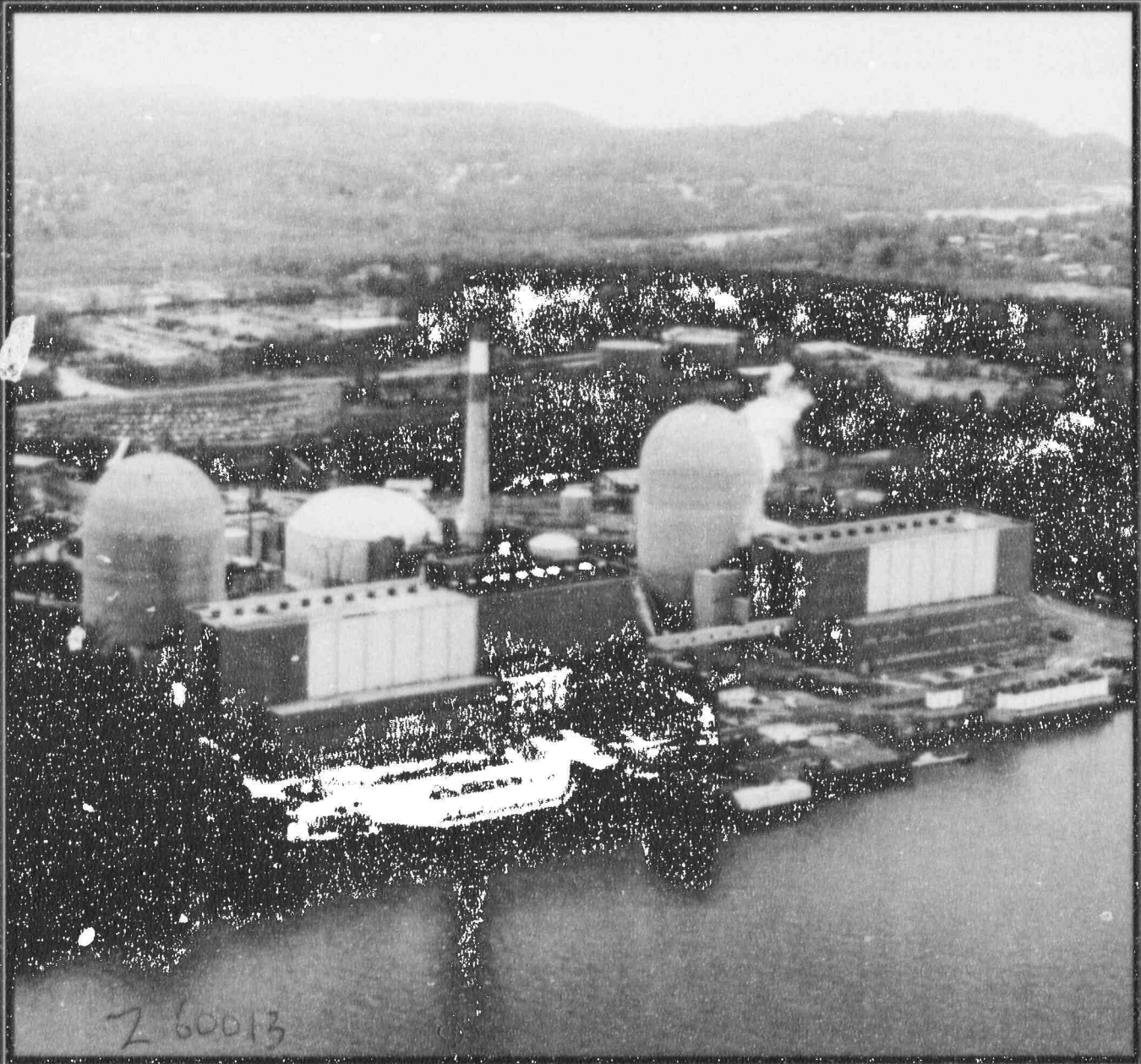




Office of the Inspector General

U.S. Nuclear Regulatory Commission



Semiannual Report

April 1, 1995 - September 30, 1995

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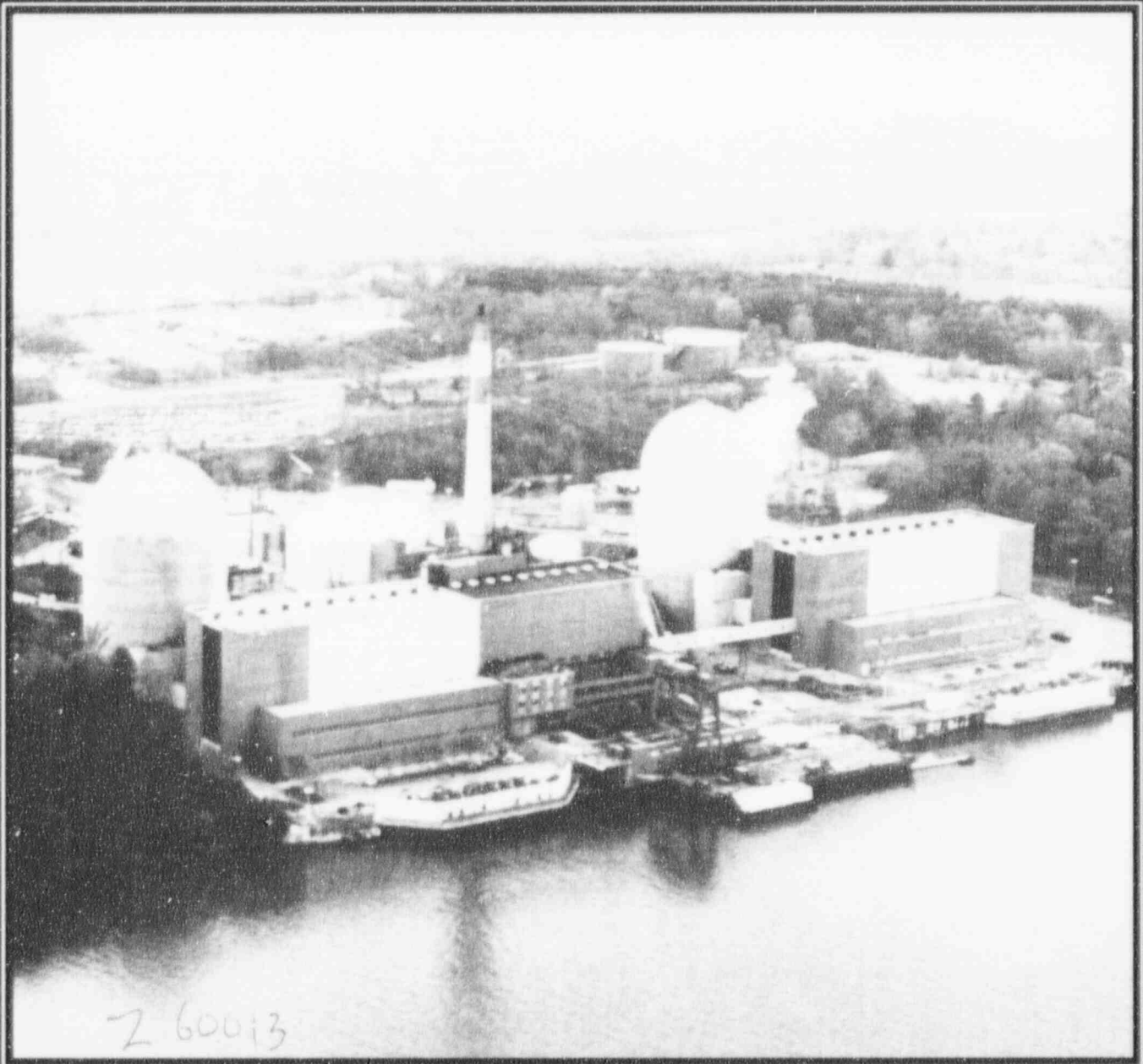
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MEMORANDUM TO THE CHAIRMAN

We are pleased to submit to you the Nuclear Regulatory Commission's (NRC's) Office of the Inspector General (OIG) Semiannual Report to Congress for the period April 1, 1995, through September 30, 1995.

During this reporting period, we completed 7 audits of NRC's programs and operations, and analyzed 21 contract audits as issued by the Defense Contract Audit Agency (DCAA). We also completed 56 investigations and 4 event inquiries.

The work performed during this period was accomplished under the direction of former Inspector General, David C. Williams. During his tenure, Mr. Williams built an organization that became known for its integrity and professionalism. He brought discipline and structure to OIG programs and instituted quality assurance measures to ensure adherence to office policies and procedures. Mr. Williams also opened lines of communication with agency managers, so that OIG products would be useful and meaningful. Through his leadership, the NRC and the public grew to trust and respect the work of the OIG.

I assure you that we will continue to maintain these high standards. I am looking forward to working with you and agency managers to achieve the highest level of integrity and accountability for the programs and operations of the NRC.

Sincerely,



Leo J. Norton
Acting Inspector General



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REPORTING REQUIREMENTS INDEX

The Inspector General Act of 1978, as amended (1988), specifies reporting requirements for semiannual reports. The requirements are listed and indexed to their applicable pages.

Citation	Reporting Requirements	Page
<i>Section 4(a) (2)</i>	<i>Review of Legislation and Regulations</i>	<i>19</i>
<i>Section 5(a) (1)</i>	<i>Significant Problems, Abuses, and Deficiencies</i>	<i>5-9, 13-15</i>
<i>Section 5(a) (2)</i>	<i>Significant Recommendations for Corrective Action</i>	<i>5, 6</i>
<i>Section 5(a) (3)</i>	<i>Prior Significant Recommendations Not Yet Completed</i>	<i>8, 9</i>
<i>Section 5(a) (4)</i>	<i>Matters Referred to Prosecutive Authorities</i>	<i>13-15</i>
<i>Section 5(a) (5)</i>	<i>Information or Assistance Refused</i>	<i>None</i>
<i>Section 5(a) (6)</i>	<i>Listing of Audit Reports</i>	<i>27-29</i>
<i>Section 5(a) (7)</i>	<i>Summary of Significant Reports</i>	<i>5-9, 13-15</i>
<i>Section 5(a) (8)</i>	<i>Audit Reports—Questioned Costs</i>	<i>30</i>
<i>Section 5(a) (9)</i>	<i>Audit Reports—Funds Put to Better Use</i>	<i>31</i>
<i>Section 5(a) (10)</i>	<i>Audit Reports Issued Before Commencement of the Reporting Period for Which No Management Decision Has Been Made</i>	<i>30</i>
<i>Section 5(a) (11)</i>	<i>Significant Revised Management Decisions</i>	<i>None</i>
<i>Section 5(a) (12)</i>	<i>Significant Management Decisions With Which OIG Disagreed</i>	<i>None</i>

EXECUTIVE SUMMARY

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

AUDITS

- The U.S. Nuclear Regulatory Commission (NRC) has established training requirements to ensure that its inspectors meet minimum knowledge and qualification standards. The Office of the Inspector General (OIG) reported that communication breakdowns resulted in training inefficiencies, at some increased costs to the agency. The OIG made six recommendations to improve communication and cooperation among NRC managers.
- Headquarters parking garage management is one of several functions NRC has contracted out. The OIG's review of the first year of operations disclosed that NRC did not adequately review parking fee collections or contractor charges for managing the garage. The OIG made three recommendations to strengthen NRC's oversight of contractor services.
- The OIG reviewed NRC's procedures to process technical concerns pertaining to high-level waste site characterization and allegations of harassment and intimidation (H&I) against those who report these concerns. The OIG identified several administrative weaknesses in the NRC's process for resolving H&I allegations and made three recommendations to strengthen this process.
- The former NRC Chairman established a Steering Committee to recommend opportunities for organizational improvement. The OIG was asked to assist this committee, and while doing so, drew from a large body of previous OIG work to arrive at several suggestions to improve organizational efficiency by eliminating potential duplicate functions and layers of management.
- The National Nuclear Safety Network (NNSN) raised concerns about NRC's Local Public Document Room (LPDR) program. The OIG reported that NRC has taken several steps in recent years to upgrade LPDRs and provide the public with access to more information on a timely basis. The OIG also suggested several ways to improve document processing.
- Several pieces of legislation established NRC's grant program to provide assistance to educational and nonprofit institutions, State and local governments, and professional societies. NRC's grant program disbursed about \$1 million in Fiscal Year (FY) 1994. The OIG reported that NRC has controls to ensure the proper use of grants, but owing to projected budget reductions through FY 2000, suggested that the agency may wish to evaluate the continuing need or level of support for the program.

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INVESTIGATIONS

■ The OIG investigated allegations that an employee at the Idaho National Engineering Laboratory (INEL) submitted falsified friction test results to the NRC. From this investigation, OIG concluded that the test results and other documents, submitted as part of an NRC research contract, were falsified. The employee was charged with seven counts of making false statements in violation of Title 18, United States Code, Section 1001. On August 29, 1995, the engineer pleaded guilty to one charge of making a false statement in U.S. District Court for the District of Idaho.

■ The OIG investigated allegations that the NRC staff misled the public and the National Academy of Sciences (NAS) in a technical dispute concerning the California low-level waste repository. No evidence was found to indicate that any NRC staff member intentionally distorted information or misled the NAS.

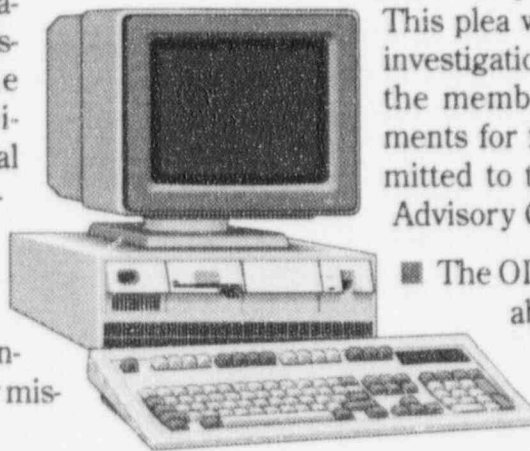
■ The OIG investigated the disappearance of computer memory chips from individual computers throughout the NRC. During this investigation, the OIG identified an NRC contractor employee who stole

numerous pieces of NRC computer equipment. Since all the missing computer equipment was not accounted for, OIG is continuing to investigate the possible theft of other pieces of equipment. The OIG conducted a separate review to learn and subsequently explain to the Commission why this theft was not detected by the NRC.

■ On August 22, 1995, a former member of an NRC Advisory Committee pleaded guilty to a one-count Information¹ (filed in lieu of an indictment) that charged him with theft of public money in violation of Title 18, United States Code, Section 641. The former member was sentenced to serve one-year of probation, fined \$3,000, and ordered to pay restitution of \$4,280. This plea was the result of an OIG investigation which determined that the member received reimbursements for false claims he had submitted to the NRC while with the Advisory Committee.

■ The OIG investigated a possible abuse of an American Express Government Travel card by an NRC reactor inspector intern. From this investigation, the OIG determined that the employee used the card to purchase personal items, and the employee was terminated.

¹Please refer to the glossary for a definition of this term.



THE U.S. NUCLEAR REGULATORY COMMISSION

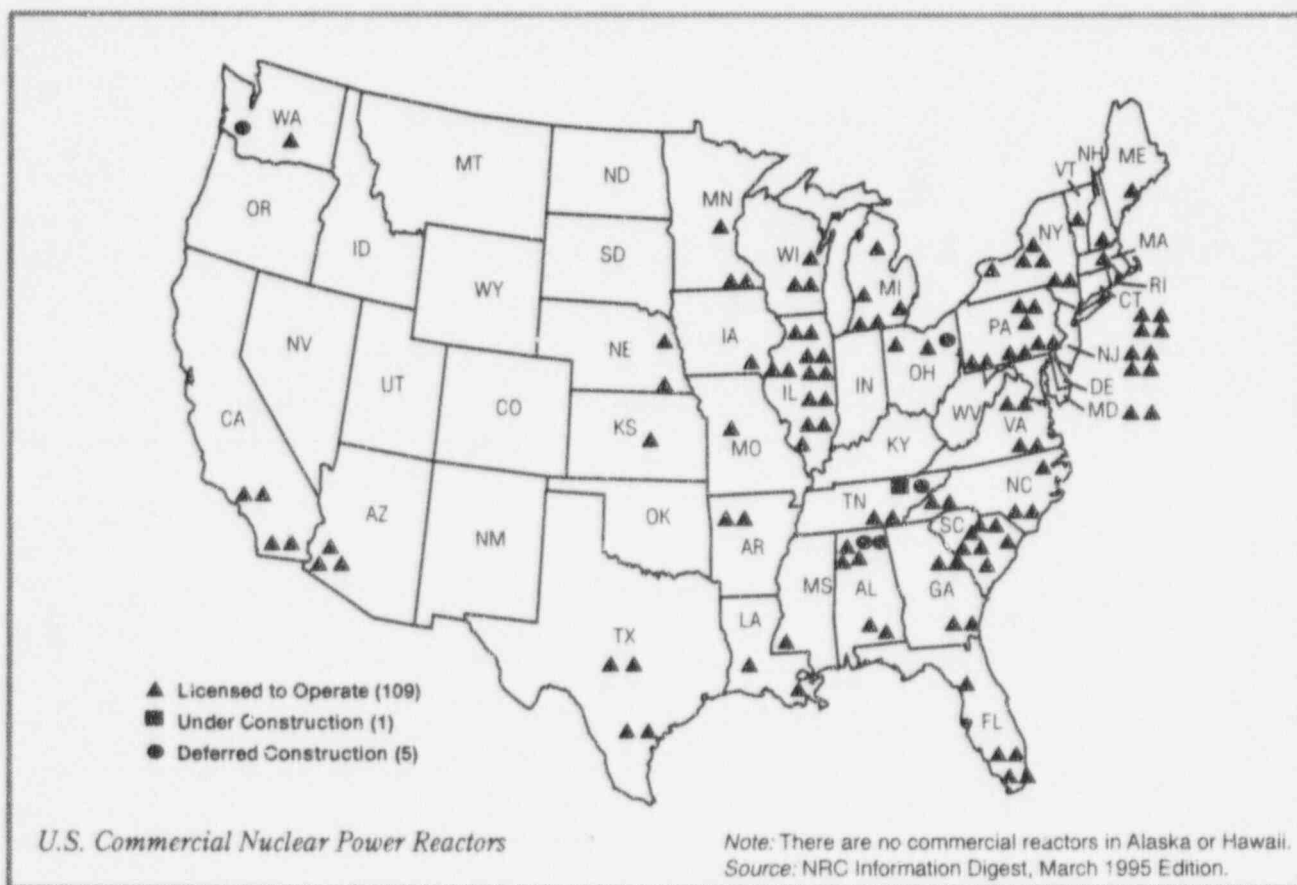
The NRC was established as an independent Federal agency by the Energy Reorganization Act of 1974, as amended. This act, along with the Atomic Energy Act of 1954, as amended, provides the framework for regulating the Nation's commercial nuclear power industry.

The agency's scope of responsibility is complex and multifaceted. The NRC's mission is to ensure that civilian uses of nuclear materials in the United States—in activities ranging from the operation of nuclear power plants to medical, industrial, or research appli-

cations—are accomplished with the foremost regard for the protection of public health and safety, the environment, and national security.

The NRC fulfills its responsibilities through licensing and regulatory activities that support three major program areas:

- Reactor Program (Reactor Program)
- Management and Support Program (Management & Support)
- Nuclear Materials and Nuclear Waste Program (Nuclear Materials/Waste)



The NRC's FY 1995 budget was approximately \$525 million, which included the OIG's budget of slightly over \$5 million.



First light from a nuclear power reactor – 1951

Credit: Department of Energy Visuals Library

THE OFFICE OF THE INSPECTOR GENERAL

In 1978, the U.S. Congress passed the Inspector General Act to ensure integrity and efficiency within the Federal Government and its programs. In 1988, the act was amended to provide for the establishment of an independent OIG within the NRC. The OIG's primary mission is to assist the agency by identifying ways to improve NRC's programs and operations through the prevention and detection of fraud, waste, and abuse. The OIG accomplishes its mission by performing audits, special evaluations, investigations, and event inquiries.

The OIG's audit staff conducts performance and financial audits, as well as special evaluations. Performance audits focus on NRC's administrative and programmatic operations. Through financial audits, OIG reviews NRC's internal control systems, transaction processing, and financial systems. Special evaluations are conducted by the OIG to examine the implications of NRC's programs that affect national issues.

The OIG's investigative staff conducts investigations and event inquiries. The staff investigates violations of law or misconduct by NRC employees and contractors and allegations of abuse or irregularities in NRC programs and operations. The event inquiry is an investigative product documenting examination of events or agency actions that do not focus specifically on individual misconduct. These reports identify institutional weaknesses that led to or allowed a problem to occur.

The OIG shares in NRC's responsibility to provide adequate assurance for the protection of public health and safety in the commercial use of nuclear materials and in the operation of nuclear facilities. The OIG assists the agency by assessing and reporting on NRC's efforts to ensure that its safety-related programs are operating effectively.

Of additional importance is the NRC's responsibility for ensuring that individuals who identify nuclear safety concerns regarding the use of nuclear materials do not suffer adverse job actions as a result of reporting these concerns. The OIG continually evaluates NRC's efforts to combat this type of unlawful discrimination.

The NRC is relatively unique among Federal agencies because it is required by the Omnibus Budget Reconciliation Act of 1990 to recover approximately 100 percent of its budget authority. In FY 1995, the NRC collected approximately \$500 million in fees from the industries that it regulates. Therefore, the agency must employ sound financial practices to fully comply with its legislative mandates. OIG's financial audits help the agency to meet these objectives.

THE AUDIT PROGRAM

In keeping with the goal of helping the agency improve its effectiveness, the OIG completed 7 performance and financial audits and analyzed 21 contract audit reports issued by the DCAA. The performance audits resulted in 12 recommendations to NRC management.

AUDIT SUMMARIES

Inspector Training Program: Improved Coordination and Communication Needed (Reactor Program)

NRC has established training requirements to ensure that its inspectors meet minimum knowledge and qualification standards. An internal study has shown the need to improve inspector training, and the agency expanded its formal training requirements for inspectors. The objective of this review

was to assess NRC's management of inspector training.

The OIG noted that NRC generally achieved overall management objectives for the inspector training program. However, enhanced coordination and communication of the planning and delivery processes was needed to improve the efficiency of the program. Breakdowns in communication have caused inefficient resource usage, including revisions to inspection schedules at some increased costs. To enhance training efficiency and ef-

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USNRC Inspector monitors measurements being taken with a moisture density gauge.

Audit Program (continued)

fectiveness, OIG recommended that the expectations of training coordinators be clarified, enrollment confirmation data be given to managers and participants on a more timely basis, and that managers be held accountable for developing training requirements and supporting scheduled training.

Improvements Needed in NRC's Oversight of Parking Garage Management Services (Management & Support)

Headquarters parking garage management is one of several functions NRC has contracted out. The OIG reviewed the agency's oversight of this contract and the contractor's billings for services during the first year of operations.

Our review disclosed that NRC did not adequately review parking fee collections or contractor charges for managing the garage. These conditions led to unreported monthly permit sales, inconsistent and uncollected daily charges, and inaccurate contractor fees. The review also disclosed that the contractor failed to establish adequate financial controls over parking garage receipts that resulted in unreported monthly sales of \$9,314. OIG recommended that NRC formally review and approve contractor remittances for parking garage collections, update and clarify contract terms, and review prior daily parking logs to determine if additional monies are due NRC.

NRC Needs to Strengthen Its Process for Allegations Received Regarding the High-Level Nuclear Waste Repository (Nuclear Materials/Waste)

The Nuclear Waste Policy Act requires that the Department of Energy (DOE) con-

struct, operate, and permanently close a high-level waste (HLW) repository. Once DOE completes its site characterization, it will submit an application to NRC, which is responsible for reviewing DOE's work and issuing a construction authorization. Having an efficient process to resolve allegations about DOE's pre-licensing activities is therefore important.

NRC has implemented procedures to process technical concerns pertaining to site characterization, as well as allegations of harassment and intimidation (H&I) against those who report these concerns. The OIG observed that in addition to several administrative weaknesses, NRC's process for resolving H&I allegations could create a conflict of interest because the agency refers allegations to the DOE office responsible for the HLW program, rather than to an independent organization. OIG recommended that NRC revise and strengthen its current process for handling H&I allegations and develop procedures to ensure the revised process is implemented.

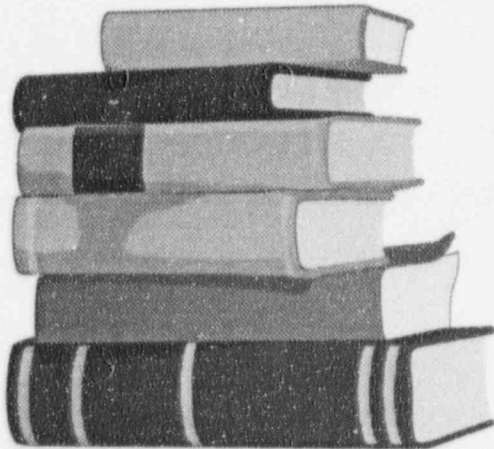
Now is the Opportune Time to Re-Examine NRC's Organizational Structure (Management & Support)

The Vice President's National Performance Review challenged Federal agencies to examine their functions to identify opportunities for improving operating efficiency and reducing budget expenditures. In support of this request, the former NRC Chairman established a Steering Committee to recommend opportunities for organizational improvement. The OIG was asked to assist this committee, and while doing so, drew from a large body of previous OIG work to identify where NRC might further improve its operating efficiency.

Although we did not provide formal recommendations, we suggested several organizational alternatives that the EDO may wish to explore to eliminate potential duplicate functions and layers of management.

*Observations on NRC's
Document Processing and the
Local Public Document Room
(Management & Support)*

The National Nuclear Safety Network, an organization of public citizens interested in nuclear safety, raised concerns about NRC's Local Public Document Room (LPDR) program. The OIG examined this important agency program to (1) ensure the information provided to the public is current, (2) assess agency commitments to enhance this function, and (3) evaluate charges for copying documents.



Although NRC has not defined specific criteria or fully implemented procedures to process documents and ensure their timely availability, we observed that information takes an average of 4 to 5 weeks to arrive at LPDRs. We also observed that NRC has taken several steps in recent years to upgrade LPDRs and provide the public with access to more information. On the basis of current

guidance, NRC believes its charges for copying documents are reasonable. However, LPDR patrons may order documents directly from NRC's main Public Document Room in Washington, DC for less than from some LPDRs. While the report does not contain formal recommendations, it suggests ways to improve document processing.

*Review of NRC's Grant Program
(Management & Support)*

NRC's grant program began in 1980; it is authorized under the Atomic Energy Act of 1954 and the Federal Grant and Cooperative Agreement Act of 1977. NRC provides grants to educational and nonprofit institutions, State and local governments, and professional societies. The program's objectives are to increase public understanding of commercial nuclear power, pool practical knowledge and technical information, and enhance public health and safety. NRC's grant program disbursed about \$1 million in FY 1994.

During its review the OIG found that the NRC has controls for adhering to the proper use of grants in accordance with the Federal Grant and Cooperative Agreement Act of 1977. Also, the program appears to be working as intended. However, because of projected budget reductions through FY 2000, the agency may wish to evaluate the continuing need or level of support for the grant program.

*The Office of Nuclear Material Safety and
Safeguards Programmatic Decisions Are
Generally Well Documented and Retrievable
(Management & Support)*

At the former NRC Chairman's request, OIG evaluated several key agency decision-

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making processes, primarily in the agency's Office of Nuclear Material Safety and Safeguards (NMSS). The evaluation was to identify and evaluate NRC processes for communicating and documenting key decisions. The OIG found that NMSS, and other NRC offices, have taken measures or have instituted actions to improve agency processes for documenting key decisions.

The OIG noted that isolated events may occur in the future that will challenge the agency's ability to retrieve its historical support for decisions. However, OIG concluded that when NRC changes are completed, the agency will be better able to retrieve the basis for its decisions than it has in the past.

AUDITS IN PROGRESS

■ **Review of NRC's Inspection Program Management.** This audit is in response to the former Chairman's request to assess how NRC (1) ensures consistency in the inspection program, and (2) uses training to ensure that agency policies are appropriately applied.

■ **Review of NRC's Individual Plant Examination (IPE) Program.** In March 1995, an NRC contractor employee expressed concerns about the agency's ability to incorporate the results of its IPE program into future risk-based regulations. NRC formed a Differing Professional View Panel in May 1995 to review and advise on this matter. Two months later the panel recommended procedures to address these concerns. The OIG is reviewing the agency's disposition of this issue.

■ **Audit of NRC's FY 1995 Financial Statements.** The Chief Financial Officers Act of 1990 requires that NRC issue audited finan-

cial statements annually. OIG's objective for this audit is to render an opinion on whether the FY 1995 financial statements fairly present the agency's financial position and to issue two reports: one would describe the condition of NRC's internal controls and the other would describe NRC's degree of compliance with applicable laws and regulations.

■ **Survey of Consultant Use.** The Chairman requested that OIG assess NRC's use of consultants and other experts, and the adequacy of internal controls governing this practice. Our survey addresses personnel appointments and commercial procurement of consultant services.

■ **Survey of NRC's Rulemaking Process.** OIG is surveying NRC's rulemaking process to identify future audit issues. The survey will address the efficiency, timeliness, and management of NRC's rulemaking activities.

SIGNIFICANT RECOMMENDATIONS NOT YET COMPLETED

■ As we reported in our last semiannual report, NRC has not yet completed action on one recommendation from our November 1990 report entitled, *NRC's Management of Reporting Requirements Under 10 CFR Part 21*. This recommendation addresses the agency's need to revise 10 CFR Part 21 to accommodate reporting requirements for material licensees. This revision is necessary to comply with Section 206 of the Energy Reorganization Act of 1974, as amended.

NRC's Office of the General Counsel determined that the agency has no legal authority to require Part 21 reports from Agreement State licensees. The NRC staff advised OIG

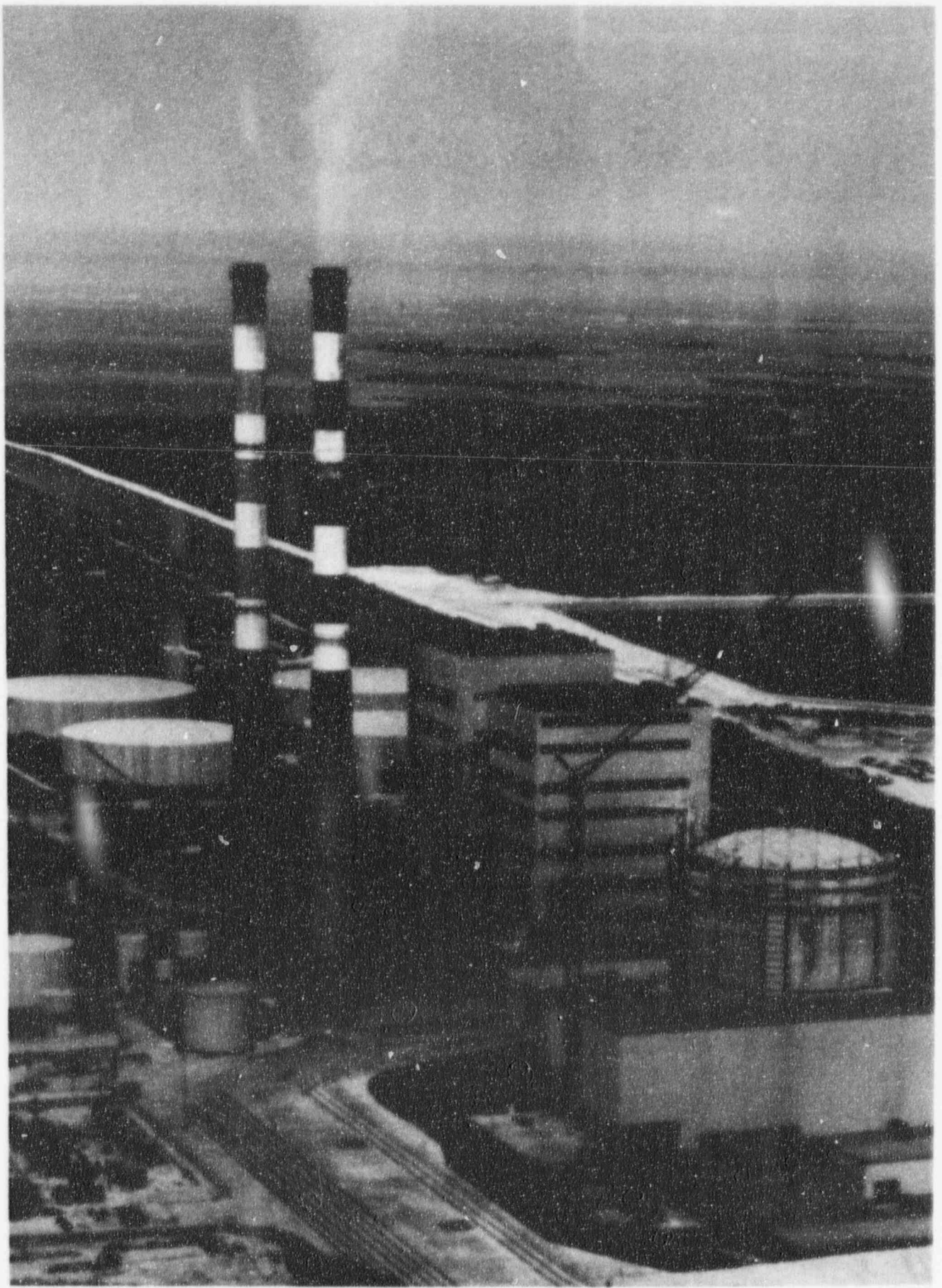
that they were conducting a study to determine which material licensees could experience a component failure that could create a substantial safety hazard. Preliminary results of the study were obtained from the contractor, and a proposed rulemaking is expected in late 1995. NRC action on this recommendation is continuing.

■ On March 17, 1995, OIG issued a report entitled, *NRC Needs to Provide Strong Direction For the Licensing Support System (LSS)*. The Nuclear Waste Policy Act of 1982 requires that NRC approve or disapprove the construction of a HLW repository within 3 to 4 years of receiving a DOE construction license application. To meet this deadline, NRC enacted a

rule requiring the development of an electronic information management system to reduce the time needed for discovery during the license hearing process. The rule requires that DOE design and develop the system and that NRC operate and maintain it. The program has stalled for the past 5 years for several reasons. Many of the delays may be attributed to inadequate definition and agreement on the roles and responsibilities of DOE and NRC. As a result, we recommended that NRC "Obtain a formal commitment from DOE in the form of an interagency agreement or MOU [Memorandum of Understanding] on key aspects of the LSS." While NRC has made progress in this area, action is not complete.



USNRC Inspector conducts health and safety field work.

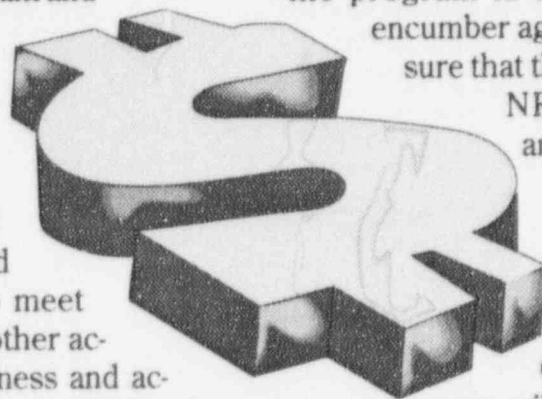


Crystal River

THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act (FMFIA) requires that Federal managers establish a continuous process for evaluating, improving, and reporting on the internal and accounting systems for which they are responsible. The FMFIA specifies that by December 31 of each year, the head of each executive agency subject to the Act shall submit a report to the President and the Congress stating whether the agency's evaluation of its internal controls was conducted in accordance with the Internal Control Guidelines issued by the Office of Management and Budget (OMB) and whether the agency's system of internal accounting and administrative controls complies with the standards established by the Comptroller General.

On June 21, 1995, OMB revised Circular A-123, the implementing guidelines for FMFIA. The revised circular, *Management Accountability and Control*, replaces the former A-123, *Internal Control Systems*. OMB recognizes in this revised circular that management controls (an organization's structure, policies, and procedures) are tools to help program and financial managers achieve results and safeguard the integrity of their programs. The circular notes that agencies should not consider controls as an isolated management tool but should integrate these controls to meet FMFIA requirements with other activities to improve effectiveness and accountability. Circular A-123 concludes that management controls should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing.



To fulfill the revised requirements, NRC developed and implemented a redesigned management control program. The program established an Executive Committee for Management Controls to provide overall direction, using the collective judgment of NRC's senior managers. The Committee is chaired by NRC's Executive Director for Operations (EDO). Selected offices will prepare and maintain a management control plan which, in conjunction with an annual reasonable assurance report, will provide the framework for monitoring and improving controls on an ongoing basis. All NRC offices will prepare a reasonable assurance letter each year. OIG serves as advisor to the Executive Committee, and may perform management control evaluations as requested.

In announcing the revised program to NRC managers, the EDO emphasized that the agency's management control activities are not stand-alone managerial practices, but should be considered an integral part of day-to-day managerial responsibilities. He added that the program is designed to benefit, not encumber agency managers, and to ensure that the controls make sense for NRC's operating structure and environment.

When we conduct our 1995 FMFIA work, we will evaluate NRC's compliance with revised Circular A-123. In addition, we will review the management control plans for conformance with criteria established by the EDO as chairman of the Executive Committee.

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Recently, the Chief Financial Officers Council initiated measures to streamline financial reporting, and to include FMFIA reporting in these measures. A Council initiative was undertaken in accordance with the Government Management Reform Act of 1994, which permits the streamlining of financial management reports in consultation with the appropriate Congressional committees. Subsequently, six agencies, including the NRC, sought "pilot status" for 1995 to consolidate per-

formance-related reporting. Under the pilot program, NRC will submit a single Accountability Report for FY 1995. The report will be due on March 31, 1996. It will be signed by NRC's Chairman and will include NRC's financial statement, the FMFIA report, management's followup on audit recommendations, financial reporting data on prompt payment, civil monetary penalties, debt collection, and information on agency performance.

THE INVESTIGATIVE PROGRAM

During this reporting period, the OIG received 201 allegations, initiated 43 new investigations, and closed 56 cases. In addition, 59 referrals were made to NRC management.

INVESTIGATIVE CASE SUMMARIES

Fabrication of Friction Test Data Submitted to the NRC by an Idaho National Engineering Laboratory Employee (Reactor Program)

The Office of Nuclear Regulatory Research (RES) notified the OIG of an allegation that an engineer working for INEL had submitted falsified friction test results. OIG conducted an investigation which revealed that as part of an NRC research contract, the engineer submitted to NRC numerous false and fictitious documents, which included friction test results. OIG referred the matter to the United States Attorney for the District of Idaho to consider for prosecution.

On June 14, 1995, a seven-count indictment was returned against the former laboratory employee for violations of Title 18, United States Code, Section 1001. On August 29, 1995, the former employee pleaded guilty to one charge of making a false statement in U.S. District Court. A sentencing date has been scheduled for late November 1995.

As a result of the OIG investigation, the Commission asked the NRC staff to address the broader ramifications of this case, including such issues as: (1) NRC confidence in the

integrity of other data supplied by the contractor, (2) the NRC's management control process on this and other contractors, and (3) NRC assurance of adequate management controls within the contractor organization. The staff response to this request is pending.

Alleged NRC Coverup Involving Ward Valley Waste Site (Nuclear Materials/Waste)

The National Academy of Sciences (NAS) requested that the NRC review a dispute over the amount of plutonium projected for disposal at the proposed Low-Level Waste Repository (LLWR) situated at Ward Valley, California.

The dispute was over a plutonium estimate submitted by the licensee and raised by opponents of the Ward Valley site and a considerably lower estimate projected by the State regulator. The NRC was asked to determine which of these estimates was reasonable.

In their initial response to NAS, the NRC staff concurred with the regulator's lower estimate. A second letter from the NRC advised NAS that the staff further examined the basis for the plutonium waste disposal amount projected by the licensee. According to the staff, the licensee's higher plutonium estimate was based on an NRC document containing a typographical error.



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The OIG investigated several allegations that the NRC staff had failed to use NRC official guidance for estimating radioactive waste and had provided misleading information to NAS. This allegedly allowed the NRC to assist the licensee in gaining approval to operate the Ward Valley LLWR site.

No evidence was found to indicate that any NRC staff member intentionally distorted information to assist the licensing of the Ward Valley LLWR site. Further, OIG did not find evidence that the staff attempted to mislead NAS.

Theft of Computer Equipment (Management & Support)

The OIG initiated an investigation when it received a report that numerous computer memory chips were disappearing from individual computers throughout the NRC. During this investigation, OIG identified an NRC contractor employee who stole at least \$4,000 worth of NRC computer equipment over an 18-month period. OIG was able to retrieve most of the stolen property. OIG referred this case to the United States Attorney's Office for the District of Maryland where prosecution has been initiated. Since all the missing computer

equipment was not accounted for, OIG is continuing to investigate the possible theft of other pieces of equipment.

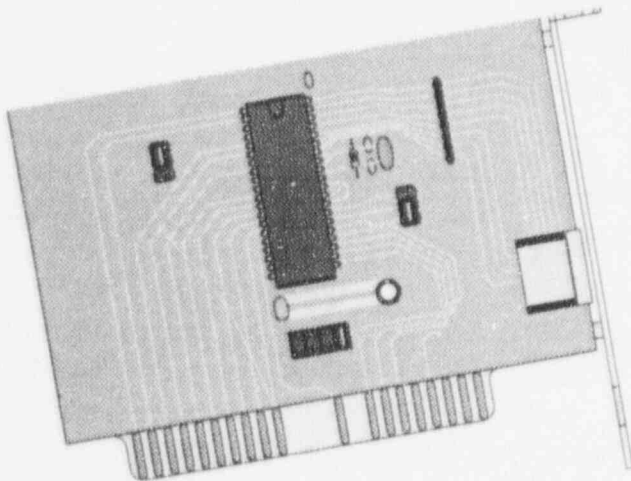
At the request of the NRC Chairman, OIG conducted a separate review to learn why the NRC failed to detect the theft of the computer equipment. OIG determined that the property was neither reported missing to the Office of Administration's Division of Security or Division of Facilities and Property Management nor to the Office of Information Resources Management. These findings were presented to the Commission.

Information disclosed during this review indicated that a large amount of NRC computer equipment may be unaccounted for in the NRC's Office of Information Resources Management tracking system.

Prosecution of NRC Advisory Committee Member (Reactor Program)

The OIG issued an investigative report about a former member of an NRC Advisory Committee in August 1994. In this report, OIG concluded that while with the Committee, the member received reimbursements as a result of 17 false claims he submitted to the NRC for office rental expenses and the cost of secretarial services provided by his spouse.

OIG referred this matter to the U.S. Department of Justice, Public Integrity Section, to consider for criminal prosecution. On August 22, 1995, the former member pleaded guilty to a one-count Information² (filed in lieu of an indictment), that charged him with theft of public money in violation of Title 18, United States Code, Section 641. The former Advisory Committee member entered his plea in the United States District Court for the Dis-



²Please refer to the glossary for a definition of this term.

trict of Wyoming. The former member was sentenced to serve one-year of probation, fined \$3,000, and ordered to pay restitution of \$4,280.

Misuse of American Express Government Travel Card (Management & Support)

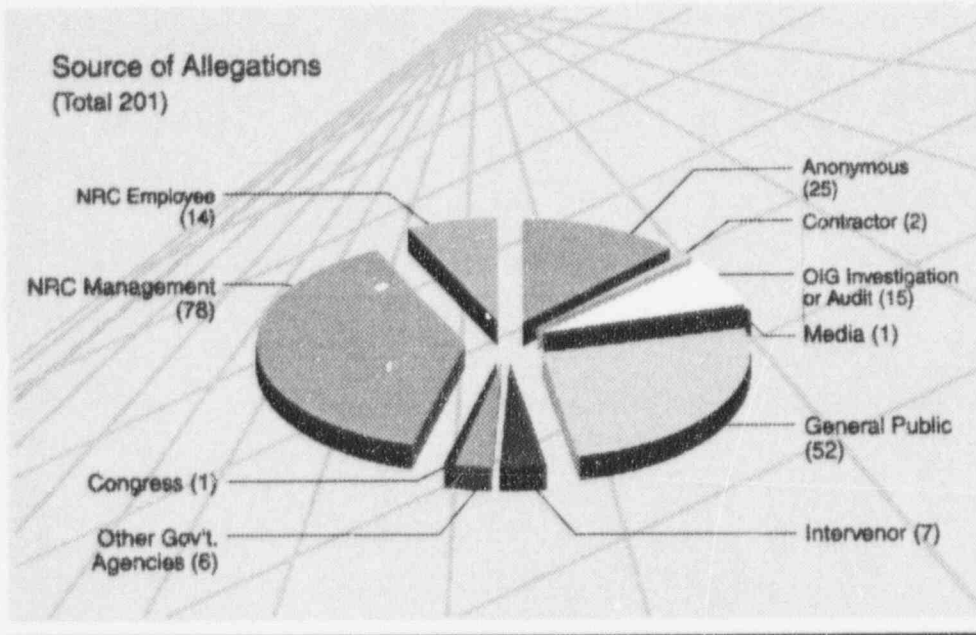
The OIG initiated an investigation of a reactor inspector intern after receiving information from the Division of Accounting and Finance regarding overdue and suspended credit cards. From the investigation, the OIG determined that the intern had used the government credit card on numerous occasions for personal use. It was further determined that the employee's charge privileges had been suspended after submitting a check for payment that was returned for insufficient funds.



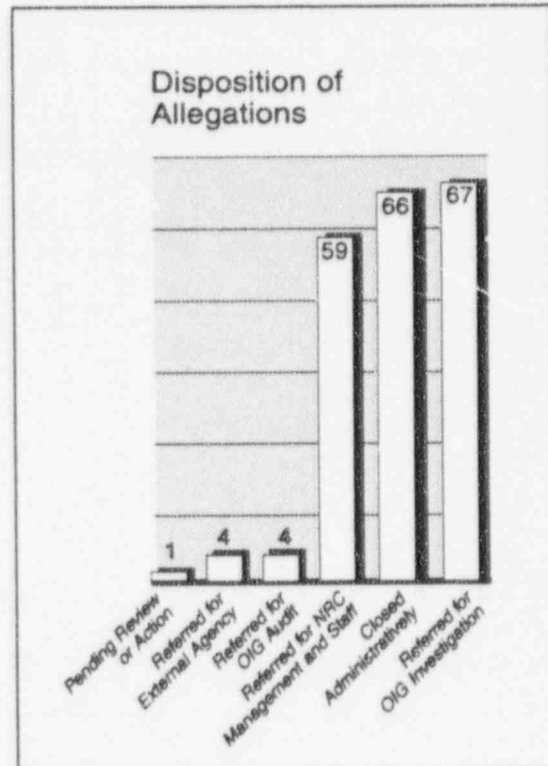
The NRC directive governing official travel restricts use of the charge card to official travel purchases. Further, full payment by employees must be made upon receipt of the monthly statement.

As a result of this abuse, the employee was terminated.

INVESTIGATIVE STATISTICS



Of the 201 allegations, none were carried forward from the previous period, and 25 resulted from hotline calls.



Status of Investigations

Pending DOJ Action	4
DOJ Declinations	6
Indictments & Arrests	3
Convictions	4
PFCRA Referrals	1
PFCRA Recovery	0
Other Recoveries	\$135,259

NRC Administrative Actions

Terminations & Resignations	2
Suspensions & Demotions	0
Other Administrative Actions	23
Total	25

INVESTIGATIONS SUMMARY

<i>Classification of Investigations</i>	<i>Carryover</i>	<i>Opened</i>	<i>Closed</i>	<i>In Progress</i>
Conflict of Interest	5	1	5	1
Internal Fraud	2	10	3	9
External Fraud	6	3	7	2
False Statements	1	1	1	1
Theft	5	4	5	4
Misuse of Government Property	4	7	8	3
Employee Misconduct	4	8	7	5
Management Misconduct	9	2	10	1
Technical Allegations-Other	9	7	10	6
TOTAL INVESTIGATIONS	45	43	56	32
TOTAL EVENT INQUIRIES	2	5	4	3

LEGISLATIVE AND REGULATORY REVIEW

The Inspector General Act, 5 U.S.C. App. 3, Section 4(a)(2), requires that the OIG review existing and proposed legislation and regulations and make recommendations concerning the impact of such legislation or regulations on the economy and efficiency of programs and operations administered by the agency.

From April 1, 1995, through September 30, 1995, OIG reviewed about 165 agency documents, including approximately 133 Commission Papers, 12 Federal Register notices, and 20 regulatory actions and statutes.

Regulatory commentaries were issued on fraud, waste, and abuse-related issues ranging from technical ethical matters to practical security procedures. Several provided prospective guidance, and as a result, dialogue was initiated with the agency on several broad policy concerns. The most significant commentaries are summarized below.

SUMMARIES

10 CFR Part 2.206 - Petition Acceptance Criteria

In this commentary, the OIG addressed agency practices for reviewing and acting on petitions filed under the provisions of 10 Code of Federal Regulations Part 2.206 (10 CFR 2.206). Part 2.206 provides that, "...Any person may file a request to institute a proceeding pursuant to 2.206 to modify, suspend, or revoke a license, or for such other action as may be proper..."

The commentary examined an individual complaint alleging improper rejection of a petition in the context of a prior OIG audit on this topic as well as the agency's own initiatives in this area. Prior agency actions directed toward resolving questions as to the application, intent, and scope of petitions filed under this regula-

tion included a July 1993 Commission Workshop, SECY 93-258, *Status Report on the Staff Review of the Regulations and Practices Governing Citizen Petitions Under ... 2.206*, and Management Directive 8.11, *Review Process for 10 CFR 2.206 Petitions*, and the agency response to OIG Audit 94A-28.

The OIG review found that the criteria for consideration of 10 CFR 2.206 petitions remains unclear as a result of the agency's failure to adequately document its requirements for consideration of petitions. The regulatory commentary concluded that the agency should clarify the basis for consideration of these petitions.

In response to this commentary, the NRC stated that it shared OIG's concern that there

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needed to be clear standards for acceptance of 10 CFR 2.206 petitions. Further, NRC indicated that the staff would be directed to clarify Management Directive 8.11 on this matter and that a supplemental response would be sent to the petitioners.

Conflict-of-Interest Violations by Term Employees

This commentary examined agency regulations and policies applicable to the short-term employment of professionals within the agency. The areas of vulnerability discussed in this commentary all emanate from the basic conflict of interest existing where a temporary government employee maintains connections to a non-government employer.

The OIG review focused on the distinct conflict-of-interest limitations required in these situations and suggested that in cases when an academic professional is sought by the agency, that an MOU be executed to ensure that those limits are documented. The commentary also addressed the need to protect inside information and to emphasize that provision of ethics advice is solely within the cognizance of the Office of General Counsel (OGC).

In response to the management referral action in this case, the staff conducted an assessment and initiated a plan of action to examine these issues. OIG managers met with the staff to assist in identifying options for corrective action.

Ethics Counseling and Training

Management Directive 7.5, *Ethics Counseling and Training*, a consolidation of former Management Directives 7.5 and 7.10, was reviewed. OIG comments focused on the need

to include explicit direction to employees that OGC is the cognizant office for ethics advice and guidance. The comment also restated that ethics advice given to employees and the factual basis for that advice must be documented.

Changes responsive to these comments were incorporated into the final draft of the management directive.

Procedures for Suspension and Termination of Agreement States

The Office of State Programs' (OSP) draft *Final Statement of Principles and Policy for the Agreement State Program and Procedures for Suspension and Termination of an Agreement State Program* was the subject of a regulatory comment on the process for examining proposed suspensions and terminations. The concern reflected in the commentary is the need for an objective membership in the constitution of the board responsible for determining suspension and termination issues. Selecting the Chairman of the Organization of Agreement States and NRC offices with advocacy roles under the overall agency function, instead of staff available from the Atomic Safety and Licensing Board Panel, was questioned as unnecessarily risking bias in these decisions.

The final OSP document was not revised to address the issues raised in the commentary.

Workplace Threats

The OIG reviewed a draft announcement intended to provide information to supervisors and employees on how to respond to troubled employees who may pose a physical threat in the workplace. In collegial meetings, revised language was drafted that accommodated OIG concerns regarding the scope and application of the announcement.



Equal Opportunity

The OIG reviewed draft Management Directive 10.161, *Equal Opportunity in Government Employment*. This management directive describes agency procedures for processing Equal Employment Opportunity complaints. The OIG commented that the directive should clarify that in cases of complaints involving offices reporting directly to the Chairman, such as the OIG, absent a conflict of interest, delegation of authority to issue the final agency decision should be to the head of that office,

in our case, the Inspector General (IG). Further, the directive should also specify that the Chairman would issue final decisions in cases where a conflict exists.

President's Council on Integrity and Efficiency Initiatives

Two commentaries were provided in response to requests from the President's Council on Integrity and Efficiency (PCIE). The first examined a draft Executive Order on Processing Administrative Allegations Against Inspectors General. OIG's remarks suggested additional detail regarding roles and responsibilities to establish and provide substantive guidance to these officials. The bulk of our suggestions were incorporated into subsequent revisions of the draft order.

The second review responded to a request for comments on the implementation of the Paperwork Reduction Act of 1995 (P.L. 104-13; 44 U.S.C. §3500 *et. seq.*). The thrust of our comments in this matter were to avoid compromise of OIG independence and included a suggestion that the OIGs be provided with an exemption from certain of its provisions.

OTHER ACTIVITIES

NRC'S TECHNICAL TRAINING

In the latter part of 1994, the OIG requested that the NRC's Technical Training Center (TTC) develop a training course for OIG personnel. The requested course would teach individuals who did not have an engineering background to understand the terminology and the basic operating principles of a nuclear power plant. In addition, the course was to address other areas of NRC operations, such as its regulatory responsibilities concerned with the medical uses of radioactive material and industrial radiography.

In May 1995, TTC personnel presented the first course to a class comprised of OIG auditors and special agents and the NRC Office of Investigations' (OI) investigators. The one-week course covered such areas as NRC inspector training, the inspection process, the basic operating principles of Boiling Water Reactors and Pressurized Water Reactors, reactor licensing, medicinal uses of radiation, and the transportation of nuclear material.

Feedback from the class on this course was overwhelmingly positive. All who attended agreed that TTC personnel did a superb job of making highly technical concepts understandable to a group of individuals with varied back-

grounds and experiences. A second course was held in September 1995 for the remainder of the OIG staff, and a number of OI and Department of Energy investigators.

The OIG and OI believe that this class will enhance the ability of both office staffs to carry out their audit and investigative responsibilities. Improved communications between the audit and investigative staffs and the NRC program and support staffs will also be a byproduct of this training course.

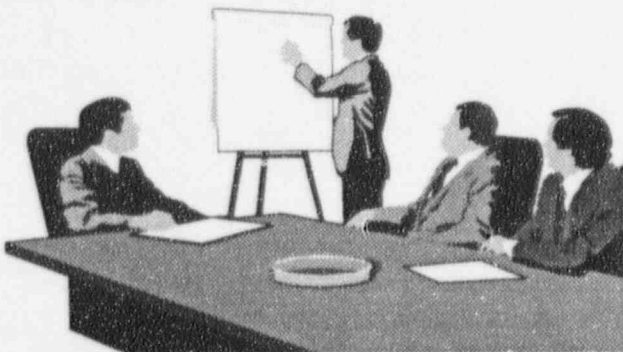
OIG TRAINING INITIATIVES

As part of the NRC contribution to the IG community training efforts, the NRC OIG Counsel serves as Chairman of the Council of Counsels to Inspectors General and Legal Editor of the Journal of Public Integrity. In addition, the NRC OIG Counsel has provided training to the Inter-Agency Ethics Council and served as a guest speaker at the Office of Government Ethics Annual Conference.

Additional training has been provided to the community by publication of *The Role of Inspector General in Ethics: Inspector General Counsel and Ethics Counsel Interface* in the Federal Ethics Report.

Within the NRC, the OIG published an update of our pamphlet, *The IG at the NRC* (NUREG/BR-0146, Rev.1). The revised edition provides, in addition to information on the structure and function of the NRC OIG, detailed policies and procedures for initiating and processing audits, investigations, and regula-

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tory commentaries. It also defines the purpose and substance of the OIG's documentary products and discusses the NRC employee's role in the OIG mission.

The OIG also published another pamphlet, *Financial Management at the U.S. Nuclear Regulatory Commission and the Role of the Inspector General*. This publication provides an overview of financial management initiatives at the NRC. In addition, it supplies information about NRC's financial management process and the statutory and procedural requirements that underlie the need for complete and accurate financial information.

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

The NRC OIG is actively involved in the activities of the PCIE's Professional Development Committee (PDC). This committee has implemented several major initiatives that have benefited the entire IG community.

The PDC sponsored two information forums in the spring that provided useful information and insight into topic areas of interest to the IGs. The first forum titled "Blinded by the Light: Detection in Cyberspace" focused on the nature and magnitude of electronic fraud. A panel of law enforcement experts described electronic fraud schemes and the criminal cases that resulted. Another panel of computer fraud experts examined methods of building electronic security systems and the emerging techniques for combating these new crimes.

The second forum titled "The Unified Field Theory of Management" was hosted by the OMB. This forum discussed how the National Performance Review, the Government Performance Results Act (GPRA), the Govern-

ment Management Reform Act, performance partnerships, and Audited Financial Statements build into a unified field theory of management. It also described the changes we should expect under GPRA and the practices of government auditors from foreign nations.

The PDC also successfully managed the publication of the *Journal of Public Inquiry*. The second issue of this journal, expected out in January 1996, will include articles such as (1) Operation Safe Home, (2) Private Inspectors General, (3) Conducting High-Level Investigations, (4) Legal Eagles: Ethics, (5) The Emerging IG Role on Agency Business Process Reengineering, (6) Deputation, (7) The Changing Meaning of "Inherently Governmental," (8) The Cost of Saving, (9) Aspects of the IG Act: Independence, (10) Audits Take Too Long; Fact or Fiction, and (11) IGNet.

The NRC IG also hosted an "Internal Government Investigation Forum" for the Control Office of the President of the Russian Federation. The Russian Federation was interested in obtaining information on United States control structures, especially Inspectors General, with a view towards establishing an IG-type function. At this forum, several distinguished Inspectors General provided information to the Russian Federation on such topics as (1) patterns of government corruption and inefficiencies, (2) the nature and importance of IG independence, (3) high-level inquiries, and (4) the role of the IG in a crowded arena. Also, an investigative panel composed of high-ranking United States law enforcement officials provided their insight into such high profile cases as (1) Iran Contra, (2) Operation Ill Wind, and (3) the Tamposi-Passport Control Office case. The Russian Federation commended the NRC IG for providing them with extremely valuable and pertinent information.

OIG PLANNING CONFERENCE

In June 1995, the fourth Annual OIG Planning Conference was held at NRC Headquarters in Rockville, Maryland. The conference theme was "Strategic Planning to Achieve Customer Satisfaction." The goal of this conference was to attain feedback on the quality, timeliness, impact, and usefulness of OIG's investigative, audit, and regulatory review reports.

As one of his last functions at NRC, the outgoing Chairman provided an overview of ways in which OIG has been of assistance during his tenure. Afterwards, NRC managers, private sector industry representatives, and

other government officials discussed customer identification and utilization of customer feedback. Additionally, the IG of the Department of Energy presented his views on OIG products, how his agency uses them, and how IGs can draw from each others' work to benefit all agencies.

Many insightful comments were received from conference participants regarding the effect of OIG products on agency actions and policy. Most notably, two panel members concurred that while they may not agree with all of the OIG's reports recommendations, these products are always useful during the management decision process. In closing, an NRC Commissioner communicated his expectations for the OIG in the coming year.



Conference panel members include (from left to right) Hugh Thompson and James Milhoan, NRC's Deputy Executive Directors, James Taylor, the Executive Director for Operations, and Maryann Grodin, Counsel to the OIG.

APPENDICES

AUDIT LISTINGS

Internal Program Audit Reports

Date	Title	Number
04/12/95	NMSS Programmatic Decisions Are Generally Well Documented and Retrievable	OIG/94E-32
04/18/95	Review of NRC's Grant Program	OIG/95A-07
05/02/95	Now Is The Opportune Time to Re-Examine NRC's Organizational Structure	OIG/95E-11
07/07/95	Observations on NRC's Document Processing and the Local Public Document Room Program	OIG/95A-15
08/04/95	Inspector Training Program: Improved Coordination and Communication Needed	OIG/94A-38
09/08/95	Improvements Needed in NRC's Oversight of Parking Garage Management Services	OIG/95C-14
09/11/95	NRC Needs to Strengthen Its Process for Allegations Received Regarding the High-Level Nuclear Waste Repository	OIG/95A-10

Contract Audit Reports

OIG Issue Date	Contractor/ Contract Number	Questioned Costs (Dollars)	Funds Put To Better Use (Dollars)
04/18/95	Bernard Hodes Advertising Inc. NRC-38-95-281	0	0
04/20/95	SAIC Research & Development Division NRC-04-90-095	0	0
04/20/95	Viking Systems International NRC-03-87-028	0	0
04/24/95	SAIC Research & Development Division NRC-05-86-162	0	0
05/09/95	Science & Engineering Associates, Inc. NRC-33-86-261 NRC-04-87-086 NRC-04-89-051	0	0
05/19/95	Ebasco Services, Inc. NRC-04-86-117	8,832	0
06/06/95	Analytical & Research Technology, Inc. NRC-33-91-183	0	0
06/27/95	Southwest Research Institute NRC-04-77-145	0	0
06/29/95	SAIC Research & Development Division NRC-02-85-007	0	0
07/05/95	Analytical & Research Technology, Inc. NRC-33-91-183	0	0

Contract Audit Reports (Continued)

OIG Issue Date	Contractor/ Contract Number	Questioned Costs (Dollars)	Funds Put To Better Use (Dollars)
07/05/95	System Improvements, Inc. NRC-04-90-078	0	0
07/14/95	Wyle Laboratories NRC-04-88-083	0	0
07/20/95	The Mitre Corporation NRC-04-90-368 NRC-04-92-051 NRC-04-87-399	0	0
07/20/95	Statistica, Inc. NRC-33-89-144	0	0
07/20/95	Statistica, Inc. NRC-33-89-144	0	0
07/24/95	Phoenix Associates, Inc. NRC-26-89-290	0	0
08/29/95	General Electric Nuclear Energy NRC-04-79-184	0	0
08/29/95	Westinghouse Electric NRC-04-85-103	0	0
08/29/95	Gray Personnel Services, Inc. RS-RG3-94-231	0	0
08/30/95	Law Environmental, Inc. NRC-04-85-112	0	0
08/30/95	Law Environmental, Inc. NRC-04-85-112	0	0
	TOTAL	8,832	0

AUDIT TABLES

The NRC's dependence on commercial contract activity is relatively small. Thus, questioned costs and savings are inherently smaller

than those reported by most other agencies. During this reporting period, the OIG analyzed 21 contract audit reports issued by the DCAA. The following tables depict the cost savings from this work.

TABLE I
*Office of the Inspector General
Reports Containing Questioned Costs*

<i>Reports</i>	<i>Number of Reports</i>	<i>(Dollar Value)</i>	
		<i>Questioned Costs</i>	<i>Unsupported Costs</i>
A. For which no management decision had been made by the commencement of the reporting period	4	24,379	396,971
B. Which were issued during the reporting period	1	8,832	0
Subtotals (A+B)	5	33,211	396,971
C. For which a management decision was made during the reporting period:			
(i) dollar value of disallowed costs	0	0	0
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision had been made by the end of the reporting period	5*	33,211	396,971
E. For which no management decision was made within 6 months of issuance	4	24,379	396,971

* Additional supporting documentation has been requested from these contractors to allow DCAA to complete these audits which are required by management prior to making a final decision regarding allowability of questioned costs and unsupported costs.

TABLE II

*Office of the Inspector General Reports Issued
With Recommendations That Funds Be Put to Better Use*

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

* Five pre-award audit reports reported that either zero funds were available for better use or that no contract was awarded.

ABBREVIATIONS

CFR	Code of Federal Regulations
DCAA	Defense Contract Audit Agency
DOE	U.S. Department of Energy
EDO	Executive Director for Operations
FMFL	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GPRA	Government Performance Results Act
H&I	Harassment and Intimidation
HLW	High-Level Waste
IG	Inspector General
INEL	Idaho National Engineering Laboratory
IPE	Individual Plant Examination
LLWR	Low-Level Waste Repository
LPDR	Local Public Document Room
LSS	Licensing Support System
MOU	Memorandum of Understanding
NAS	National Academy of Sciences
NMSS	NRC's Office of Nuclear Material Safety and Safeguards
NNSN	National Nuclear Safety Network
NRC	U.S. Nuclear Regulatory Commission
OGC	NRC's Office of General Counsel
OI	NRC's Office of Investigations
OIG	NRC's Office of the Inspector General

Abbreviations (continued)

OMB	Office of Management and Budget
OSP	Office of State Programs
PCIE	President's Council on Integrity and Efficiency
PDC	Professional Development Committee
RES	Office of Nuclear Regulatory Research
TTC	Technical Training Center

GLOSSARY

Event Inquiry

The event inquiry is an investigative product documenting examination of events or agency actions that do not focus specifically on individual misconduct. These reports identify institutional weaknesses that led to or allowed a problem to occur. This type of investigative effort was previously referred to as an inspection.

Financial Audit

A financial audit assesses the effectiveness of internal control systems, transaction processing, financial systems, and contracts.

Funds Put To Better Use

Funds identified in audit recommendations that could be used more efficiently by avoiding unnecessary expenses.

Hotline

A toll-free telephone number (1-800-233-3497) available to anyone for reporting incidents of possible fraud, waste, and abuse to the NRC's Office of the Inspector General.

Information

An information is an accusation, under oath, of a criminal offense, not by indictment of a grand jury, but by a public officer, such as a prosecutor.

Management Decision

A final decision based on management's response to audit recommendations and findings.

Material Weakness

A specific instance of noncompliance with the FMFIA of sufficient importance to be reported to the President and the Congress. A weakness that would significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use, or misappropriation of funds, property, or other assets; or result in a conflict of interest.

Glossary (continued)

Performance Audit

An OIG audit that focuses on the NRC's administrative and program operations and evaluates how managerial responsibilities are carried out.

Special Evaluation

An OIG audit report that examines the implications of NRC's programs that affect national issues, such as high-level radioactive waste disposal, nuclear power plant decommissioning, or the use of radiation by the medical community in treating disease.

Questioned Cost

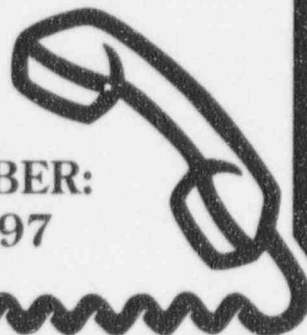
A cost questioned as a result of an alleged violation of law, regulation, contract, or agreement governing the expenditure of funds (costs unsupported by adequate documentation or funds for a particular purpose that are unnecessary or unreasonable.)

THE INSPECTOR GENERAL HOTLINE

A toll-free number (1-800-233-3497) was established by the OIG to provide NRC employees, contractors, and others with direct access to OIG's Hotline Program. Hotline procedures and guidelines were carefully developed to ensure the confidentiality of NRC employees wishing to report incidents of possible fraud, waste, and abuse within the NRC. Trained OIG staff are available to answer calls Monday through Friday, between 10:00 a.m. and 4:00 p.m. (eastern standard time). Individuals may also provide information to hotline personnel by writing to the address below.

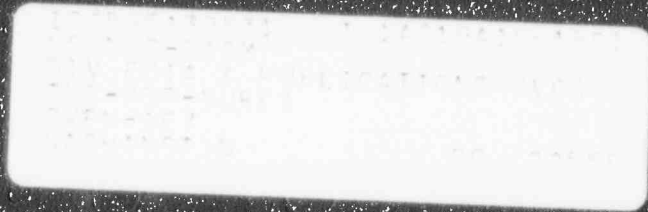
U.S. Nuclear Regulatory Commission
The Office of the Inspector General
Hotline Program
Mail Stop T-5 D28
Washington, DC 20555-0001

HOTLINE NUMBER:
1-800-233-3497





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