U.S. Nuclear Regulatory Commission

Office of the Inspector General

Semiannual Report to

Congress

October 1, 2004 – March 31, 2005

OIG VISION

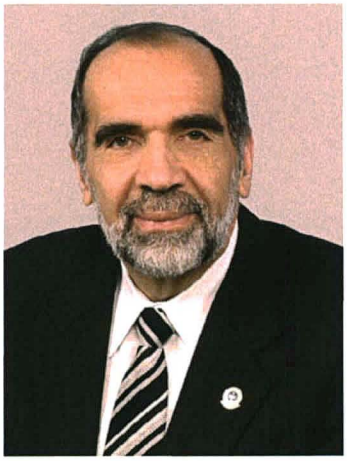
"We are agents of positive change striving for continuous improvement in our agency's management and program operations."

NRC-OIG MISSION

NRC-OIG's mission is to (1) independently and objectively conduct and supervise audits and investigations relating to NRC's programs and operations; (2) prevent and detect fraud, waste, and abuse, and (3) promote economy, efficiency, and effectiveness in NRC's programs and operations.

A MESSAGE FROM THE INSPECTOR GENERAL

This Semiannual Report to Congress highlights the activities of the U.S. Nuclear Regulatory Commission (NRC) Office of the Inspector General (OIG) for the 6-month period ending March 31, 2005.



Our work reflects the legislative mandate of the Inspector General Act to identify fraud, waste, and abuse and to recommend appropriate corrective actions. The audits and investigations highlighted in this report demonstrate our commitment to improving the NRC's programs and protecting their integrity.

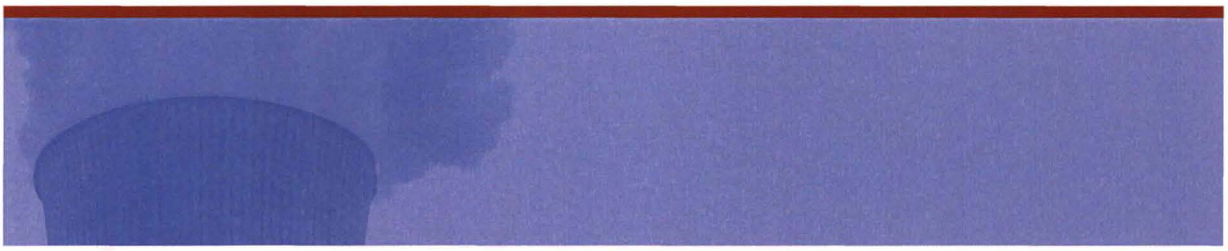
Our office completed 10 performance and financial audit reports of NRC's programs and operations making numerous recommendations to NRC for program improvement. OIG also analyzed five contract audit reports of which two identified $42,204 in questioned costs. In addition, OIG completed 37 investigations which produced $51,539 in recoveries. Eleven cases were referred to the Department of Justice and 17 were forwarded to NRC management for action during this reporting period.

Finally, I would like to acknowledge the extraordinary efforts of our auditors, investigators, and support personnel who form the core of NRC OIG. The commendations that these employees continuously receive is evidence of the superior and solid work they have performed.

I would also like to express my appreciation for the collaborative work between my staff and agency managers to address OIG findings and to implement the many recommendations made by my office. I look forward to continued cooperation as we work together to improve agency operations and strive to accomplish our common goal of ensuring the effectiveness, efficiency, and integrity of NRC's programs and operations.

Hubert T. Bell

Hubert T. Bell



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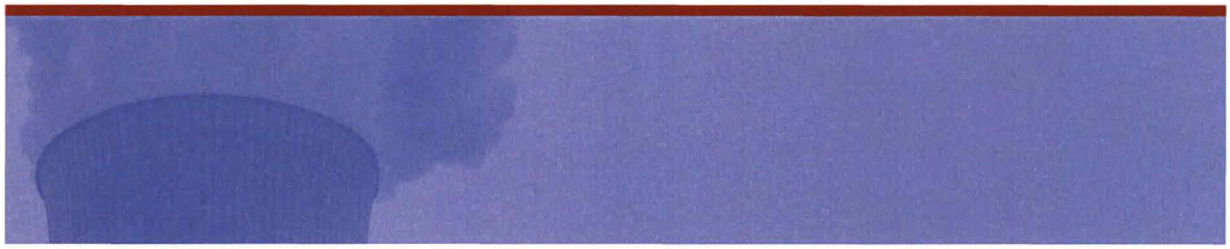
HIGHLIGHTS

AUDITS

- The Reports Consolidation Act of 2000 requires that each Inspector General summarize what he or she considers to be the most serious management and performance challenges facing the agency and assess the agency's progress in addressing those challenges. The NRC Inspector General identified nine management challenges that are considered to be the most serious.
- The Chief Financial Officers Act requires OIG to annually audit NRC's principal financial statements. An independent public accounting firm, under contract to OIG, conducted the audit with OIG oversight.
- Executive Order 12564, Drug-Free Workplace, was signed on September 15, 1986, to improve the efficiency of the Federal workforce and help prevent the use of illegal drugs in the workplace. OIG conducted an audit to assess the agency's implementation of its drug testing program and found weaknesses in the program.
- To carry out its responsibility to regulate commercial nuclear power plants, NRC conducts inspections at the Nation's 103 operating nuclear power reactors. OIG conducted an audit of NRC's baseline inspection program, which evaluates licensee performance in areas not measured or not fully measured, by licensee-reported performance indicators in order to remain cognizant of plant status and conditions.
- NRC established the Planning, Budgeting, and Performance Management (PBPM) process to link resources with strategic goals and performance. OIG conducted an audit to determine whether the NRC's budget formulation portion of the PBPM process is effectively used to develop and collect data to align resources with strategic goals and efficiently and effectively coordinated with program and support offices.
- The Nuclear Waste Policy Act (NWPA) outlines the process to site and construct a geologic high-level waste repository. Under the NWPA, the Department of Energy (DOE) is responsible for evaluating a repository site at Yucca Mountain and designing, constructing, and operating the facility. NRC's role is to develop a regulatory framework for evaluating a license application for



the repository and, thereafter, to regulate DOE's activities. OIG performed an audit to determine if NRC is properly prepared to meet its pre-licensing statutory requirements per the NWPA.

INVESTIGATIONS

- OIG conducted an investigation into information that a former NRC employee was involved in the operation of a private company while he was receiving workers' compensation benefits. OIG's investigation was forwarded to the Department of Labor's Office of Workers' Compensation Program (OWCP).

- OIG conducted an investigation into fraudulent claims by an NRC employee receiving benefits from the Federal Workers' Compensation Program after reporting that she was injured while working at the NRC.

- OIG completed an investigation of an NRC manager who sexually harassed an NRC employee during conferences at NRC headquarters in 2003 and 2004.

- OIG completed an investigation into an allegation that staff in the Division of Financial Management, Office of the Chief Financial Officer, failed to report 75 underbilled reactor inspection invoice errors totaling $2.4 million to the OIG independent auditors who conducted the FY 2003 audit of NRC's financial statements.

- OIG conducted an investigation into information that the NRC Office of Nuclear Reactor Regulation staff used undocketed (i.e., information not entered into the official agency public records system) calculations in its review of a technical specification amendment request submitted by Niagara Mohawk in 1998 concerning Nine Mile Point - Unit 1 Nuclear Power Plant.

- OIG conducted an investigation into the reported thefts of cash from the office spaces of nine NRC headquarters employees. During this investigation, OIG identified the subject and the methods she used to gain entry to NRC headquarters and bypass security checkpoints.

OIG ORGANIZATION AND ACTIVITIES

NRC's MISSION

The Nuclear Regulatory Commission (NRC) was established by the Energy Reorganization Act of 1974 which separated the Atomic Energy Commission's regulatory functions from its military and promotional functions and assigned the regulatory functions to the NRC. NRC thus inherited part of the Atomic Energy Commission's mission under the Atomic Energy Act of 1954 — to regulate the civilian commercial, industrial, academic, and medical uses of nuclear materials in order to protect the public health and safety and promote the common defense and security. In so doing, Congress made it NRC's mission to enable the Nation to use radioactive materials for beneficial civilian purposes while ensuring that public health and safety, common defense and security, and the environment are protected.

OIG MISSION AND STRATEGIES

In 1978, the United States Congress passed the Inspector General (IG) Act to ensure integrity and efficiency within the Federal Government and its programs. NRC's OIG was established as a statutory entity on April 15, 1989, in accordance with the 1988 amendment to the IG Act.

NRC OIG's mission is to (1) independently and objectively conduct and supervise audits and investigations relating to NRC programs and operations; (2) prevent and detect fraud, waste, and abuse; and (3) promote economy, efficiency, and effectiveness in NRC programs and operations.

OIG is committed to ensuring the integrity of NRC programs and operations.

OIG presented a Special Act award to John Orban, NRC Senior Visual Information Specialist (pictured second from left) for his outstanding design of the first OIG Seal. Also pictured from left to right are: Stephen Dingbaum, Assistant Inspector General for Audits; Hubert Bell, Inspector General (pictured in front of the newly designed OIG Seal); Paulette Bosco, Audit Administrative Secretary (who provided invaluable assistance with the seal); and David C. Lee, Deputy Inspector General.

Developing an effective planning strategy is a critical aspect of accomplishing this commitment. Such planning ensures that audit and investigative resources are used effectively. To that end, OIG revised its Strategic Plan, which included a delineation by OIG of the major challenges and critical task areas facing NRC.

The product of that effort identified the priorities of OIG and established a shared set of expectations regarding the goals OIG expects to achieve and the strategies that will be employed to do so. OIG's Strategic Plan features three goals which generally align with NRC's mission and goals:

1. Advance NRC's efforts to enhance **safety** and protect the environment.
2. Enhance NRC's efforts to increase **security** in response to the current threat environment.
3. Improve the economy, efficiency, and effectiveness of NRC **corporate management**.

Audit Strategy

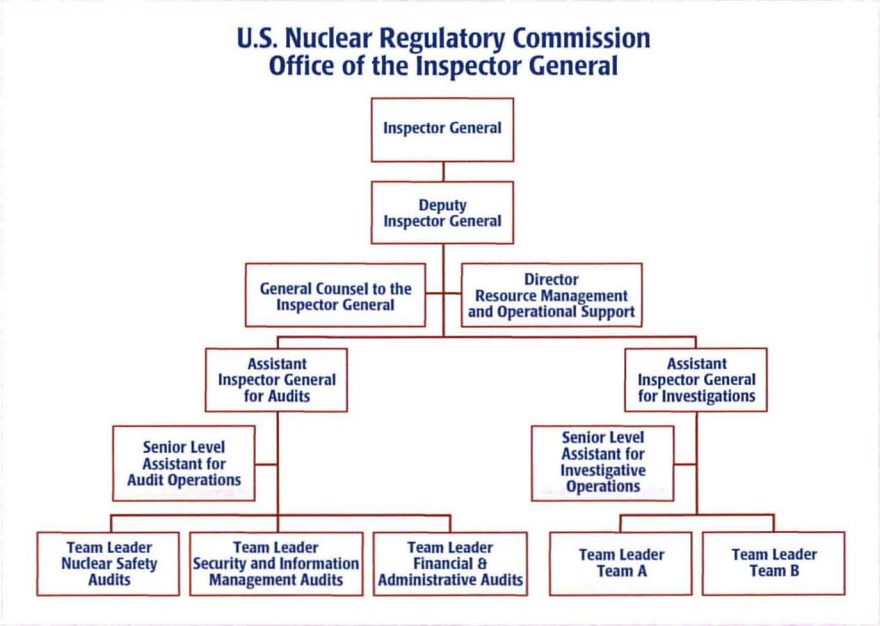
Effective audit planning requires current knowledge about the agency's mission and the programs and activities used to carry out that mission. Accordingly, OIG continually monitors specific areas to strengthen the internal coordination and overall planning process. Under the Issue Area Monitor (IAM) program, staff designated as IAMs are assigned responsibility for keeping abreast of major agency programs and activities. The broad IAM areas address nuclear reactors, nuclear materials, nuclear waste, international programs, security, information management, and financial management and administrative programs.

The audit planning process routinely takes into account the critical safety and security risks and challenges facing the NRC concerning nuclear reactor oversight, the regulation of nuclear material, and the handling of nuclear waste. Audit planning is also influenced by (1) mandatory legislative requirements; (2) emphasis by the President, Congress, and the NRC Commission; (3) a program's susceptibility to fraud, manipulation, or other irregularities; (4) dollar magnitude, duration, or resources involved in the proposed audit area; (5) newness, changed conditions, or sensitivity of an organization, program, function, or activities; (6) prior audit experience, including the adequacy of internal controls; and (7) availability of audit resources.

Investigative Strategy

OIG investigative strategies and initiatives add value to agency operations by identifying and investigating allegations of fraud, waste, and abuse leading to criminal, civil, and administrative penalties and recoveries. Because NRC's mission is to protect public health and safety, the main investigative concentration involves alleged NRC misconduct or inappropriate actions that could adversely impact health and safety related matters. These investigations typically include allegations of:

- Misconduct by high-ranking NRC officials and other NRC officials, such as managers and inspectors, whose positions directly impact public health and safety.
- Failure by NRC management to ensure that health and safety matters are appropriately addressed.
- Failures by the NRC to appropriately transact nuclear regulation publicly and candidly and to openly seek and consider the public's input during the regulatory process.
- Conflicts of interest by NRC employees with NRC contractors and licensees.



OIG has also implemented a series of proactive initiatives designed to identify specific high-risk areas that are most vulnerable to fraud, waste, and abuse. A primary focus is electronic-related fraud in the business environment. OIG is committed to improving the security of this constantly changing electronic business environment by investigating unauthorized intrusions and computer-related fraud, and by conducting computer forensic examinations. Other proactive initiatives focus on determining instances of procurement fraud, theft of property, Government credit card abuse, and fraud in Federal Government programs.

OIG GENERAL COUNSEL ACTIVITIES

Regulatory Review

Pursuant to the Inspector General Act, 5 U.S.C. App. 3, Section 4(a)(2), OIG reviews existing and proposed legislation, regulations, and implementing Management Directives (MD) and policy issues and makes recommendations concerning their impact on the economy and efficiency of programs and operations administered by the agency. NRC agency directives that require submission of all draft legislation, regulations, and policies to the OIG facilitate this statutory review.

The objective of the regulatory review program is to assist in the elimination of fraud, waste and abuse within the agency

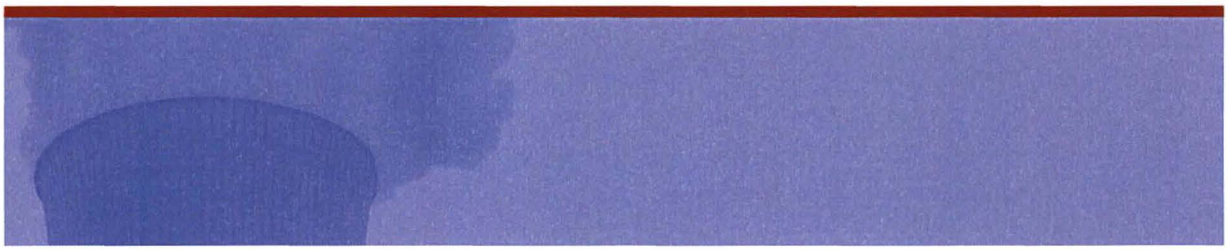
OIG conducts its regulatory review program by examining submitted documents reflecting statutory, regulatory, and policy actions to assist in the elimination of fraud, waste, and abuse within the agency.

Proposed actions and revisions are measured against standards evaluating potential for fraud, efficiency, and effectiveness. The review also encompasses issues raised in OIG investigations, audits, and prior regulatory commentaries.

In addition, comments are used to address issues related to preserving the independence and integrity of OIG under its statutory precept. These objectives are met through formal memoranda as well as meetings and discussions.

In order to more effectively track agency response to regulatory review comments, OIG requests written replies within 90 days, with either a substantive reply or status of issues raised by the OIG.

From October 1, 2004, through March 31, 2005, OIG reviewed more than 240 agency documents, including approximately 55 Commission papers (SECYs) and 185 Federal Register Notices, regulatory actions, and statutes.



The most significant commentaries are summarized below:

- OIG provided substantive comments to the agency on the proposed National Source Tracking rule. General comments urged greater specificity on the methodology to be used as well as addition of further explanation of the underlying standards relied upon by the agency. In addition, concerns regarding potential aggregation of quantities under the limits reflected in the proposed rule and potential security issues resulting from publication of the rule on the Internet were identified. Specific comments suggested legislative changes and other actions to support tracking certain radioactive materials, shorter periods for reconciliation of reporting, and review of the standards proposed for plutonium activity.

- Management Directive (MD) 6.1, *Resolution and Follow Up of Audit Recommendations*, provided OIG with the opportunity to clarify numerous issues related to one of its primary statutory functions. More than 35 comments provided corrective or expanded language to ensure clear understanding of the audit process. The matters addressed included identification of agency officials responsible for actions in response to audit recommendations; explanation of discrete audit time frames and response deadlines, and procedures for resolving and reporting disagreements. In addition, relevant portions of the IG Act which pertain to audit recommendations and reporting were suggested for inclusion in the MD.

- The new version of the outdated manual chapter 0128, formatted as MD 9.29, *Organizations and Functions, Regional Offices*, incorporated coordinated comments from each of the agency regions to reflect the responsibilities of those offices. The OIG comments provided relevant information from another directive, MD, 8.17, *Licensee Complaints Against NRC Employees*, as an additional reference for the *Organization and Functions, Regional Offices*, directive. Our comments also urged that the guidance for the regional offices concerning the processing of OIG referrals comply with the provisions in MD 8.17, which direct timely reporting of allegations to OIG and followup reporting for matters referred back to NRC management for action by the OIG.

- Two directives related to Office of Human Resources functions, MD 10.99, *Discipline and Adverse Actions,* and MD 10.101, *Employee Grievances,* were addressed together. OIG provided editorial comments to several provisions to assure that the personnel authority of the Inspector General under 5 U.S.C. App. 3, the IG Act, was cited. Also, the separate OIG Grievance Procedure and the established NRC/OIG protocol concerning cases of alleged employee and contractor misconduct were included as references. Finally, more detailed direction was provided concerning reporting misconduct to the IG and expectations for followup action by the agency when allegations are referred to the agency for examination.

Training at the Inspectors General Institute

On December 1, 2004, Maryann L. Grodin, the General Counsel to the NRC Inspector General and Alexandra B. Keith, the Counsel for the Corporation for Public Broadcasting Inspector General, taught at the Inspectors General Institute Certification Class held in Tallahassee, Florida. This class is part of the Association of Inspectors General Certification Program for Federal, State, and Municipal Inspectors General.

In addition to preparing the text syllabus for the Legal Issues segment of the course, the OIG attorneys developed and led the class in discussion and exercise problems. The course topics included major Federal fraud statutes, criminal and civil prosecution processes, attorney client privilege, and jurisdiction. The presentation focused on aspects of these legal areas most relevant to the Inspectors General functions. Case examples were used to illustrate points including sensitive matters of wrong-doing by public officials and cooperation between different agencies. The exercise problems provided an opportunity for seminar attendees to apply the legal concepts to factual situations and present their analyses and conclusions.

OIG Legal Issues Class

On March 1 and 2, 2005, the General Counsel to the NRC Inspector General provided new OIG employees with training on Legal Issues, Organization, and Functions of the NRC OIG. Ten major topic areas addressed IG legal authority, responsibility, and functions under 5 U.S.C. App. 3, the IG Act, and other relevant

statutes and regulations, including applicable Management Directives. The presentation included information on:

- Access authority available to the IG by subpoenas.
- Searches under statutory law enforcement authority.
- Rights and warnings under applicable case law including Miranda, Garrity, Kalkines, and Weingarten.
- Obligations to whistleblowers.
- Information issues under the Privacy Act, Freedom of Information Act, and other pertinent statutes and regulations.

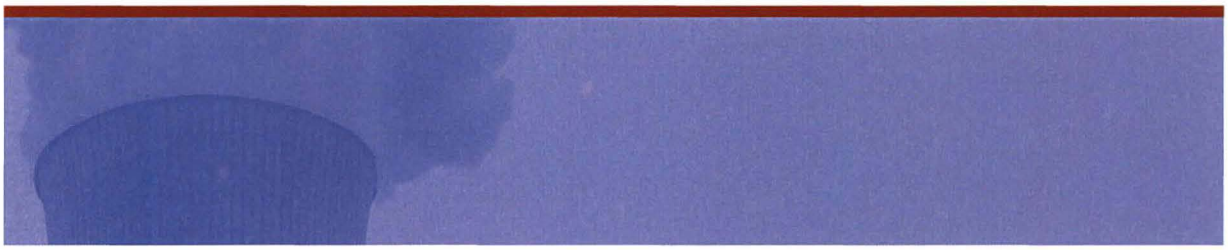
Maryann L. Grodin (pictured top center) provides training on legal issues to NRC OIG employees.

Additional topics included processes and procedures used in personnel and civil fraud administrative actions, including the Program Fraud Civil Remedies Act, as they relate to OIG investigations and audits. Reference material provided included published articles, agency publications, and statutory guides. The training concluded with a presentation by the Director of OIG's Resource Management and Operations Support section on the organization of and services provided by that section.

RECRUITMENT EFFORTS

Office of the Inspector General Outreach at the University of Missouri - Rolla

On November 11, 2004, Russell Irish, the Senior Level Assistant for Audit Operations, presented a briefing to engineering students at the University of Missouri. The purpose was to provide them with an overview on the role and responsibility of an OIG in supporting the mission of the agency and to facilitate student interest in possible career opportunities in the NRC OIG.



The presentation began with a brief history of the Inspector General Act of 1978 and OIG's role in the agency. Other topics included the distinctly different, but complementary roles and responsibilities of auditors and investigators; the operational independence of OIG; access to information; and the office's role in relation to the agency and other facets of the Government. Various types of public reports generated by the office were circulated for review. Also discussed were specific past and current audits and topical engineering-related investigative event inquiries.

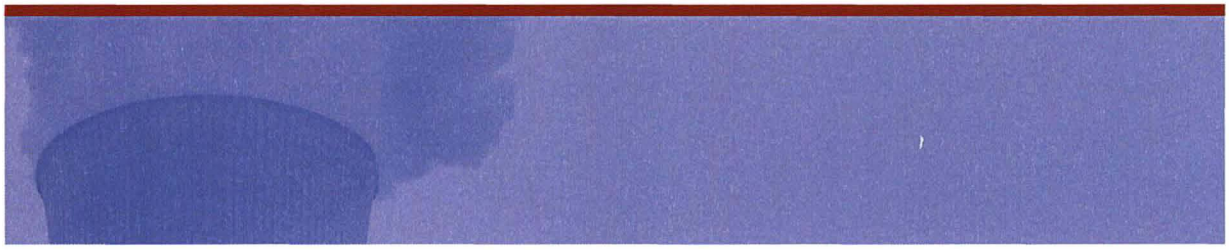
The students asked insightful, probing questions and indicated that they found the discussion to be informative and of great interest. Most of the students were not aware of the role that Inspectors General have in the Federal Government. At the end of the session, several students provided resumes in the hope that they might be considered for a future OIG summer intern position.

NRC OIG Special Agent Attends HAPCOA Conference

NRC OIG Special Agent Rodolfo (Rudy) Rivera attended the 2004 *Hispanic American Police Command Officers Association (HAPCOA)* Annual National Training Conference and Exhibition from November 8 - 11, 2004 in San Antonio, Texas. Established in 1973, HAPCOA is the largest and oldest national association of Hispanic American command officers from law enforcement and criminal justice agencies at the municipal, county, State, and Federal levels. With members in hundreds of agencies across the United States and Puerto Rico, many of whom are active in local chapters, HAPCOA is a national organization with a local presence.

The conference included an exhibit area with displays from numerous Federal agencies, local agencies, and private companies; a career fair; business meetings; and many informative and well-timed sessions. The sessions included (1) Interoperable Communications Technology, (2) Improving Communications between Law Enforcement and Middle Eastern Communities, (3) the History and Radicalization of Islam, (4) Survival Skills for Law Enforcement Personnel, (5) Civil Rights Overview — Law Enforcement Misconduct, and (5) Youth Violence.

The 2004 HAPCOA National Training Conference was well attended and received favorable comments from participants. Special Agent Rivera found that the conference provided him with a great opportunity to exchange information with other Hispanic law enforcement personnel and gain valuable insight into the issues facing law enforcement officers today.



OTHER ACTIVITIES

Japanese Nuclear Safety Commission Meets with the Office of the Inspector General

On February 9, 2005, representatives from the Japanese Nuclear Safety Commission (NSC) met with members of the NRC/OIG. The purpose of this meeting was to exchange information about regulatory review and audit practices.

In the morning, the Japanese delegation gave a presentation on "Quality Management Systems as Regulatory Requirements and Practices of NSC Regulatory Review Focus on Quality." They explained the background for the introduction of quality management systems into Japan's regulatory requirements after a 2002 case involving utility control inspection results. The presentation outlined NSC practices and procedures for the regulatory review focus on quality. This included audits performed by the Japanese Nuclear and Industrial Safety Agency (NISA) on utility quality assurance. NISA has oversight for nuclear power plants as well as refining, fuel fabrication, spent fuel storage, reprocessing, and waste disposal related to nuclear power generation. In particular, the presentation focused on the administrative structure of nuclear regulation in Japan; NSC responsibilities, mission, organization, and major activities; the framework and evolution of regulation review, the methodology for and examples of sampling type reviews and quality audit type reviews; and NSC audit criteria.

Representatives from the Japanese Nuclear Safety Commission (NSC) in front of NRC Headquarters.

In the afternoon, OIG staff discussed the Inspector General Act of 1978 as the cornerstone for the existence of Inspectors General. They further explained the role of OIG's audit component in meeting the requirements of the act. Of particular interest to the NSC representatives was an explanation of the operational independence of the OIG, its access to information, and its role in relation to the Government Accountability Office. In describing the OIG infrastructure, OIG staff

highlighted the differences between audits and investigations and the different types of reports generated by the office. Staff discussed specific past and current audits and the NSC delegation asked insightful, probing questions related to the methodology employed in completing these assignments.

NSC member feedback indicated that they found certain practices of OIG to be very instructive: the methodology used to decide the priority of audit subjects; the process of interviewing individuals and/or groups, as appropriate; and the training provided to staff on communication skills. The Japanese delegation indicated they would like to introduce these practices to auditors involved with NSC audit type reviews.

The Computer Crimes Unit team receives its 2004 PCIE/ECIE Award for Excellence plaques. Pictured from left to right are: Rossana Raspa, Investigative Team Leader; William Stumme, Senior Special Agent; Michael Ross, Special Agent; Robert Norman, Special Agent; Cheryl Windsor, Investigative Analyst; and David C. Lee, Deputy Inspector General.

At the completion of these complementary presentations, participants agreed it would be beneficial to maintain, to the extent practical, an exchange between NSC and OIG.

NRC OIG Receives PCIE Awards of Excellence

The President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) recognized two OIG multidisciplinary teams in 2004 by awarding them the prestigious Award of Excellence. The first team to be acknowledged was the *NRC/OIG Computer Crime Unit (CCU)*, which consisted of members William Stumme, Senior Special Agent; Michael Ross, Special Agent; Robert Norman, Special Agent; and Cheryl Windsor, Investigative Analyst. This team was cited for its outstanding ability in establishing and building a highly specialized and valuable

investigative capability. The CCU has efficiently and effectively provided critical evidence and data for OIG investigations, proactively initiated numerous investigations, and professionally supported the investigative needs of other investigative agencies. For example, the CCU's efforts have continued to directly support NRC's newly enhanced role in ensuring the security of the Nation's nuclear facilities. The CCU recently uncovered an unapproved process used by a regional office to remove Safeguards Information (SGI) regarding sensitive physical security measures at nuclear power plants from unsecured computers that attach to the Internet. In addition to demonstrating that the office violated NRC instructions regarding the handling of SGI, the CCU was able to demonstrate that the process failed to work as intended and left SGI information and data present on the computer.

The Federal Information Security Management Act Evaluation Team receives its 2004 PCIE/ECIE Award for Excellence plaques. Pictured from left to right are: Hubert T. Bell, Inspector General; Vicki Foster, Senior Management Analyst; Stephen Dingbaum, Assistant Inspector General for Audits; Beth Serepca, Audit Team Leader; and David C. Lee, Deputy Inspector General.

The second team to be acknowledged by the PCIE/ECIE was the Federal Information Security Management Act (FISMA) Evaluation Team, which consisted of Beth Serepca, Audit Team Leader, and Vicki Foster, Senior Management Analyst. This team was cited for identifying weaknesses in and recommending improvements for NRC's information security program. By conducting the FY 2003 FISMA evaluation, the audit team found vulnerabilities in NRC's information security program. Because the agency took action on the numerous report recommendations to strengthen the program, the agency received an A from Congress' Federal Computer Security Report Card in 2004. The grade was up from a C for the 2003 report card.

AUDITS

To help the agency improve its effectiveness during this period, OIG completed 10 financial and performance audits that resulted in numerous recommendations to NRC management. OIG also analyzed five contract audit reports of which two reports identified a total of $42,204 in questioned costs.

AUDIT SUMMARIES

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

OIG STRATEGIC GOAL: CORPORATE MANAGEMENT

NRC's Most Serious Management Challenges as of October 4, 2004	
Challenge 1 Protection of nuclear material used for civilian purposes.	**Challenge 6** Administration of all aspects of financial management.
Challenge 2 Protection of information.	**Challenge 7** Communication with external stakeholders throughout NRC regulatory activities.
Challenge 3 Development and implementation of a risk-informed and performance-based regulatory oversight approach.	**Challenge 8** Intra-agency communication (up, down, and across organizational lines).
Challenge 4 Ability to modify regulatory processes to meet changing external demands.	**Challenge 9** Managing human capital.
Challenge 5 Implementation of information resources.	The challenges are not ranked in any order of importance.

On January 24, 2000, Congress enacted the Reports Consolidation Act of 2000 to provide financial and performance management information in a more meaningful and useful format for Congress, the President, and the public. The act requires that the Inspector General of each Federal agency summarize what he or she considers to be the most serious management and performance challenges facing the agency and assess the agency's progress in addressing those challenges. The Inspector General in his submission defined serious management challenges as mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals.

Audit results. The Inspector General identified nine management challenges that are considered to be the most serious. The nine challenges are distinct but interdependent. The NRC continues to address these challenges in its planning and day-to-day activities.

Audit of the Nuclear Regulatory Commission's FY 2004 Financial Statements

OIG Strategic Goal: Corporate Management

The Chief Financial Officers Act requires OIG annually to audit NRC's principal financial statements. An independent public accounting firm, under contract to OIG, conducted the audit with OIG oversight.

Audit results. The auditors expressed an unqualified opinion on the agency's FY 2004 financial statements and changed their opinion on the agency's FY 2003 financial statements from unqualified to qualified because there was insufficient evidence to support the completeness of accounts receivable and revenue balances. Specifically, because of a computer error in NRC's License Fee Billing System, $3 million in underbilled license fees were not included in the FY 2003 NRC financial statements which caused NRC to restate the FY 2003 statements in FY 2004. However, even with this restatement, NRC could not be assured that it had identified all underbilled license fees associated with the computer error.

The auditors cited a material weakness in NRC's Fee Billing System for the FY 2004 audit. The auditors otherwise concluded that, except for this material weakness, management's assertion about the effectiveness of internal control over financial reporting was fairly stated as of September 30, 2004, in compliance with internal control objectives in the Office of Management and Budget (OMB) Bulletin No. 01-02.

The agency continues to be noncompliant with the provisions of OMB Circular A-25, User Charges, for Title 10 Code of Federal Regulations (CFR), Part 170, Fees and a Fee Recovery condition. The auditors also identified a substantial noncompliance related to the Fee Billing System. *(Addresses Management Challenge #6)*

Audit of NRC's Drug Testing Program

OIG Strategic Goal: Security

The use of illegal drugs, on or off duty, by Federal employees can pose a serious health and safety threat to members of the public and to other Federal employees. In recognition of this concern, Executive Order 12564, Drug-Free Workplace, was signed on September 15, 1986, to improve the efficiency of the Federal workforce and help prevent the use of illegal drugs in the workplace. The Order requires that each agency head develop a plan for achieving a drug-free workplace while maintaining the rights of employees, the public, and the Government and to establish a program to test for evidence of illegal drug use by employees in sensitive positions. The objective of this audit was to assess the agency's implementation of its drug testing program.

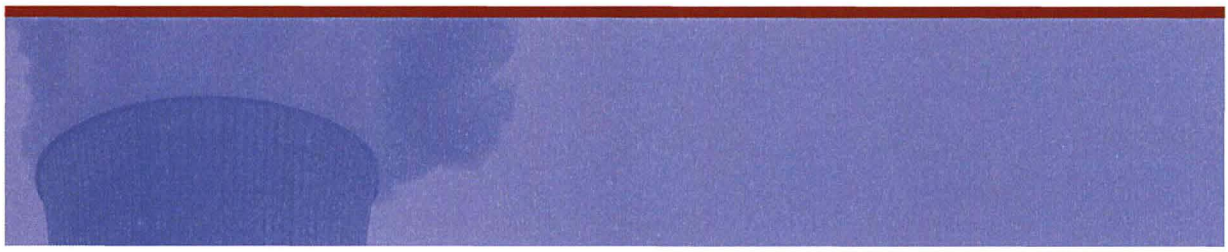
Audit results. The random testing pool does not include all employees who should be tested for drug use, the agency is not applying the random selection methodology correctly when selecting employees for random testing, and some employees are not notified for testing in accordance with Federal requirements. As a result, some NRC employees with public health and safety responsibilities who should be included in the random drug testing pool are not included.

In addition, the agency does not maintain sufficient program records and program guidance is not readily available to employees. As a result, the agency's oversight of the drug testing program is weak and employees lack a full understanding of drug testing policies and procedures. *(Addresses Management Challenge #2)*

Audit of NRC's Baseline Inspection Program

OIG Strategic Goal: Safety

NRC's scope of responsibility includes regulation of commercial nuclear power plants. To carry out that responsibility, NRC conducts inspections at the Nation's 103 operating nuclear power reactors. Beginning in April 2000, the NRC Reactor Inspection Program and Reactor Performance Assessment Program were combined into a single program for commercial nuclear power plants. This combined pro-



gram implements the revised reactor oversight process (ROP) and is a critical part of NRC's ability to ensure the safe use and control of radioactive materials. An integral part of the ROP is the baseline inspection program that was developed using a risk-informed approach to determine a comprehensive list of areas to inspect within seven established cornerstones of safety. The baseline inspection program evaluates licensee performance in areas not measured, or not fully measured, by licensee-reported performance indicators in order to remain cognizant of plant status and conditions.

Audit results. While the baseline inspection program framework is generally sound, improvements are needed. Specifically, (1) the rationale for sampling methodology needs to be documented, (2) the adverse impact of constraints needs to be addressed, (3) the resident inspector training program needs improvement, and (4) the guidance for new baseline completion criteria needs to be clarified.

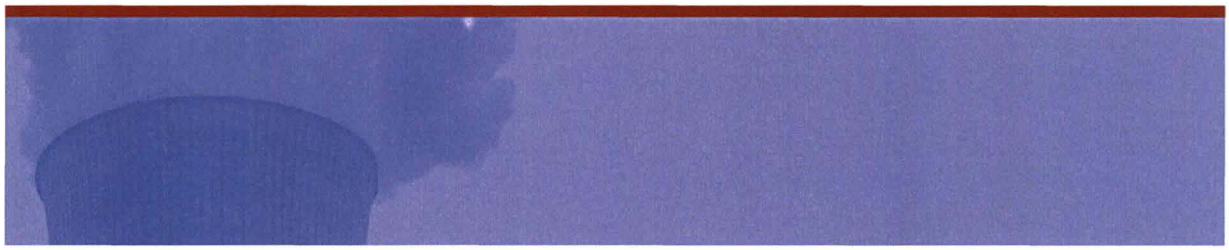
The baseline inspection program is the "*minimum*" inspection oversight that should be conducted at each nuclear power plant. As a result, issues such as unclear guidance, inconsistent program implementation, insufficient resources, and insufficient documentation of inspection activities need to be addressed. Addressing these weaknesses will improve the efficiency and effectiveness of the baseline inspection program. *(Addresses Management Challenges #1, 3, 7, 8, and 9)*

Audit of the Budget Formulation Process

OIG Strategic Goal: Corporate Management

The Government Performance and Results Act was enacted to establish strategic planning and performance measurement in the Federal Government and for other purposes. In furtherance of the act's requirements, agencies are required to submit to Congress annual performance plans that link resources to performance goals.

In 1998, NRC established the Planning, Budgeting, and Performance Management (PBPM) process to link resources with strategic goals and performance. OIG conducted an audit to determine whether the budget formulation portion of the PBPM process is (1) effectively used to develop and collect data to align resources with strategic goals and (2) efficiently and effectively coordinated with program and support offices.



Audit results. The agency develops and collects data to align resources with strategic goals and the budget is prepared in alignment with the Strategic Plan. Further, as required by OMB, the agency conducted Program Assessment Rating Tool evaluations during the budget formulation cycles for FYs 2005 and 2006. NRC continued to improve the internal coordination of the budget formulation portion of the PBPM process with program and support offices.

However, additional efforts are needed in the area of internal coordination and communication. Specifically, the roles and responsibilities of the Chief Financial Officer and the Executive Director for Operations in the budget formulation process require clarification, determining budget priorities needs a defined methodology, the decisionmaking process needs to be documented, and early Commission direction and approval is needed.

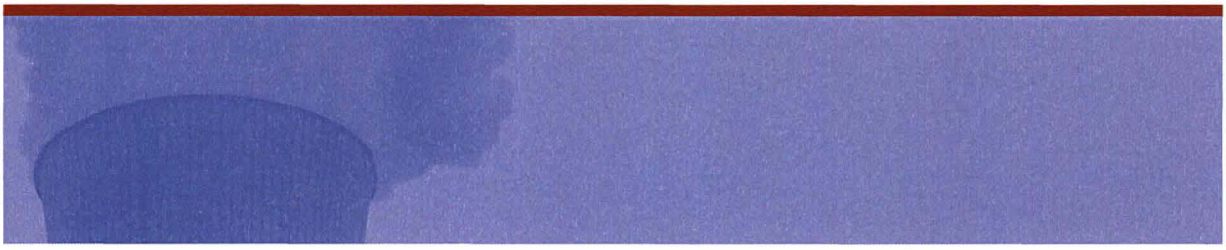
The lack of written policies that clarify the roles and responsibilities of key participants in the budget formulation process results in inefficiencies, particularly workflow disruption, confusion, and rework. *(Addresses Management Challenge #6)*

View of the North and South portals at Yucca Mountain.

Audit of NRC's High-Level Waste Program

OIG Strategic Goal: Safety

The Nuclear Waste Policy Act (NWPA), as amended, outlines the process to site and construct a geologic high-level waste (HLW) repository. Under the NWPA, DOE is responsible for evaluating a proposed repository site at Yucca Mountain and designing, constructing, and operating the facility. NRC's role is to develop a regulatory framework for evaluating a license application for the proposed repository and, thereafter, to regulate DOE's activities. NRC is also charged with the duty to issue a final decision approving or disapproving the issuance of a construction authorization for building the proposed repository. NRC will issue a license to DOE only if DOE can demonstrate that it can construct and operate a reposi-



tory safely and in compliance with NRC regulations. This is in keeping with the agency's corporate strategy to ensure the safe use and control of radioactive materials. OIG performed this audit to determine if NRC is properly prepared to meet its pre-licensing statutory requirements per the NWPA.

Audit results. While NRC has been carrying out its mandated pre-licensing responsibilities, its communications approach needs improvement. NRC's HLW program satisfies the NWPA responsibilities through the agency's promulgation and implementation of the 10 CFR, Part 63. Yet, the agency's HLW communications are not always effective because NRC lacks a holistic, agencywide communications approach. Consequently, stakeholders do not always perceive NRC communications as clear and open. NRC also faces uncertainties surrounding the Yucca Mountain project that are beyond the agency's control. Such uncertainties may impact the agency's ability to review the DOE license application for a geologic HLW repository at Yucca Mountain. *(Addresses Management Challenges #1, 4, 7, and 8)*

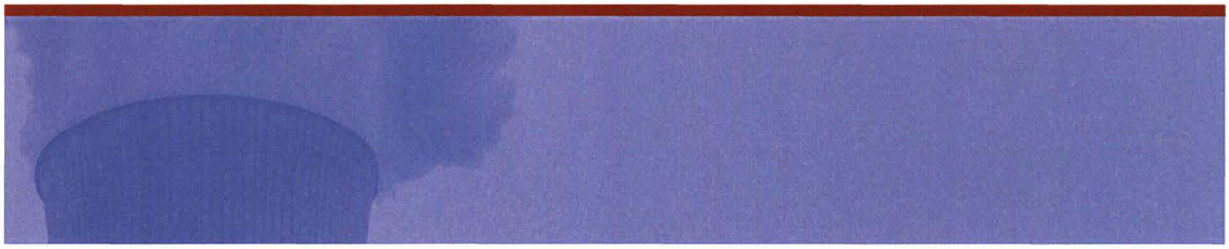
AUDITS IN PROGRESS

Audit of NRC's Information Security Practices

OIG Strategic Goal: Security

The Federal Information Security Management Act (FISMA) was enacted on December 17, 2002. FISMA permanently reauthorized the framework laid out in the Government Information Security Reform Act, which expired in November 2002. FISMA outlines the information security management requirements for agencies, including the requirement for an annual review and annual independent assessment by agency Inspectors General. In addition, FISMA includes new provisions such as the development of minimum standards for agency systems, aimed at further strengthening the security of Federal Government information and information systems. The annual assessments provide agencies with the information needed to determine the effectiveness of overall security programs and to develop strategies and best practices for improving information security.

The objectives of the audit are to evaluate the (1) adequacy of NRC's information security programs and practices for NRC major applications and general support



systems of record for FY 2005, (2) effectiveness of agency information security control techniques, and (3) implementation of the NRC's corrective action plan created as a result of the 2004 FISMA program review. *(Addresses Management Challenge #2)*

Audit of the Reactor Program System

OIG Strategic Goal: Corporate Management

NRC's Reactor Program System (RPS) provides the capability for planning, scheduling, conducting, reporting, and analyzing inspection activities at nuclear power reactor facilities. It is used as a tool for implementing the policy and inspection guidance for programs assigned to the NRC regional offices and assesses the effectiveness and uniformity of the NRC regional offices' implementation of those programs. It is also used to plan and schedule licensing and other reactor regulatory activities in the Office of Nuclear Reactor Regulation. The RPS database includes inspection and licensing information, plant performance indicators, inspection followup items, safety issue data, NRC staff data, facility characteristics, and security and other reactor regulatory data.

RPS was designed to fit within NRC's information technology infrastructure and is accessible via agency-standard personal computer workstations using commercial-off-the-shelf software for greater flexibility and ease of maintenance.

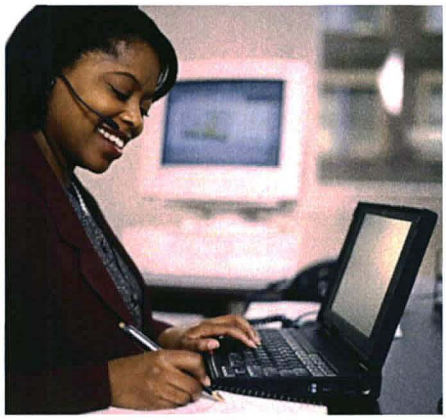
Information obtained during OIG's audit work on the Significance Determination Process and the Baseline Inspection Program indicated that RPS data was not sufficiently reliable and that difficulties with the program have caused various NRC offices to develop their own local applications to perform tasks that RPS was intended to perform.

This audit is determining if the system meets its required operational capabilities and provides for the security, availability, and integrity of the system data. *(Addresses Management Challenges #2, 4, and 5)*

Audit of NRC's Telecommunications Program

OIG Strategic Goal: Security

With a FY 2004 budget of $5,390,000 and 6 FTE, NRC's headquarters telecommunications staff support agency long distance and headquarters local telecommunications services to meet current business needs and the related services to implement and maintain the telecommunications services. Services provided include telephone calling cards, cellular phones and pagers, maintenance for common carriers, and other specialized services.



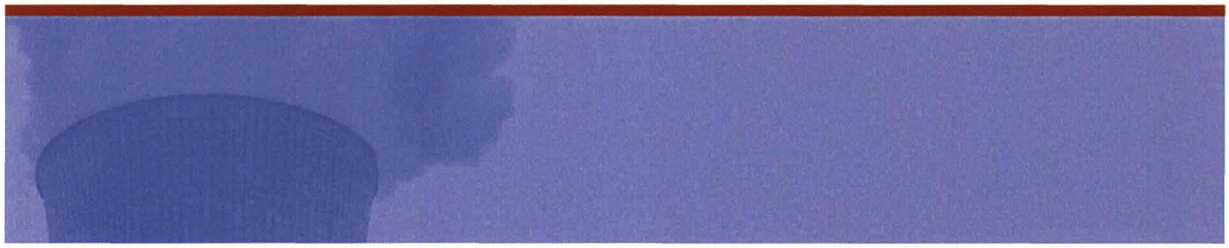
OIG is reviewing NRC's controls over the security of its telecommunications systems and the use of the telecommunications services. *(Addresses Management Challenges #2 and #5)*

Audit of NRC's Follow-Through on Generic Communications

OIG Strategic Goal: Safety

NRC's primary means of communicating concerns or issues to licensees is through generic communications. These communications allow NRC to communicate and share industry experiences with applicable groups of licensees and other interested stakeholders. The information is relayed in writing to licensees in the form of Generic Letters, NRC Bulletins, Information Notices, and other documents. Some generic communications are intended solely to transmit information, while others impose mandatory requirements or action on the licensee and require a response.

The purpose of this audit is to assess the effectiveness of the agency's follow-through on generic communications it issues requiring long- and short-term action on the part of licensees. *(Addresses Management Challenges #1, 4, and 7)*



Audit of NRC'S FY 2005 Financial Statements

OIG Strategic Goal: Corporate Management

Under the Chief Financial Officers Act and the Government Management and Reform Act, OIG is required to annually audit NRC's financial statements. OIG will audit NRC's financial statements in accordance with applicable auditing standards. The audit will express an opinion on the agency's financial statements, evaluate internal controls, review compliance with applicable laws and regulations, review the performance measures included in the financial statements for compliance with OMB guidance, and review the controls in the NRC's computer systems that are significant to the financial statements. In addition, OIG will be measuring the agency's improvements by assessing corrective action taken on the prior year's audit findings. *(Addresses Management Challenge #6)*

Audit of NRC's Contract Closeout Process

OIG Strategic Goal: Corporate Management

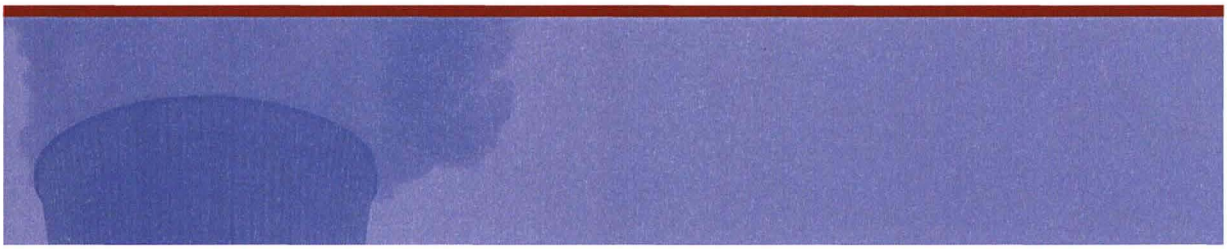
NRC has specific procedures established to close out expired contracts. Although these procedures place a high priority on deobligation of excess funds, a portion of the funds is retained until completion of closeout. Currently, there are 175 contracts awaiting closeout, including 42 fixed price actions. The expiration dates vary, but some contracts expired more than 5 years ago.

The objectives of this audit are to determine (1) whether relevant NRC policies and procedures adhere to applicable regulations, (2) the adequacy of management controls associated with NRC's contract closeout procedures, including desk review procedures, and (3) NRC's compliance with its own closeout procedures, with an emphasis on timeliness. *(Addresses Management Challenge #6)*

Followup Audit of NRC's Decommissioning Fund Program

OIG Strategic Goal: Corporate Management

Under 10 CFR Part 50, NRC must receive reasonable assurances from nuclear reactor licensees that funds will be available for the decommissioning process. In the *Review of NRC's Decommissioning Fund Program,* issued in February 2000, OIG reported weaknesses in the management controls over NRC's decommissioning process.



Among the weaknesses identified were lack of consistency in reported data and the need to determine the best method of assessing decommissioning costs at nuclear power plant sites. OIG reported that NRC's decommissioning formulas were developed in 1986 and could be outdated. The report noted that significant differences exist between two different methods used to calculate estimates for decommissioning costs. In response to OIG's finding, the Deputy Executive Director for Reactor Programs took no immediate action. Instead, implementation was delayed until a future time when more cost data would be available. Nineteen nuclear power plants have permanently shut down and are in some phase of decommissioning.

NRC must receive reasonable assurances from nuclear reactor licensees that funds will be available for the decommissioning process

The objective of this audit is to evaluate NRC's actions on the FY 2000 OIG audit of NRC's decommissioning fund program. *(Addresses Management Challenges #3 and # 6)*

Audit of the Office of Nuclear Security and Incident Response

OIG Strategic Goal: Security

In April 2002, NRC established the Office of Nuclear Security and Incident Response (NSIR) to consolidate and streamline selected NRC security, safeguards, and incident response responsibilities and resources. The office reports to the Deputy Executive Director for Homeland Protection and Preparedness. The formation of the office is one result of the Commission's ongoing top-to-bottom review of its safeguards and physical security program in the aftermath of the terrorist attacks of September 11, 2001.

Until NSIR was formed, the assessment of security responsibilities was determined by the type of facility requiring protection. For example, the Office of Nuclear Material Safety and Safeguards was responsible for the security programs for protection of fuel cycle facilities, materials, transportation, disposal, and certain waste-storage facilities. The Office of Nuclear Reactor Regulation was responsible for security programs at nuclear power plants and non-power reactors, decommissioning facilities, and certain spent fuel storage facilities. NRC determined that a centralized security organization would be a more effective and efficient way of organizing security activities.

NSIR has assumed responsibility for an important part of NRC's operations. As with any new organization, and especially one with such an important function, it must operate effectively and efficiently in order to meet its mission.

The objective of this audit will be to determine whether NSIR is fulfilling its mission. *(Addresses Management Challenges #1, 2, 4, and 8)*

Audit of NRC's Oversight of Byproduct Materials and Sealed Sources

OIG Strategic Goal: Safety

Byproduct and sealed sources are used for medical, industrial, and academic purposes. Medical uses include medical procedures, medical research, and other diagnostic tests. Industrial uses of nuclear materials include industrial radiography, irradiators, well-logging, gauging devices, other measuring systems, and research and development. Additionally, universities, colleges, high schools, and other academic institutions use byproduct and sealed source nuclear materials in classroom demonstrations, laboratory experiments, and research. NRC (or the responsible Agreement State) has regulatory authority over the possession and use of byproduct, source, or special nuclear material. In the post-September 11, 2001, environment, Congress continues to maintain interest in oversight of nuclear materials. An August 2004 letter to NRC from a member of Congress expressed concern regarding vulnerabilities that could be exploited by terrorists seeking to attack the United States.

The objective of this audit will be to determine whether NRC's oversight of byproduct and sealed source materials provides reasonable assurance that licensees are using the materials safely and account for and control materials. *(Addresses Management Challenges #1 and #4)*

Audit of the Decommissioning Program

OIG Strategic Goal: Safety

NRC continues to regulate commercial nuclear reactors, fuel cycle facilities, and NRC material licensees after they are permanently shut down and begin decommissioning. Decommissioning is defined as removing a facility or site safely from service and reducing residual radioactivity to a level that permits (1) release of the property for unrestricted use and termination of the license or (2) release of the property under restricted conditions and termination of the license. In FY 2005, NRC plans to conduct decommissioning licensing and inspection activities at 20 power reactors and at 30-35 complex materials and fuel facilities sites.

Steam generators being removed from containment building during decommissioning at Maine Yankee.

Under the Government Performance and Results Act of 1993 (GPRA), Federal agencies are required to schedule, conduct, and report on program evaluations in selected areas. OMB developed the Program Assessment Rating Tool (PART) to assess and improve program performance so that the Federal Government can achieve better results and to help inform funding and management decisions. It builds on GPRA by encouraging agencies to integrate operational decisions with strategic and performance planning. To decide which programs will be reviewed using the PART for the coming year, agencies and OMB work together.

The objective of this audit is to determine whether NRC's Decommissioning Program achieves the desired performance and results as stated in the agency's strategic plan, performance plan, and operating plan. The PART criteria will be used as the basis for this audit. *(Addresses Management Challenge #1)*

INVESTIGATIONS

During this reporting period, the OIG received 113 allegations, initiated 34 investigations and 3 Event Inquiries, and closed 37 cases. In addition, OIG made 17 referrals to NRC management.

INVESTIGATIVE CASE SUMMARIES

Fraudulent Workers' Compensation Program Claim by Former NRC Employee

OIG STRATEGIC GOAL: CORPORATE MANAGEMENT

OIG conducted an investigation concerning information that indicated a former NRC employee was involved in the operation of a private company while he was receiving workers' compensation benefits. OIG coordination with the Department of Labor (DOL) determined that the former employee was in a "no wage earning capacity" status which prohibited him from earning revenue from outside employment sources or business activities without reporting the revenue to the DOL Office of Workers' Compensation Programs (OWCP).

OIG determined that the former employee filed a claim with OWCP in August 1991 claiming he suffered an NRC work-related injury in February 1986. The former employee subsequently reported to OWCP that his affliction prevented him from performing his job. In June 1993, the former employee began receiving medical and compensation payments from DOL based on his claim.

OIG obtained copies of the forms filed annually with OWCP by the former employee from 1995 to 2004 certifying his eligibility to receive workers' compensation payments. In each instance, the former employee certified that he was not involved in any business enterprises and that he had not generated any income from employment activities or personal involvement in business enterprises. OIG's review of records maintained by the Division of Corporations for the State of Florida identified the former employee as a 50-percent shareholder in and corporate secretary for a private company during the time he was collecting compensation from OWCP.

OIG's investigation was forwarded to OWCP. As result of the information provided by OIG, OWCP determined that the former employee received overpayments from OWCP. The former employee was ordered by OWCP to make restitution in the amount of $51,539.05. *(Addresses Management Challenge #6)*

Fraudulent Workers' Compensation Program Claim by NRC Employee

OIG Strategic Goal: Corporate Management

OIG conducted an investigation into possible fraudulent claims by an NRC employee receiving benefits from the Federal Workers' Compensation Program. OIG learned that an NRC employee reported that she was injured while working at NRC and consequently filed a claim for benefits through NRC with the DOL OWCP.

OIG determined that the NRC employee used leave without pay from NRC due to the workers' compensation injury because the injury prevented her from performing her NRC duties. OIG learned that the NRC employee subsequently submitted the DOL claim to receive salary reimbursement for the leave used for the workers' compensation injury.

The OIG investigation determined that the NRC employee had been employed part-time outside of her Federal position in a restaurant position for several years. The investigation determined that the NRC employee continued to work at the part-time position after the workers' compensation injury; however, the employee claimed that the injury prevented her from attending work at NRC. OIG found specific instances when the NRC employee did not attend work at NRC due to the injury but worked that same evening at her part-time job. OIG found that the NRC employee provided two false written statements on DOL claim forms to OWCP regarding her secondary employment that resulted in salary reimbursement for unpaid leave used because of the injury.

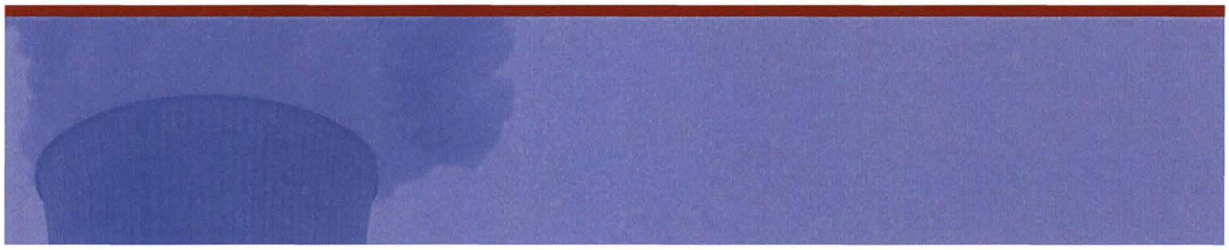
The OIG investigation has been submitted to OWCP for adjudication.

(Addresses Management Challenge #6)

Sexual Harassment of NRC Employee by NRC Manager

OIG Strategic Goal: Corporate Management

OIG completed an investigation concerning an allegation that an NRC manager sexually harassed a female NRC employee on three separate occasions during a conference at NRC headquarters in June 2004. OIG determined that the manager inappropriately touched a female employee on three occasions while he was



attending the conference. OIG also established that the manager made inappropriate sexual advances towards this same NRC employee during a conference at NRC headquarters in 2003.

OIG also determined that the manager deliberately made false statements to OIG concerning his actions towards the female employee at the conferences.

OIG also found that the manager had been arrested for sexual assault 10 years earlier and that he had plead guilty to the lesser offense of assault. When the manager was interviewed by OIG concerning his prior arrest, he admitted to lying about the details of the sexual assault to a police department detective and to an Office of Personnel Management investigator.

The manager retired from the Federal Government as a result of this investigation. *(Addresses Management Challenge #2)*

Failure to Report Billing Errors to Independent Auditors

OIG Strategic Goal: Corporate Management

OIG completed an investigation into an allegation that the Division of Financial Management (DFM), Office of the Chief Financial Officer (OCFO), staff failed to report 75 underbilled reactor inspection invoice errors totaling $2.4 million during FY 2003 to OIG independent auditors. Under the Chief Financial Officers Act and the Government Management and Reform Act, OIG is required to annually audit NRC's financial statements. An independent public accounting firm conducted audits, with OIG oversight, of the FY 2003 and FY 2004 NRC financial statements. The OIG independent auditors advised that during their May 2004 fieldwork for the FY 2004 audit, they discovered the 75 reactor inspection invoices for FY 2003 which had been corrected and reissued by DFM OCFO.

OIG learned that in July 2003, a licensee advised DFM staff that there was a possible error in a reactor inspection bill for FY 2003. By December 10, 2003, the DFM staff determined that the licensee was underbilled by approximately $500,000, but the staff could not determine the cause of the error.

OIG determined that on December 16, 2003, DFM managers became aware of the $500,000 underbilling error for FY 2003 for the reactor plant licensee. The error

indicated a potential internal control deficiency within the NRC license fee billing system. Additionally, in February 2004 the DFM managers became aware that the License Fee Team had reviewed all reactor license fee invoices issued during FY 2003 and identified an additional 74 invoices to NRC reactor licensees that were underbilled a total of $1.9 million. These DFM managers were also aware that the billing errors indicated an internal control weakness which could impact the reliability of NRC's FY 2003 financial statements. Although there were a number of opportunities to do so, the DFM managers never reported the initial $500,000 billing error or the additional 74 billing errors to OIG or its independent auditors.

In addition, OIG determined that on December 19, 2003, the agency transmitted two letters to OMB which forwarded the NRC Performance and Accountability Report (signed by the NRC Chairman) and a copy of the NRC management representation letter (signed by the NRC Chairman and the NRC Chief Financial Officer). These documents asserted in part that the agency had effective internal controls and that all material transactions were properly recorded. However, OIG found that the DFM managers who concurred on these letters on December 18, 2003, were aware of the $500,000 underbilling error for the reactor plant licensee, that its cause was unknown, and, consequently, that it was possible the error was the result of an internal control deficiency. As a result of the underbilling errors, NRC had to restate its FY 2003 financial statements and the independent auditors changed the NRC audit opinion for FY 2003 from unqualified to qualified. *(Addresses Management Challenge #6)*

Failure To Docket Licensee Information

OIG Strategic Goal: Safety

It is the responsibility of the NRC staff to ensure that all information provided by a licensee that is relied upon in making a license decision (e.g., license amendment, safety evaluation) be docketed (recorded) in the official agency public records system.

OIG conducted an investigation into information that the NRC Office of Nuclear Reactor Regulation (NRR) staff used undocketed calculations in its review of a technical specification amendment (TSA) request submitted by Niagara Mohawk in 1998 concerning Nine Mile Point - Unit 1 Nuclear Power Plant. The alleger claimed that the NRC used the undocketed calculations in an associated safety evaluation of the license amendment request.

Niagara Mohawk proposed to change the design basis of Nine Mile Point Unit 1 when they discovered that an alarm which indicated high radiation in the control room air treatment system of the plant did not provide enough protection to the control room operators.

The proposed change to the design basis was submitted by Niagara Mohawk and treated by NRC as an "emergency circumstance" amendment request. Normally, under the provisions of 10 CFR, Part 50.4, any communications from Niagara Mohawk to NRC which were used in the safety evaluation of the TSA should have been docketed on NRC's public database. Because of the emergency circumstances of this amendment request, NRC set aside the normal docketing process. After completion of the safety evaluation of the amendment request, NRC should have ensured that all communications between NRC and Niagara Mohawk used to evaluate the TSA were docketed.

OIG found that NRC did not docket all of the communications between NRC and Niagara Mohawk and, as a result of this omission the NRR staff was not in compliance with the requirements of 10 CFR, Part 50.4.

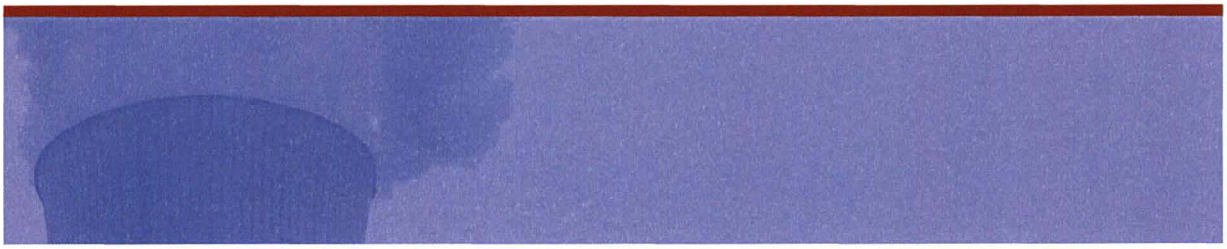
As a result of this investigation, NRR reviewed all other instances of NRC staff activity in conjunction with license amendments safety evaluations and identified no other instances of failure of staff to comply with agency requirements. *(Addresses Management Challenges #2, 4, 7, and 8)*

Theft of Cash at NRC Headquarters

OIG Strategic Goal: Corporate Management

On August 16, 2004, between 11:30 a.m. and 11:47 a.m., a female posing as an NRC employee gained unauthorized entry to NRC headquarters and wandered through the One White Flint North and Two White Flint North buildings taking cash from unattended cubicles and offices of nine NRC employees. The subject's entry into the NRC buildings took place during a "Code Orange" (heightened terrorist alert) day.

The OIG investigation identified the subject, and, subsequent to her apprehension, she agreed to cooperate with OIG. She was interviewed to determine how she gained



entry to the NRC headquarters buildings and how she was able to move freely once inside the buildings.

As a result of this investigation, OIG determined that the subject gained entry to NRC headquarters by posing as an NRC employee on a smoking break outside the building.

Upon entry into the building, the subject bypassed manned security checkpoints and accessed upper floors by following behind NRC employees who were opening doors with their key-cards.

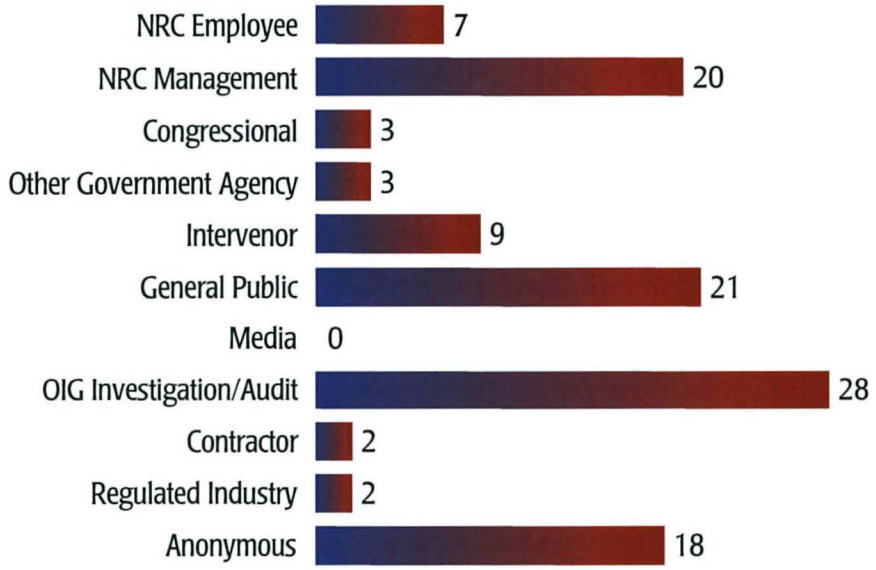
This investigation was referred to the Montgomery County Maryland States Attorney's Office. The subject was prosecuted in Montgomery County District Court. On December 6, 2004, she was found guilty of misdemeanor theft.

Additionally, the security deficiencies identified during this investigation were reported to the NRC Executive Director for Operations and corrective actions were taken. *(Addresses Management Challenge #8)*

STATISTICAL SUMMARY OF OIG ACCOMPLISHMENTS

INVESTIGATIVE STATISTICS

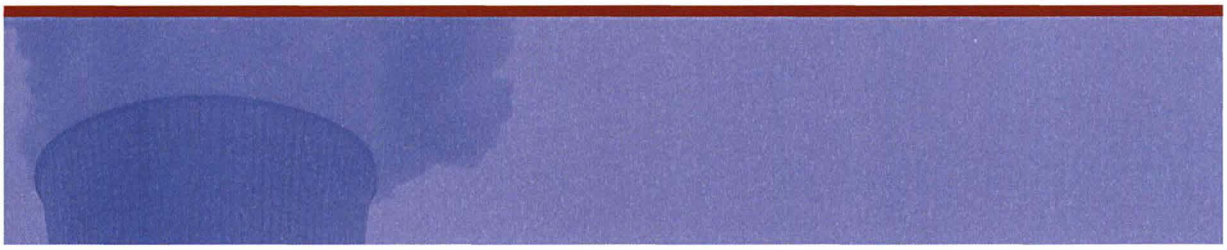
Source of Allegations – October 1, 2004, through March 31, 2005



Allegations resulting from Hotline calls: 21

Total: 113

Disposition of Allegations – October 1, 2004, through March 31, 2005



STATUS OF INVESTIGATIONS

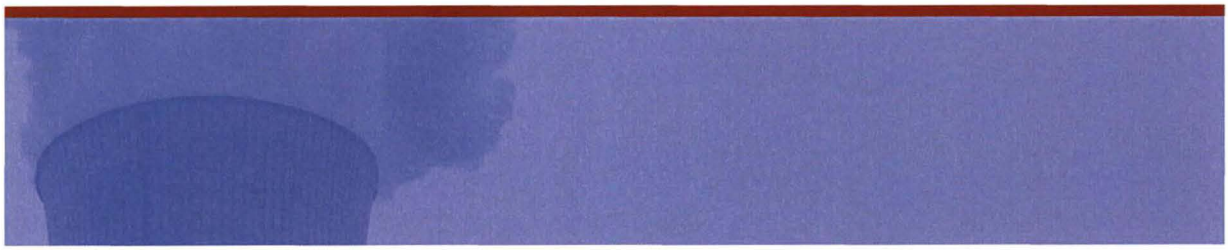
DOJ Referrals	11
State Referrals	1
DOJ Declinations	11
State Acceptance	1
Indictments and Arrests	3
Convictions	2
Recoveries	$51,539

NRC Administrative Actions:

Terminations and Resignations	3
Suspensions and Demotions	4
Counseling	2
Letter of Reprimand	2
Other Action	1

SUMMARY OF INVESTIGATIONS

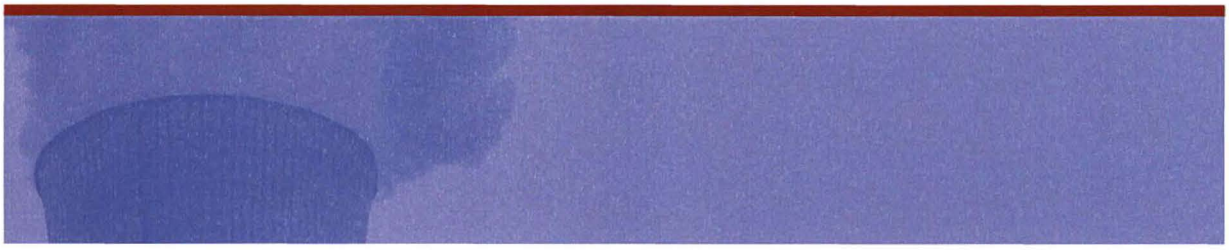
Classification of Investigations	*Carryover*	*Opened Cases*	*Closed Cases*	*Cases In Progress*
A - Conflict of Interest	2	0	0	2
B - Internal Fraud	0	1	1	0
C - External Fraud	10	3	6	7
D - False Statements	3	4	6	1
E - Theft	1	0	1	0
F - Misuse of Government Property	7	12	10	9
G - Employee Misconduct	1	2	1	2
H - Management Misconduct	3	1	3	1
I - Technical Allegations — Other	5	11	9	7
J - Whistleblower Reprisal	0	0	0	0
Total Investigations	**32**	**34**	**37**	**29**
S - Event Inquiries	1	3	0	4



AUDIT LISTINGS

Internal Program Audit and Special Evaluation Reports

Date	*Title*	*Audit Number*
10/04/04	Inspector General's Assessment of the Most Serious Management Challenges Facing NRC	OIG-05-A-01
11/12/04	Results of the Audit of the U.S. Nuclear Regulatory Commission's Financial Statements for Fiscal Years 2004 and 2003	OIG-05-A-02
11/18/04	Independent Auditors' Report on the U.S. Nuclear Regulatory Commission's Special-Purpose Financial Statements as of September 30, 2004, and for the Year then Ended	OIG-05-A-03
12/02/04	Independent Accountants' Report on the Application of Agreed-upon Procedures for Federal Intragovernmental Activity and Balanced as of September 30, 2004	OIG-05-A-04
12/20/04	Audit of NRC's Drug Testing Program	OIG-05-A-05
12/22/04	Audit of NRC's Baseline Inspection Program	OIG-05-A-06
12/22/04	Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for Fiscal Year 2004	OIG-05-A-07
01/14/05	Systems Evaluation of the Integrated Personnel Security System (IPSS)	OIG-05-A-08
01/31/05	Audit of the Budget Formulation Process	OIG-05-A-09
02/24/05	Audit of NRC's High-Level Waste Program	OIG-05-A-10



Contract Audit Reports

OIG Issue Date	*Contractor/ Contract Number*	*Questioned Costs*	*Unsupported Costs*
10/08/04	Comprehensive Health Services, Inc.		
	RS-HR-04-384	0	0
10/14/04	Hummer Whole Health Management		
	RS-HR-04-384	0	0
12/08/04	Sytel, Inc.		
	NRC-33-96-194	0	0
02/22/05	Beckman and Associates, Inc.		
	NRC-03-98-021	$ 5,114	0
03/14/05	Southwest Research Institute		
	NRC-02-02-003	$ 128	0
	NRC-02-02-012	$35,513	0
	NRC-02-97-001	$ 922	0
	NRC-02-97-009	0	0
	NRC-02-98-002	$ 476	0
	NRC-02-98-007	$ 51	0

TABLE I

OIG Reports Containing Questioned Costs[1]
October 1, 2004 – March 31, 2005

Reports	*Number of Reports*	*Questioned Costs (Dollars)*	*Unsupported Costs (Dollars)*
A. For which no management decision had been made by the commencement of the reporting period	3	$289,373	$3,606,365[2]
B. Which were issued during the reporting period	2	$42,204	0
Subtotal (A + B)	5	$331,577	$3,606,365
C. For which a management decision was made during the reporting period:			
(i) dollar value of disallowed costs	2	$39,667	0
(ii) dollar value of costs not disallowed	2	$248,363	0
D. For which no management decision had been made by the end of the reporting period	2	$43,547	$3,606,365
E. For which no management decision was made within 6 months of issuance	1	$38,433	$3,606,365

[1]Questioned costs are costs that are questioned by the OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of the audit, such costs are not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

[2]The General Services Administration (GSA) is responsible for the management decision on these questioned and unsupported costs. GSA has advised that the decision will be made sometime in early 2006.

TABLE II

OIG Reports Issued with Recommendations That Funds Be Put to Better Use[3]
October 1, 2004 – March 31, 2005

Reports	*Number of Reports*	*Dollar Value of Funds*
A. For which no management decision had been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	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

[3]A "recommendation that funds be put to better use" is a recommendation by the OIG that funds could be used more efficiently if NRC management took actions to implement and complete the recommendation, including: reductions in outlays; deobligation of funds from programs or operations; withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; costs not incurred by implementing recommended improvements related to the operations of NRC, a contractor, or a grantee; avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or any other savings which are specifically identified.

TABLE III

Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed

Date	*Report Title*	*Report Number*
05/26/03	Audit of NRC's Regulatory Oversight of Special Nuclear Materials	OIG-03-A-15
	Recommendation 1: Conduct periodic inspections to verify that material licensees comply with MC&A [material control and accountability] requirements, including, but not limited to visual inspections of licensees' SNM [special nuclear material] inventories and validation of reported information.	
	Recommendation 5: Establish an independent NRC system of accounting for SNM possessed by NRC and Agreement State licensees and ensure that beginning balances are accurate based on NRC's physical verification of a statistical sample of the location and amounts of SNM held by the licensees or a review of a statistical sample of a licensee's records or some combination thereof.	

ABBREVIATIONS AND ACRONYMS

CCU	Computer Crime Unit (OIG)
CFR	Code of Federal Regulations
DFM	Division of Financial Management (NRC)
DOE	U.S. Department of Energy
DOL	U.S. Department of Labor
ECIE	Executive Council on Integrity and Efficiency
FISMA	Federal Information Security Management Act
FY	Fiscal Year
GPRA	Government Performance and Results Act
HAPCOA	Hispanic American Police Command Officers Association
HLW	high-level waste
IAM	Issue Area Monitor
IG	Inspector General
MD	Management Directive
NISA	Japanese Nuclear and Industrial Safety Agency
NRC	U.S. Nuclear Regulatory Commission
NRR	Office of Nuclear Reactor Regulation (NRC)
NSC	Japanese Nuclear Safety Commission
NSIR	Office of Nuclear Security and Incident Response (NRC)
NWPA	Nuclear Waste Policy Act
OCFO	Office of the Chief Financial Officer (NRC)

OIG	Office of the Inspector General (NRC)
OMB	U.S. Office of Management and Budget
OWCP	Office of Workers' Compensation Program
PART	Program Assessment Rating Tool
PBPM	Planning, Budgeting, and Performance Management
PCIE	President's Council on Integrity and Efficiency
ROP	reactor oversight process
RPS	Reactor Program System
SGI	Safeguards Information
TSA	technical specification amendment

REPORTING REQUIREMENTS

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

CITATION	REPORTING REQUIREMENTS	PAGE
Section 4(a)(2)	Review of Legislation and Regulations	4
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	12-17, 24-29
Section 5(a)(2)	Recommendations for Corrective Action	12-17
Section 5(a)(3)	Prior Significant Recommendations Not Yet Completed	36
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	31
Section 5(a)(5)	Information or Assistance Refused	None
Section 5(a)(6)	Listing of Audit Reports	32
Section 5(a)(7)	Summary of Significant Reports	12-17, 24-29
Section 5(a)(8)	Audit Reports — Questioned Costs	34
Section 5(a)(9)	Audit Reports — Funds Put to Better Use	35
Section 5(a)(10)	Audit Reports Issued Before Commencement of the Reporting Period for Which No Management Decision Has Been Made	34
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions With Which the OIG Disagreed	None

NRC OIG'S STRATEGIC GOALS

1. Advance NRC's efforts to enhance safety and protect the environment.

2. Enhance NRC's efforts to increase security in response to the current threat environment.

3. Improve the economy, efficiency, and effectiveness of NRC corporate management.

The NRC OIG Hotline

The Hotline Program provides NRC employees, other Government employees, licensee/utility employees, contractors and the public with a confidential means of reporting suspicious activity to the OIG. We do not attempt to identify persons contacting the Hotline.

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- Theft and Misuse of Property
- Travel Fraud
- Misconduct
- Abuse of Authority
- Misuse of Government Credit Card
- Time and Attendance Abuse
- Misuse of Information Technology Resources
- Program Mismanagement

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Call:
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After hours, please leave a message

Submit:
On-Line Form
www.nrc.gov
Click on Inspector General
Click on OIG Hotline

Write:
U.S. Nuclear Regulatory Commission
Office of the Inspector General
Hotline Program, MS T5 D28
11545 Rockville Pike
Rockville, MD 20852-2738