation in research projects. Some efforts will also be directed toward other internal agreements and organization. The primary purposes of the survey will be to identify topics for detailed review and to determine whether the agreements are being

properly implemented and whether NRC is benefiting from the agreements at a level comparable to that of foreign countries. For the most part, the survey and review will be performed at NRC Headquarters; however, some international travel may be necessary.

2. Review of Contractor-Held Equipment

The preponderance of contractor-held equipment is generated through research tasks assigned to DOE laboratories or contractors. This review will involve a determination of the quantity and value of NRC equipment in the possession of contractors or other Federal agencies and the adequacy of NRC's accounting of such equipment. The review will also cover the procedures for ultimate disposal of such equipment and whether such procedures, if any, are being adhered to. In addition, we will explore the relationship of the program offices with the Office of Administration in accounting for and safeguarding NRC assets.

3. Survey of Waste Management Research Program

This survey will examine RES's program for waste management research to determine if it is meeting the needs of the user offices and is consistent with national policy objectives. The primary purpose of this survey will be to identify areas for further detailed review.

Administration and Program Direction Audits Branch

1. Technical Information and Document Control (TIDC)

Our review will entail an examination of all functional activities with TIDC to determine if they are being operated in an effective and

economical manner. One main area of concentration will be the ongoing development and implementation of the document control system and its associated costs.

2. Survey of Automatic Data Processing (ADP) Systems (DUTS, RMS, etc.)

Initial efforts will concentrate on the Decision Unit Tracking System (DUTS). We will examine the needs and uses for this system and how it interfaces with NRC's other management information systems.

3. Review of Small Purchase Function

Our survey of the small purchase function of the Division of Contracts will examine the use of Government supply schedules, methods of obtaining the best prices, and closing out of purchase orders.

4. Review of Automatic Data Processing Security

We will examine how NRC has implemented the requirements of OMB Circular A-71, Transmittal Memorandum No. 1. The review will cover the roles of the Division of Security, Division of Contracts, and other offices concerned with the security of ADP systems.

5. Imprest Funds

These required annual audits will include a count of funds on hand, review of levels of the funds, and control and use of the funds over the past year.



6. Personnel Management

This audit will be conducted in several phases and will start with a survey of each branch in Personnel and how they interface with each other and perform the personnel management function in order to best serve NRC.

7. Financial Management

Because of the limited audit resources in the Administration and Program Direction Audits Branch and the higher priority audits, OIA is planning to contract out the requirements to perform an audit of NRC's financial statements. However, this branch will establish the objectives and areas for audit and will monitor the contractor's performance.

RESPONDING TO THE GAO RECOMMENDATION

As stated previously, GAO recommended that the Commission "increase the Commissioner's use of the Office of Inspector and Auditor in evaluating the NRC staff's performance in meeting NRC goals and objectives." Although the GAO report does not indicate how the Commission should increase its use of OIA, the report seems to imply that the Commission should use OIA more to perform evaluations for it. A parallel to this would be the way the Congress uses GAO when they make an audit request.

While such action has the advantage of assuring that OIA is responsive to the needs of the Commission, it is not without problems.

First, because a routine audit program will continue to be needed to fill the gaps between Commission requests and to meet the long-range goal of covering all of NRC's activities, two possibilities exist:

1. Ongoing audits may have to be cancelled or delayed, resulting in lost effort, to be immediately responsive to a Commission request; or
2. A Commission request would have to await available staff.

While neither alternative may be attractive, unless a Commission request should happen to be made when staff members are between audits, limited staff flexibility would require that one or the other would have to occur.

Second, some evaluations which OIA may be asked to perform could benefit from technical assistance which OIA does not currently possess. OIA may, therefore, need to request that technical staff members from other NRC offices be temporarily assigned to OIA for short periods of time to provide technical assistance, or OIA would use the services of an outside consultant, similar to the way GAO uses a consultant.

This completes our formal presentation. We would be happy to answer any questions you might have.

OFFICE OF INSPECTOR AND AUDITOR

COMMISSION BRIEFING

MARCH 19, 1980

<u>SLIDE</u>	<u>DISCUSSION</u>
1	PURPOSE OF THIS BRIEFING
2	ESTABLISHMENT/AUTHORITY
3	OIA MISSION
4	OIA ORGANIZATION
5	OIA STAFF
6	TYPES OF AUDITS PERFORMED
7	DEVELOPMENT OF THE AUDIT PLAN
8	1980 PRIORITY AUDIT AREAS
9	LICENSING AND STANDARDS AUDITS BRANCH-- 1980 AUDIT PLAN
10	SAFETY AND ENFORCEMENT AUDITS BRANCH-- 1980 AUDIT PLAN
11	RESEARCH AUDITS BRANCH--1980 AUDIT PLAN
12	ADMINISTRATION AND PROGRAM DIRECTION AUDITS BRANCH--1980 AUDIT PLAN

## PURPOSE OF THIS BRIEFING

1. OIA AUDIT PLAN FOR 1980 SENT TO COMMISSION ON JANUARY 31, 1980.
2. GAO REPORT OF JANUARY 15, 1980, ENTITLED "THE NUCLEAR REGULATORY COMMISSION: MORE AGGRESSIVE LEADERSHIP NEEDED" RECOMMENDED THAT THE COMMISSIONERS "INCREASE (THEIR) USE OF THE OFFICE OF INSPECTOR AND AUDITOR IN EVALUATING THE NRC STAFF'S PERFORMANCE IN MEETING NRC GOALS AND OBJECTIVES."

## ESTABLISHMENT/AUTHORITY

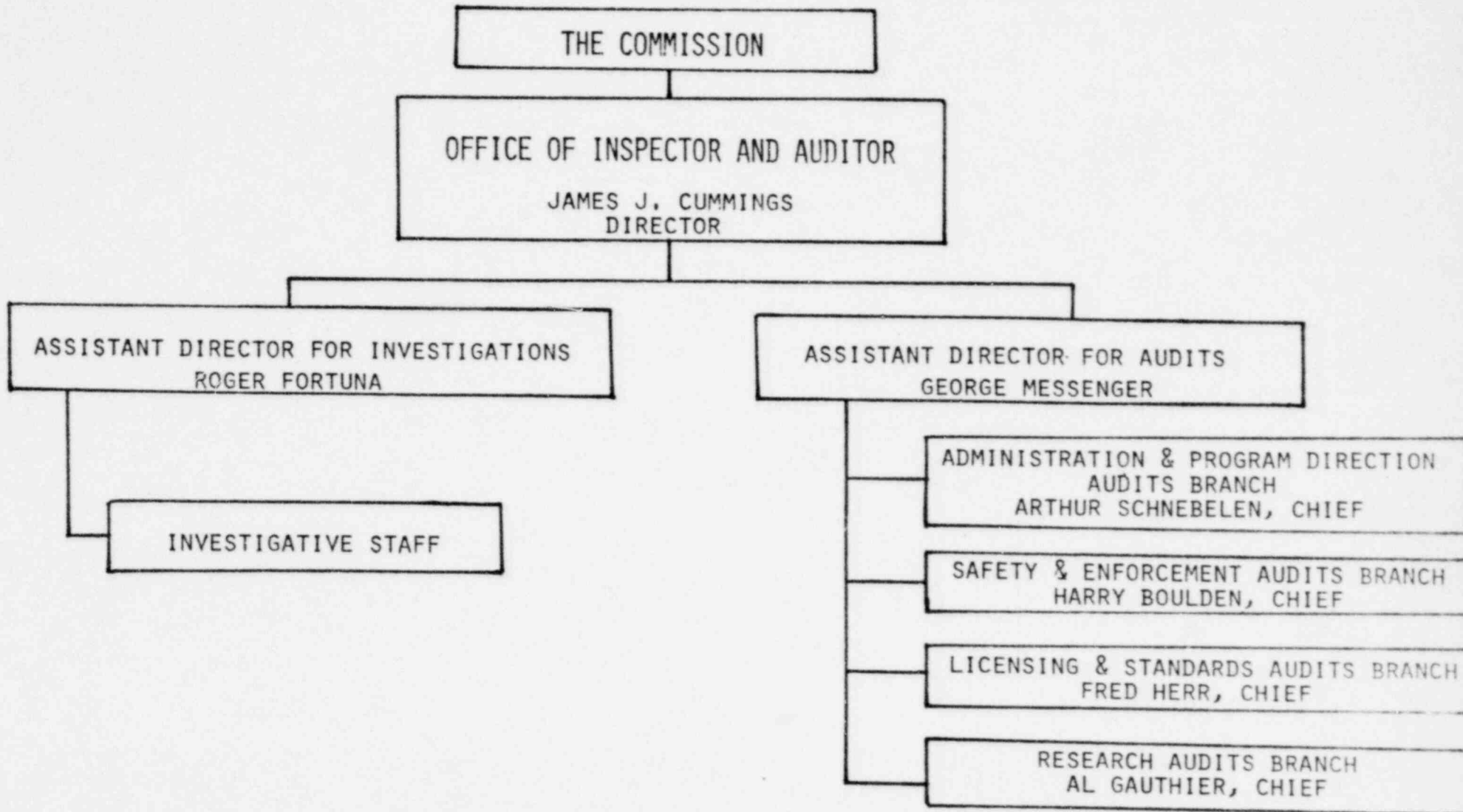
1. ATOMIC ENERGY ACT OF 1954, AS AMENDED.
2. ENERGY REORGANIZATION ACT OF 1974, AS AMENDED.
3. OMB CIRCULAR A-73, REVISED (FORMERLY FEDERAL MANAGEMENT CIRCULAR 73-2).
4. COMPTROLLER GENERAL'S STANDARDS FOR AUDITING.
5. REPORT BY HOUSE COMMITTEE ON GOVERNMENT OPERATIONS (HOUSE REPORT NO. 456, 88TH CONGRESS, 1ST SESSION [1963]).
6. GAO REPORT, "AN OVERVIEW OF FEDERAL INTERNAL AUDIT."

## OIA MISSION

THE OFFICE OF INSPECTOR AND AUDITOR CONDUCTS AUDITS, INVESTIGATIONS, AND INSPECTIONS TO PROVIDE THE COMMISSION WITH AN INDEPENDENT REVIEW AND APPRAISAL OF ALL NRC OPERATIONS:

- TO ASSURE THAT RESPONSIBILITIES AT ALL ORGANIZATIONAL LEVELS ARE DISCHARGED WITH EFFECTIVENESS AND EFFICIENCY
- TO ASCERTAIN AND VERIFY FACTS TO ASSURE THE MAINTENANCE OF THE HIGHEST STANDARDS OF INTEGRITY OF ALL NRC ORGANIZATIONS, PROGRAMS, AND ACTIVITIES.

U.S. NUCLEAR REGULATORY COMMISSION  
OIA ORGANIZATION



OIA STAFF

	<u>ACTUAL</u> <u>FY 1979</u>	<u>ACTUAL</u> <u>FY 1980</u>	<u>COMMISSION</u> <u>APPROVED</u> <u>FY 1981*</u>	<u>COMMISSION</u> <u>APPROVED</u> <u>FY 1982*</u>
DIRECTOR	1	1	1	1
ASSISTANT DIRECTOR FOR AUDITS	1	1	1	1
ASSISTANT DIRECTOR FOR INVESTIGATIONS	1	1	1	1
AUDITORS	14	14	18	20
INVESTIGATORS	7	7	7	7
SECRETARIAL STAFF				
-- PERMANENT	4	4	5	5
-- TEMPORARY	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
	<u>29</u>	<u>29</u>	<u>34</u>	<u>36</u>

\*THE COMMISSION APPROVED A STAFFING INCREASE OF FIVE POSITIONS FOR FY 1981 AND TWO POSITIONS FOR FY 1982. OMB MARKED NO INCREASE. NRC'S FY 1981 BUDGET IS CURRENTLY BEING REVIEWED BY CONGRESSIONAL AUTHORIZATION AND APPROPRIATION COMMITTEES.



## TYPES OF AUDITS PERFORMED

1. CONDUCTS INTERNAL AUDITS OF NRC PROGRAMS AND ADMINISTRATIVE FUNCTIONS AT ALL LEVELS OF OPERATIONS IN ACCORDANCE WITH OMB CIRCULAR A-73 AND THE GAO "STANDARDS FOR AUDIT OF GOVERNMENTAL ORGANIZATIONS, PROGRAMS, ACTIVITIES, AND FUNCTIONS," TO DETERMINE WHETHER:
  - DESIRED PROGRAM RESULTS AND OBJECTIVES ARE BEING ACHIEVED EFFECTIVELY
  - RESOURCES ARE MANAGED AND USED ECONOMICALLY AND EFFICIENTLY
  - THERE IS COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS
  - FINANCIAL OPERATIONS ARE CONDUCTED PROPERLY
  - FINANCIAL REPORTS ARE PRESENTED FAIRLY.
2. PERFORMS SURVEYS OR FACT-FINDING STUDIES OF AN ENTITY OR ACTIVITY.
3. CONDUCTS FOLLOWUP REVIEWS IN ACCORDANCE WITH PARAGRAPH 8, "FOLLOWUP," OF OMB CIRCULAR A-73, REVISED.

## DEVELOPMENT OF THE AUDIT PLAN

1. REQUEST INPUT FROM COMMISSION, EDO, AND NRC OFFICES.
2. CONSIDER AUDITS REQUIRED BY GOVERNMENT REGULATION OR OMB.
3. CONSIDER ONGOING AND RECENTLY COMPLETED AUDITS BY GAO.
4. CONSIDER ONGOING STUDIES OF NRC PROGRAMS.
5. CONSIDER PRIORITY PROGRAMS (E.G., TMI) OF SPECIAL INTEREST.
6. CONSIDER REQUESTS RECEIVED FROM NRC OFFICES.
7. CONSIDER DOLLAR VALUE OF NRC PROGRAMS.
8. CONSIDER PROGRAMS WITHIN THE AGENCY NOT YET REVIEWED BY OIA.

## 1980 PRIORITY AUDIT AREAS

1. REVIEW OF NRR'S IMPLEMENTATION OF TMI LESSONS  
LEARNED:
  - OPERATOR TRAINING
  - DESIGN AND ANALYSIS
  - PLANT OPERATIONS.
2. REVIEW OF THE TRAINING PROGRAM FOR RESIDENT INSPECTORS.
3. REVIEW OF RES PLAN FOR TMI-RELATED RESEARCH.

LICENSING AND STANDARDS AUDITS BRANCH  
1980 AUDIT PLAN

	<u>ESTIMATED STARTING DATE</u>
MATERIALS LICENSING REGIONALIZATION PILOT TEST PROGRAM--FINAL EVALUATION	01/28/80
SURVEY OF TRAINING AND UTILIZATION OF INCREASED PERSONNEL AUTHORIZED FOR NRR IN FY 1980	01/28/80
REVIEW OF NRR'S IMPLEMENTATION OF TMI LESSONS LEARNED	02/11/80
REVIEW OF THE REGULATORY REQUIREMENTS REVIEW COMMITTEE	02/11/80
REVIEW OF NRR PROCESSING OF OPERATING LICENSE AMENDMENTS	05/02/80
SURVEY OF THE OFFICE OF STATE PROGRAMS (EXCEPT EMERGENCY PLANNING)	08/04/80
REVIEW OF SAFEGUARDS TECHNICAL ASSISTANCE AND RESEARCH (STAR) COORDINATING GROUP	10/01/80

SAFETY AND ENFORCEMENT AUDITS BRANCH  
1980 AUDIT PLAN

		<u>ESTIMATED STARTING DATE</u>
RESIDENT INSPECTION PROGRAM	ONGOING	01/01/80
INSPECTOR TRAINING PROGRAM		
-- TRAINING PROGRAM FOR RESIDENT INSPECTORS		01/14/80
-- COMPREHENSIVE IE TRAINING PROGRAM		
• HEADQUARTERS-BASED TRAINING EFFORT		03/17/80
• REGION-BASED TRAINING PROGRAMS		05/01/80
-- SAFEGUARDS PROGRAM (SAFEGUARDS GROUP I FACILITIES)		10/01/80

RESEARCH AUDITS BRANCH  
1980 AUDIT PLAN

ESTIMATED  
STARTING DATE

SURVEY OF NUCLEAR REGULATORY RESEARCH (RES)

-- RES PLAN FOR IMPROVED SAFETY FOR LWR	ONGOING	01/01/80
-- REVIEW OF RES PLAN FOR TMI-RELATED RESEARCH		01/14/80
-- INTERNATIONAL RESEARCH AGREEMENTS		01/14/80
-- CAPITAL EQUIPMENT HELD AT DOE LABS		07/14/80
-- WASTE MANAGEMENT		07/14/80

ADMINISTRATION AND PROGRAM DIRECTION AUDITS BRANCH  
1980 AUDIT PLAN

		<u>ESTIMATED STARTING DATE</u>
LICENSE FEE MANAGEMENT	ONGOING	01/01/80
CASHIER OPERATIONS	ONGOING	01/01/80
TRAVEL VOUCHER PROCESSING	ONGOING	01/01/80
REPRODUCTION SERVICES	ONGOING	01/01/80
TECHNICAL INFORMATION AND DOCUMENT CONTROL		02/01/80
SURVEY OF ADP SYSTEMS (DUTS, RMS, ETC.)		06/02/80
REVIEW OF SMALL PURCHASE FUNCTION		06/02/80
REVIEW OF ADP SECURITY		09/01/80
IMPREST FUNDS		09/01/80
PERSONNEL MANAGEMENT		10/01/80