



Office of the Inspector General

U. S. Nuclear Regulatory Commission

Annual Plan

Fiscal Year 2004

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FOREWORD

I am pleased to present the Office of the Inspector General's (OIG) fiscal year (FY) 2004 Annual Plan. The Annual Plan provides the audit and investigative strategies and associated summaries of the specific work planned for the coming year.

The U.S. Nuclear Regulatory Commission's (NRC) mission is to regulate this Nation's civilian use of byproduct, source, and special nuclear material to ensure adequate protection of public health and safety. This Annual Plan is the OIG's formal strategy for identifying priority issues and managing workload and resources for FY 2004. To develop this Annual Plan, we obtained input from several sources, including the Commission, Congress, the nuclear industry, and NRC senior managers.

In addition, during this planning cycle, OIG updated its Strategic Plan based, in part, on an assessment of the strategic challenges facing the NRC. Having thereby aligned our strategic directions with NRC's mission and strategic goals. The Strategic Plan serves as the framework upon which our Annual Plan is based. OIG's ability to address the specific NRC program areas and priorities, strategies, and actions will be determined by the availability of resources.

Therefore, we have programmed all our available resources to address the matters identified in this plan. This approach maximizes use of our resources. This plan is modified throughout the year as circumstances, priorities, and/or resource availability dictate.

Hubert T. Bell/**RA**/
Inspector General

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MISSION AND AUTHORITY

The NRC's Office of the Inspector General (OIG) was established on April 15, 1989, pursuant to Inspector General Act Amendments contained in Public Law 100-504. OIG's mission, as spelled out in the Act, is to (1) conduct and supervise independent audits and investigations of agency programs and operations; (2) promote economy, effectiveness, and efficiency within the agency; (3) prevent and detect fraud, waste, and abuse in agency programs and operations; (4) develop recommendations regarding existing and proposed regulations relating to agency programs and operations; and (5) keep the agency head and Congress fully informed of problems in agency programs. The Act also requires the Inspector General (IG) to report to the NRC Chairman and Congress semiannually on the results of OIG activities.

OIG is committed to ensuring the integrity of NRC programs and operations. 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 for FYs 2003 - 2008 and it includes three strategic goals, six general goals and a number of supporting strategies to accomplish its objectives. In addition, the Annual Plan aligns with the Strategic Plan and reflects the interests and concerns of the Congress, NRC senior managers, including the Chairman and Commissioners, and the nuclear industry.

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 itself, the President, and the public. The Act requires each IG to summarize what the IG considers to be the most serious management and performance challenges facing his/her agency and to assess the agency's progress in addressing those challenges.

Serious management challenges are 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. In the latest annual assessment (November 2002), the IG identified the following as the most serious management challenges facing NRC:¹

1. Protection of nuclear material and facilities used for civilian purposes.
2. Development and implementation of an appropriate risk-informed and performance-based regulatory oversight approach.
3. Acquisition and implementation of information resources.
4. Administration of all aspects of financial management.
5. Clear and balanced communication with external stakeholders.

¹The challenges are not ranked in any order of importance.

6. Intra-agency communication (up, down, and across organizational lines).
7. Integration of regulatory processes in a changing external environment.
8. Maintenance of a highly competent staff (i.e., human capital management).
9. Protection of information.

OIG monitors agency performance on these management challenges and periodically revises its assessment of them, as needed.

AUDITS AND INVESTIGATIONS UNIVERSE

The NRC budget request for FY 2004 is \$626.1 million with a staffing level of 2,970 personnel. The agency's mission is to ensure that civilian uses of nuclear materials in the United States (in the operation of nuclear power plants, and in medical, industrial, and research operations) are carried out with adequate protection of the public health and safety, the environment, and national security. The agency also has a role in combating the proliferation of nuclear materials worldwide.

NRC is headquartered in Rockville, Maryland; has four regional offices located throughout the United States; and operates a technical training center located in Chattanooga, Tennessee.

The agency carries out its mission through various licensing, inspection, research, and enforcement programs. Currently, NRC responsibilities include regulating 103 commercial nuclear power reactors that operate in 31 states; 36 non-power reactors licensed to operate in 24 states; 7 major uranium fuel fabrication and production facilities; 2 gaseous diffusion enrichment facilities; and approximately 4,800 licenses issued for medical, academic, and industrial uses of nuclear material. The agency is also overseeing the decommissioning of 16 commercial nuclear power plants. The audit and investigation oversight responsibilities are therefore derived from the agency's wide array of programs, functions, and support activities established to implement NRC's mission.

PLANNING STRATEGY

The 2004 Annual Plan is linked with OIG's Strategic Plan for fiscal years 2003 - 2008. The Strategic Plan identifies the major challenges and risk areas facing the NRC so that OIG resources may be directed in these areas in an optimum fashion.

The Strategic Plan recognizes the mission and functional areas of the agency and the major challenges the agency faces in successfully implementing its regulatory program. The plan presents strategies for reviewing and evaluating NRC programs under the strategic goals that OIG established. The OIG strategic goals are to (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*, and (3) *Improve the economy, efficiency, and effectiveness of NRC corporate management*. To ensure that each review and evaluation carried out by OIG aligns with the strategic plan, program areas selected for review and evaluation will be cross-walked from the Annual Plan to the Strategic Plan.

AUDITS 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 issue areas to strengthen our internal coordination and overall planning process. Under our 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. Appendix E contains a listing of our IAMs and issue areas for which they are responsible.

The audit planning process is designed to yield audit assignments that will identify opportunities for efficiency, economy, and effectiveness in NRC programs and operations; detect and prevent fraud, waste, and mismanagement; improve program and security activities at headquarters and regional locations; and respond to unplanned priority requests and targets of opportunity. The priority for conducting audits is based on (1) mandatory legislative requirements; (2) emphasis by the President, Congress, NRC Chairman, or other NRC Commissioners; (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.

INVESTIGATIONS STRATEGY

OIG investigative strategies and initiatives add value to agency programs and operations by identifying and investigating allegations of fraud, waste and abuse leading to criminal, civil, and administrative penalties and recoveries. By focusing on results, OIG has

designed specific performance targets with an eye on efficiency. Because the NRC's mission is to protect the health and safety of the public, the main investigative concentration involves alleged NRC misconduct that could adversely impact on 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 the public health and safety.
- ◆ Failure by NRC management to ensure that health and safety matters are appropriately addressed.
- ◆ Failure 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.

As resources allow, the OIG will also implement a series of proactive initiatives designed to identify specific high-risk areas that are most vulnerable to fraud, waste and abuse. A primary focus will be on electronic-related fraud in the business environment. The OIG is committed to improving the security of this constantly changing electronic business environment by investigating unauthorized intrusions, computer related fraud, and by conducting computer forensic examinations. Other proactive initiatives will focus on determining if instances of procurement fraud, theft of property, Government credit card abuse and fraud in the Federal Employees Compensation Act program are evident.

As part of this proactive initiative, the OIG will be meeting with its stakeholders to make them aware of our expertise and willingness to work with them in these areas. This style of approach provides a meaningful, systematic means to remove barriers, identify any vulnerabilities and provide an opportunity to inform and improve the performance of the agency if warranted.

Appendix D provides OIG Investigations' FY 2004 objectives and initiatives. Specific investigations are not included in the plan because investigations are primarily responsive to reported violations of law and misconduct by NRC employees and contractors, as well as allegations of irregularities or abuse in NRC programs and operations.

PERFORMANCE GOALS

For FY 2004, we will continue to use a number of key performance indicators and targets for gauging our audit and investigative work. These are:

<i>Measure</i>	<i>Goal 1 Safety</i>		<i>Goal 2 Security</i>		<i>Goal 3 Corporate Management</i>	
	<i>Baseline 2004</i>	<i>Target 2005</i>	<i>Baseline 2004</i>	<i>Target 2005</i>	<i>Baseline 2004</i>	<i>Target 2005</i>
1. Percent of OIG products/ activities ² undertaken to identify critical risk areas or management challenges relating to the improvement of NRC's safety, security, and/or corporate management programs.		80%		85%		65%
2. Percent of OIG products/ activities that have a high impact ³ on improving NRC's safety, security and/or corporate management programs.		70%		70%		70%
3. Number of audit recommendations agreed to by agency.		90%		90%		90%
4. Final agency action within 1 year on audit recommendations		65%		65%		65%
5. Agency action in response to investigative reports		90%		90%		90%
6. Acceptance by NRC's Office of General Counsel of OIG-referred Program Fraud and Civil Remedies Act cases.						70%

² OIG products are issued OIG reports - by the audit unit, an audit report or special evaluation; by the investigative unit, an event inquiry, or a special inquiry. Activities are OIG hotline activities or proactive investigative projects.

³ High impact is the effect of an issued report or activity undertaken that results in: a) confirming risk areas or management challenges that caused the agency to take corrective action; b) real dollar savings or reduced regulatory burden; c) identifying significant wrong-doing by individuals that results in criminal or administrative action; d) clearing an individual wrongly accused; e) identifying regulatory actions or oversight that may have contributed to the occurrence of a specific event or incidence or resulted in a potential adverse impact on public health and safety.

OPERATIONAL PROCESSES

The following sections detail the approach used to carry out the audit and investigative responsibilities previously discussed, as well as provide a brief description of our management and operational support staff functions.

AUDITS

OIG's audit process comprises the steps taken to conduct audits and involves specific actions, ranging from annual audit planning to performing audit follow up. The underlying goal of the audit process is to maintain an open channel of communication between the auditors and NRC officials to ensure that audit findings are accurate and fairly presented in the audit report.

The OIG performs the following types of audits:

Performance - These audits are conducted on selected NRC administrative and program operations to evaluate the effectiveness and efficiency with which managerial responsibilities are carried out. They focus on whether management controls, practices, processes, and procedures are adequate, effective and whether programs and activities achieve their anticipated results.

Financial - These audits include the financial statement audit required by the Chief Financial Officers Act and other financial audits. They include reviews of such items as internal control systems, transaction processing, and financial systems.

Contracts - Based on a Memorandum of Understanding between the OIG and NRC's Division of Contracts (DC), Office of Administration, OIG provides oversight of work performed by the Defense Contract Audit Agency (DCAA) or outside independent public audit firms that perform contract audits. Pre-award audits of contract proposals in excess of \$550,000 are a priority for the agency. At this time, OIG estimates that four pre-award audits will be needed in FY 2004. Post award audits are divided into two categories — incurred cost audits of active contracts and closeout audits of completed contracts. For incurred cost audits, contracts over \$10 million will be audited at least every 3 years, contracts over \$5 million but under \$10 million will be audited at least once during the life of the contract, and contracts under \$5 million will be periodically selected on a judgmental basis. For FY 2004, OIG plans to select 10 active contracts for audit. For contracts in closeout, there are four outstanding requests for final audit. In the past, DCAA has performed the audits of NRC contracts. For FY 2004, OIG plans to have DCAA perform some contract audits, with others performed by outside, independent audit firms.

The key elements in the audit process are as follows:

Audit Planning - Each year, suggestions are solicited from the Commission, agency management, external parties and OIG staff. An annual audit plan is developed and distributed to interested parties. It contains a listing of planned audits to be initiated during the year and the general objectives of the audits. The annual audit plan is a

“living” document that may be revised as issues warrant, with a subsequent redistribution of staff resources.

Audit Notification - Formal notification is provided to the office responsible for a specific program, activity, or function, informing them of our intent to begin an audit of that program, activity, or function.

Entrance Conference - A meeting is held to advise agency officials of the purpose, objectives, and scope of the audit, and the general methodology to be followed.

Survey - Exploratory work is conducted before the more detailed audit commences to gather data for identifying audit objectives, documenting internal control systems, becoming familiar with the activities to be audited, and identifying areas of concern to management.

Audit - A comprehensive review is performed of selected areas of a program, activity, or function using an audit program developed specifically to address the audit objectives.

Discussion Draft Report - A discussion draft copy of the report is provided to agency management to allow them the opportunity to prepare for the exit conference.

Exit Conference - A meeting is held with the appropriate agency officials to present and discuss the results of the audit. This meeting provides agency management the opportunity to confirm information, ask questions, and provide any necessary clarifying data.

Final Draft Report - If requested by agency management during the exit conference, a final draft copy of the report that includes comments from the exit conference is provided to the agency to obtain formal written comments.

Final Audit Report - The final report includes, as necessary, any revisions to the facts, conclusions, and recommendations of the draft report discussed in the exit conference or generated in written comments supplied by agency managers. Written comments are included as an appendix to the report. Some audits are sensitive and/or classified. In these cases, final audit reports are not made available to the public.

Response to Report Recommendations - Action offices provide a written response on each recommendation (usually within 30 days) contained in the final report. Agency management responses include a decision for each recommendation indicating agreement or disagreement with the recommended action. For agreement, agency management provides corrective actions taken or planned and actual or target dates for completion. For disagreement, agency management provides their reasons for disagreement and any alternative proposals for corrective action. If questioned or unsupported costs are identified in the audit report, agency management states the amount that is determined to be disallowed and the plan to collect the disallowed funds. If funds that can be put to better use are identified, agency management states the amount that can be put to better use. If these amounts differ from OIG's, agency management states the reasons for the difference.

Audit Follow-up and Closure - This process ensures that recommendations made to management are implemented.

INVESTIGATIONS

OIG's investigative process normally begins with the receipt of an allegation of fraud or mismanagement. Because a decision to initiate an investigation must be made within a few days of each referral, OIG does not schedule specific investigations in its plan.

Investigations are opened in accordance with OIG priorities and general guidelines and in consideration of prosecutorial guidelines that may be established by the local U.S. Attorneys for the Department of Justice (DOJ). OIG investigations are governed by the President's Council on Integrity and Efficiency Quality Standards for Investigations, the OIG Special Agent Handbook, and various guidance provided on a periodic basis by the DOJ.

Only four individuals in the OIG can authorize the opening of a case: the IG, the Deputy IG, the Assistant IG for Investigations, and the Senior Level Assistant for Investigative Operations. Every allegation received by OIG is given a unique identification number and entered into a database. Some allegations result in investigations, while others are retained as the basis for audits, referred to NRC management, or, if appropriate, referred to another law enforcement agency.

When an investigation is opened, it is assigned to a special agent who prepares a plan of investigation. This planning process includes a review of the criminal and civil statutes, program regulations, and agency policies that may be involved. The special agent then conducts the investigation, which may require interviewing witnesses and subjects, reviewing and analyzing records, obtaining physical evidence, and conducting surveillance and/or undercover operations. In those cases when the special agent determines that a crime may have been committed, he or she will discuss the investigation with a Federal and/or local prosecutor to determine if prosecution will be pursued. Upon completion of the investigation, the special agent prepares an investigative report summarizing the facts disclosed during the investigation.

The investigative report is distributed to officials who have an official interest in the results of the investigation. In those cases where a prosecuting attorney decides to proceed with a criminal or civil prosecution, the special agent assists the attorney in any preparation for court proceedings that may be required. This assistance may include serving subpoenas, locating witnesses, preparing exhibits, executing arrest/search warrants, and testifying before a grand jury or during trial.

At the conclusion of any court action, OIG advises the agency of the court results. For those investigations that do not result in a trial but are handled administratively by the agency, OIG monitors any corrective or disciplinary action that may be taken. OIG collects data summarizing the judicial and administrative results of its investigations and includes this data in its semiannual report to Congress.

As a complement to the investigation function, OIG also conducts a limited number of event inquiries and special inquiries. Event Inquiry Reports document the examination of events or agency regulatory actions that identify staff actions that may have contributed to the occurrence of an event. Special Inquiry Reports document those instances where an investigation identifies inadequacies in NRC regulatory oversight that may have resulted in a potential adverse impact on public health and safety.

HOTLINE

The OIG Hotline Program provides NRC employees, licensee employees, contract employees, and the public with a confidential means of reporting to the OIG instances of fraud, waste, and abuse relating to NRC programs and operations. The toll free number (1-800-233-3497) provides easy access for individuals to report any instance of fraud, waste, or abuse to well-trained Hotline Operators in the OIG. Trained staff are available to answer calls Monday through Friday between 9 a.m. and 4 p.m. (eastern standard time). At other times, callers may leave a message. There is no caller identification feature associated with the Hotline.

Individuals may also provide information via the Internet or by mail. To report fraud, waste and abuse on-line, click on "OIG Hotline" found on OIG's web page (www.nrc.gov/insp-gen.html). To provide information by mail, send all correspondence to the following address:

U.S. Nuclear Regulatory Commission
Office of the Inspector General
Hotline Program
Mail Stop T-5 D28
11545 Rockville Pike
Rockville, MD 20852-2738

MANAGEMENT AND OPERATIONAL SUPPORT

The Resource Management and Operational Support (RMOS) staff perform myriad functions in support of the audit and investigation programs. These include formulating and executing the OIG budget, administering independent personnel services, preparing the OIG Semiannual Report to Congress, providing information technology support and expertise, and coordinating strategic planning activities.

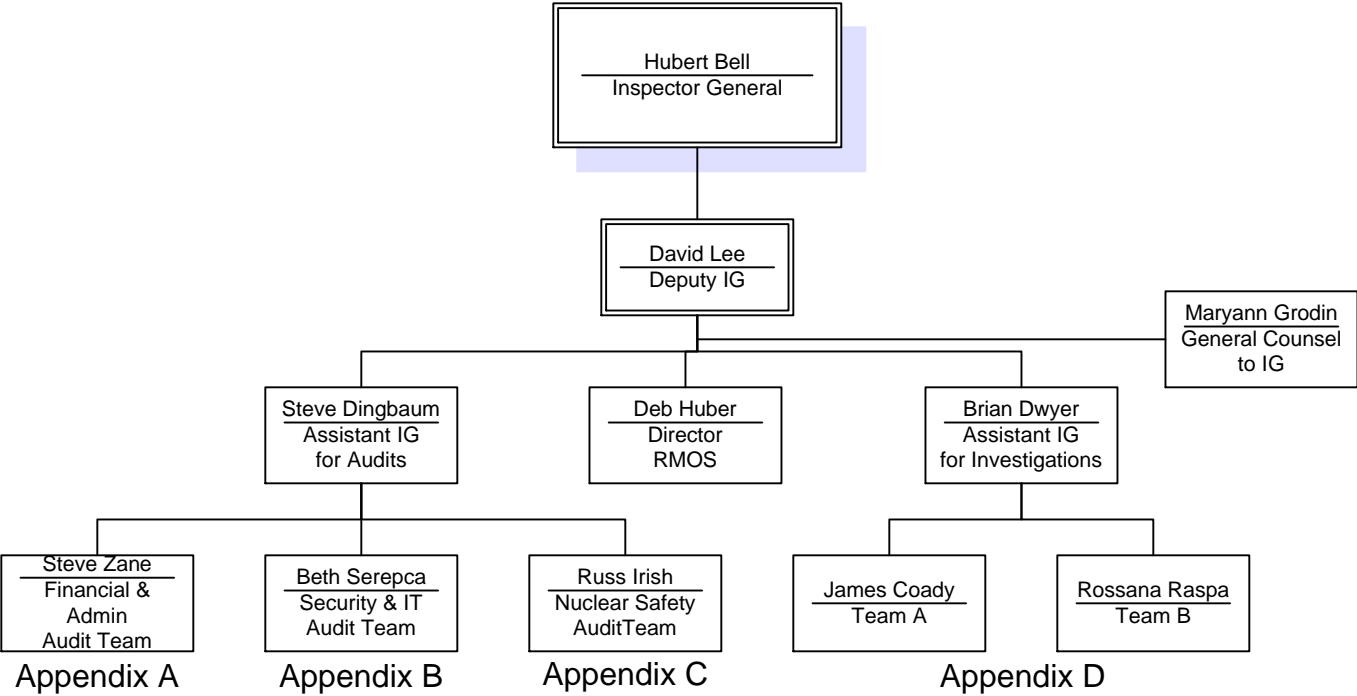
GENERAL COUNSEL TO THE INSPECTOR GENERAL

The General Counsel to the IG provides legal advice and representation on issues arising during audits and investigations and pertaining to functional organizational issues. The General Counsel conducts and coordinates with other cognizant OIG staff in-depth reviews of existing and proposed legislation, regulations, and policies, and develops as necessary commentaries that provide an objective analysis of regulatory vulnerabilities created within NRC programs and operations. The intent of these reviews is to assist the agency in identifying and preventing potential problems.

DISTRIBUTION OF OIG RESOURCES

For FY 2004, the OIG requested an appropriation of \$7.3 million and a total authorized staff of 47 FTE. This request includes funding for the audit and investigation functions. The following organizational chart identifies how the OIG is structured to cover the agency's activities. Appendices identified within the chart provide detailed descriptions of the FY 2004 audit and investigative work planned.

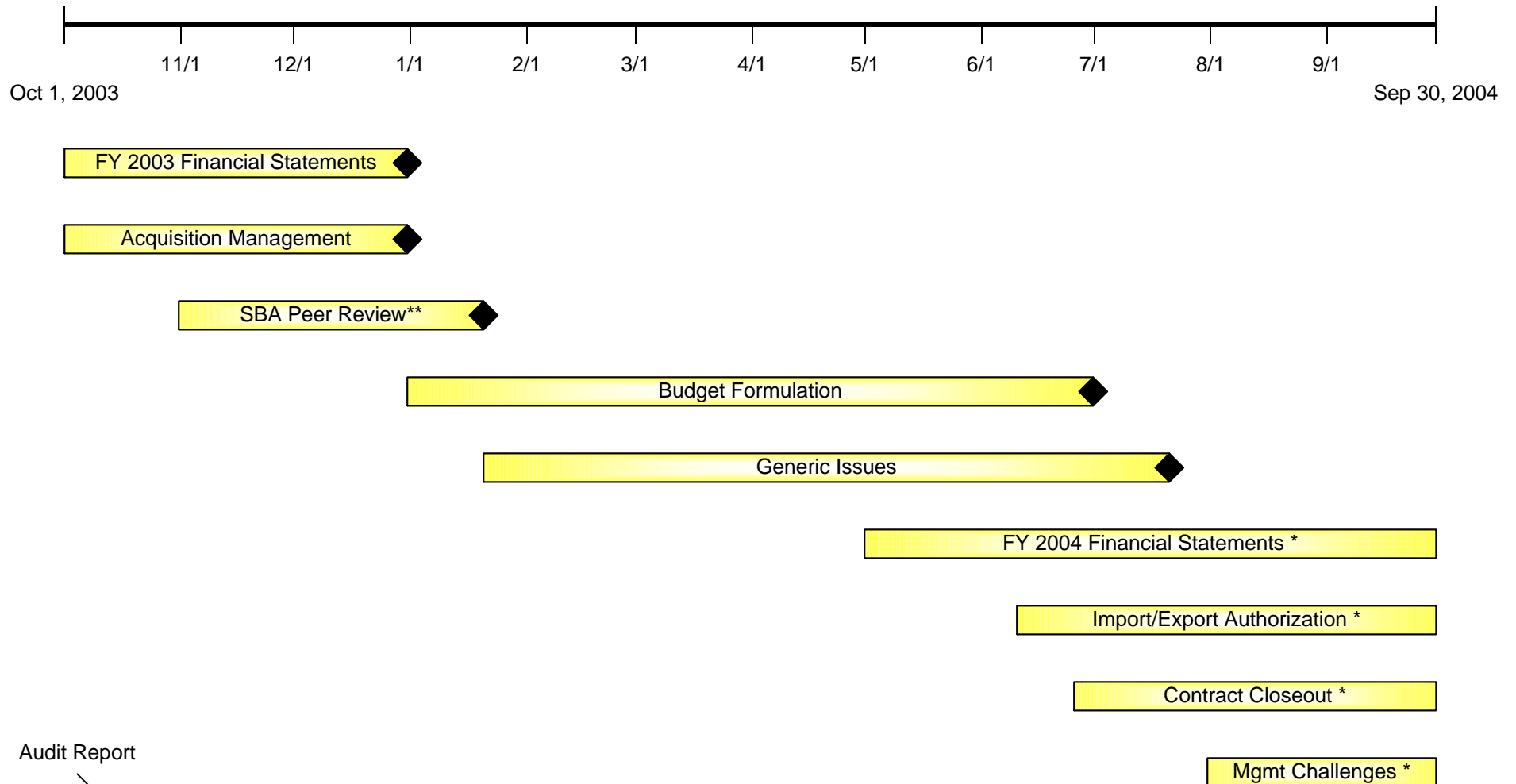
OIG Organizational Chart



**FINANCIAL AND
ADMINISTRATIVE AUDITS
PLANNED FOR FY 2004**

Fiscal Year 2004

Financial & Administrative Audits



* Audit concludes in FY 2005.

**This effort will not result in a report to NRC.

Audit of NRC's FY 2003 Financial Statements

DESCRIPTION AND JUSTIFICATION:

Under the Chief Financial Officers Act and the Government Management and Reform Act, the OIG is required to audit the financial statements of the NRC. We will measure the agency's improvements by assessing corrective action taken on the prior year's audit findings.

OBJECTIVES:

The 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 Office of Management and Budget (OMB) guidance, and review the controls in the NRC's computer systems that are significant to the financial statements.

SCHEDULE:

Initiated in the 3rd quarter of FY 2003 and scheduled to be completed in the 1st quarter of FY 2004.

STRATEGIC GOAL 3:

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

Strategy 3-1: Assess progress made in implementing the President's Management Agenda.

Audit of NRC's Management of the Acquisition Process

DESCRIPTION AND JUSTIFICATION:

During FY 2002, NRC executed approximately \$96 million in contract actions for the Division of Contracts (DC) activities alone. Additional funds are obligated for contract vehicles outside the realm of DC.

DC is responsible for (1) developing and implementing agency-wide contracting policies and procedures and (2) providing advice and assistance to NRC program officials regarding the Nuclear Regulatory Commission Acquisition Regulation (NRCAR), the Federal Acquisition Regulation (FAR), and methods for meeting program objectives consistent with such regulations.

To meet the needs of agency's contract management personnel, DC, in conjunction with the Office of Human Resources developed the agency's acquisition training curriculum. The curriculum includes both mandatory and recommended modules and focuses on the entire NRC acquisition process.

OBJECTIVES:

This review will determine whether NRC provides adequate oversight of (1) the contracting process, and (2) training for the acquisition workforce.

SCHEDULE:

Initiated in the 1st quarter of FY 2003 and scheduled to be completed in the 1st quarter of FY 2004.

STRATEGIC GOAL 3:

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

Strategy 3-1: Assess progress made in implementing the President's Management Agenda

Strategy 3-2: Identify other areas of Corporate Management risk within the NRC.

External Quality Control Review of the Small Business Administration's Office of Inspector General

DESCRIPTION AND JUSTIFICATION:

In January 1986, the President's Council and Integrity and Efficiency (PCIE) adopted and published *Quality Standards for Federal Offices of Inspector General*. These standards covered the entire OIG organization of the Federal Government and were considered advisory in nature. Subsequently, beginning with the 1988 edition, *Government Auditing Standards* required government audit organizations to have an appropriate internal quality control system in place and undergo an external quality control review. The 1988 amendments to the Inspector General Act of 1978 require that these external quality control reviews be performed exclusively by an audit entity of the Federal Government, including the GAO or another OIG, every 3 years. The PCIE assigned the OIG at NRC the responsibility for performing an external quality control review at the OIG of the Small Business Administration (SBA) in FY 2004.

OBJECTIVE:

This review will assess if the SBA, Audits Division, has an internal quality control system that provides reasonable assurance that the organization has adopted and is following applicable Government Auditing Standards, and has established and is following adequate audit policies and procedures.

The scope of the review will cover the elements of the OIG's internal quality control system that are designed to provide reasonable assurance that the audits it performs, or for which it contracts, are carried out in accordance with Government Auditing Standards and established policies and procedures. These elements include staff qualifications, independence, audit performance, and internal reviews. We will select audits issued between October 1, 2002, and September 30, 2003.

The final audit report will be issued to the SBA OIG. This audit work is shown in the FY 2004 Annual Plan because it will impact the resources of the OIG at NRC.

SCHEDULE:

Initiate in the 1st quarter of FY 2004.

STRATEGIC GOAL:

Not applicable because this is a review of another government agency.

Audit of NRC's Implementation of the Federal Managers' Financial Integrity Act for FY 2003

DESCRIPTION AND JUSTIFICATION:

Management controls, in the broadest sense, include the organization, methods, and procedures adopted by management to ensure that it meets its goals. According to OMB Circular A-123 revised, *Management Accountability and Control*, management controls are the organization, policies, and procedures used by agencies to reasonably ensure that (1) programs achieve their intended results, (2) resources are used consistent with agency mission, (3) programs and resources are protected from waste, fraud, and mismanagement, (4) laws and regulations are followed, and (5) reliable and timely information is obtained, maintained, reported, and used for decision making.

OBJECTIVES:

This review will assess NRC's compliance with the Federal Managers' Financial Integrity Act and report any significant internal control deficiencies.

SCHEDULE:

Initiate and complete in the 1st quarter of FY 2004.

STRATEGIC GOAL 3:

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

Strategy 3-1: Assess progress made in implementing the President's Management Agenda.

Strategy 3-2: Identify other areas of Corporate Management risk within the NRC.

Audit of NRC'S Budget Formulation Process

DESCRIPTION AND JUSTIFICATION:

The Government Performance and Results Act (GPRA) of 1993 was enacted to establish strategic planning and performance measurement in the Federal Government, and for other purposes. Under GPRA, agencies are required to submit to the 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. To effectively link resources to strategic goals and performance, the budget formulation process must have in place and effectively implement policies and procedures. Each year the CFO issues *Instructions for Information Required for the PBPM Budget Review* to Office Directors and Regional Administrators. All offices are expected to develop budget requests which support the strategic direction for the mission-related program areas, to the extent possible. Resource requests must be consistent with program goals, guidance, and planning assumptions, and must consider current financial status.

NRC's FY 2004 budget request is approximately \$626.1 million and 2,970 full-time equivalents (FTEs).

OBJECTIVES:

The OIG plans to assess (1) if the PBPM process is efficiently and effectively coordinated with program offices, and (2) if the PBPM process is effectively used to develop and collect data to align resources with strategic goals.

SCHEDULE:

Initiate in the 2nd quarter of FY 2004.

STRATEGIC GOAL 3:

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

Strategy 3-1: Assess progress made in implementing the President's Management Agenda.

Audit of NRC's Follow-through on Generic Communications

DESCRIPTION AND JUSTIFICATION:

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.

OBJECTIVE:

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.

SCHEDULE:

Initiate in the 2nd quarter of FY 2004.

STRATEGIC GOAL 1:

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

Strategy 1-1: Identify risk areas associated with NRC efforts to implement the Reactor Oversight Program and make recommendations, as warranted, for addressing them.

Audit of NRC'S FY 2004 Financial Statements

DESCRIPTION AND JUSTIFICATION:

Under the Chief Financial Officers Act and the Government Management and Reform Act, the OIG is required to audit the financial statements of the NRC. We will measure the agency's improvements by assessing corrective action taken on the prior year's audit findings. The due date for the audit of the NRC's FY 2004 financial statements has been accelerated to November 15, 2004.

OBJECTIVES:

The 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.

SCHEDULE:

Initiate in the 3rd quarter of FY 2004.

STRATEGIC GOAL 3:

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

Strategy 3-1: Assess progress made in implementing the President's Management Agenda.

Audit of NRC's Management of Import/Export Authorizations

DESCRIPTION AND JUSTIFICATION:

To ensure the safe, secure, and environmentally acceptable uses of nuclear energy, NRC maintains a program of international cooperation. In close coordination with the Departments of State, Energy, and Homeland Security, and Commerce, NRC is responsible for the licensing of exports and imports of nuclear facilities, equipment, material, and related commodities. NRC issues between 90 and 130 import/export licenses per year. This function is split between the Office of International Programs and a program office.

OBJECTIVES:

This audit will determine if (1) import/export authorizations are properly reviewed and approved in a timely manner, (2) NRC effectively coordinates this activity internally and with other Federal agencies, and (3) it is efficient to have the function split between two offices.

SCHEDULE: Initiate in the 3rd quarter of FY 2004.

STRATEGIC GOAL 2:

Enhance NRC's efforts to Increase Security in Response to the current threat environment.

Strategy 2-2: Identify risks associated with non-proliferation and make recommendations, as warranted, for addressing them.

Audit of NRC's Contract Closeout Process

DESCRIPTION AND JUSTIFICATION:

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 five years ago.

OBJECTIVES:

The objectives will be 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.

SCHEDULE:

Initiate in the 4th quarter of FY 2004.

STRATEGIC GOAL 3:

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

Strategy 3-1: Assess progress made in implementing the President's Management Agenda

Strategy 3-2: Identify other areas of Corporate Management risk within the NRC.

Special Evaluation of NRC's Most Serious Management Challenges (FY 2005)

DESCRIPTION AND JUSTIFICATION:

In response to congressional requests, and consistent with the goal of improving agency programs and operations, the Inspector General (IG) in 1998 developed and updated what he considered to be the most serious management challenges facing the NRC. The IG evaluated the overall work of the OIG, the OIG staff's general knowledge of agency operations, and other relevant information to develop his list of management challenges. In September 1999, congressional members requested that IGs update their lists of the most serious management challenges facing their agencies on an annual basis. Additionally, they requested that IGs assess their agencies' efforts to address the challenges, compare and contrast the new management challenges listing with previous listings, and identify programs that "have had questionable success in achieving results." To be responsive to the congressional request, the IG stated that OIG would conduct a special evaluation to review, in depth, the areas of congressional interest and to determine the extent to which the NRC is addressing the management challenges.

OBJECTIVES:

The overall objectives for this special evaluation are to assess the agency's efforts to address the management challenges and to identify any related agency programs that have had questionable success in achieving results. This special evaluation will help OIG update the annual list to Congress of NRC's most serious management challenges, which is usually due in December. This evaluation is performed annually.

SCHEDULE:

Initiate in the 4th quarter of FY 2004; complete in the 1st quarter of FY 2005.

STRATEGIC GOAL 3:

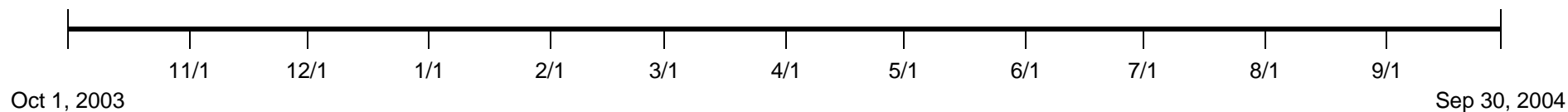
Improve the economy, efficiency, and effectiveness of NRC corporate management.

Strategy 3-1: Assess progress made in implementing the President's Management Agenda

**SECURITY AND
INFORMATION TECHNOLOGY
AUDITS
PLANNED FOR FY 2004**

Fiscal Year 2004

Security & Information Technology Audits



Mgmt Challenges

Personnel Security

Licensing Support Network (LSN)

NRC's Drug Testing Program

Nuclear Security & Incident Response (NISR)

Integrated Personnel Security System (IPSS)

Reactor Program System (RPS)

Information Security (FISMA)

DBT*

Audit Report

* Audit concludes in FY 2005.

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OBJECTIVES:

The overall objectives for this special evaluation are to assess the agency's efforts to address the management challenges and to identify any related agency programs that have had questionable success in achieving results. This special evaluation will help OIG update the annual list to Congress of NRC's most serious management challenges, which is usually due in December. This evaluation is performed annually.

SCHEDULE: Initiated in the 4th quarter of FY 2003 and scheduled to be concluded in the 1st quarter of FY 2004.

STRATEGIC GOAL 3:

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

Strategy 3-1: Assess progress made in implementing the President's Management Agenda.

Strategy 3-2: Identify other areas of corporate management risk within the NRC.

Audit of NRC's Personnel Security Program

DESCRIPTION AND JUSTIFICATION:

The Security Branch, Division of Facilities and Security, Office of Administration, administers NRC's Personnel Security Program. This program includes making determinations on the initial and continuing eligibility of NRC applicants, consultants, and employees for facility access authorizations, employment clearances, and access to restricted data and national security information. The program also makes determinations on the initial and continuing eligibility of contractor employees for building access and for access to sensitive information technology systems and data. This Branch also administers the Classified Visitor Control Program and maintains liaison with other organizations such as the Office of Personnel Management, the Federal Bureau of Investigation, and the Central Intelligence Agency on personnel security matters.

OBJECTIVES:

This audit continues audit work performed during FY 2003 on this issue. In FY 2003, auditors focused on the personnel security process as it pertains to contractor employees. During FY 2004, auditors will focus on other program components to determine whether the program is effectively managed and achieves its goals.

SCHEDULE:

Initiated in the 2nd quarter of FY 2003 and scheduled to conclude during the first quarter of FY 2004.

STRATEGIC GOAL 2:

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

Strategy 2-3: Identify threats to NRC security.

Audit of The Licensing Support Network

DESCRIPTION AND JUSTIFICATION:

NRC developed the Licensing Support Network (LSN) to respond to a congressional mandate that the NRC reach a determination on the Department of Energy's (DOE) application for construction authorization for a high-level radioactive waste repository at Yucca Mountain, Nevada, in a 3-year time frame. To shorten the time spent on the exchange of documents that may be used as evidence in the NRC licensing proceeding, the parties and potential parties to the hearing on the DOE application will make their documents available via the Internet before the DOE license application is submitted to NRC. The LSN provides a single place where the parties and potential parties to the licensing hearing can search for documents in a uniform way. During peak usage, access to the system may be restricted to participants in the licensing process. NRC is responsible for operating and maintaining the system.

OBJECTIVE:

This audit will assess if the system meets its required operational capabilities and provides for the security, availability, and integrity of the system data.

SCHEDULE:

Initiate in the 1st quarter of FY 2004.

STRATEGIC GOAL 1:

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

Strategy 1-3: Identify risk areas associated with the prospective licensing of the high-level waste repository and make recommendations, as warranted, for addressing them.

Audit of NRC's Drug Testing Program

DESCRIPTION AND JUSTIFICATION:

As a result of NRC's national security and public health and safety responsibilities and the sensitive nature of its work, NRC has a compelling obligation to detect and eliminate illegal drug use from its workplace. NRC has developed a comprehensive Drug Free Workplace Plan that includes extensive awareness and education opportunities for all employees, drug testing, counseling, and provisions for rehabilitation for employees who use illegal drugs.

OBJECTIVES:

This audit will focus on the effectiveness of NRC's drug testing program, following guidance established by the Department of Health and Human Services.

SCHEDULE:

Initiate in the 1st quarter of FY 2004.

STRATEGIC GOAL 2:

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

Strategy 2-3: Identify threats to NRC security.

Audit of NRC's Office of Nuclear Security and Incident Response

DESCRIPTION AND JUSTIFICATION:

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 new 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. NSIR presented its self-evaluation report on its operations to the Commission on July 1, 2003.

OBJECTIVE:

The purpose of this audit is to determine whether NSIR is fulfilling its mission.

SCHEDULE:

Initiate in the 2nd quarter of FY 2004.

STRATEGIC GOAL 2:

Enhance NRC's efforts to address current and emerging security challenges.

Strategy 2-1: Identify risk areas involved in effectively securing nuclear material and make recommendations as warranted, for addressing them.

Audit of the Audit of the Integrated Personnel Security System (IPSS) System**DESCRIPTION AND JUSTIFICATION:**

The Atomic Energy Act of 1954 requires that all NRC employees have a security clearance. NRC's personnel security program retains personnel security and data base files on more than 10,000 people. The automated badging system has been used since 1991 to track badging and personnel security processing activities. According to the business case written to support the development of the new system, it will serve as an interface between badging and clearance records and provides badges for tracking accountability (for example to ensure that the badge is consistent with clearance level). It also states that the new system would promote more efficient data sharing by consolidating personnel security activities into one integrated system. Functionally, it would also provide the means to receive alerts on individuals who should be denied entry due to security concerns.

OBJECTIVE:

This audit will determine if the system meets its required operational capabilities and provides for the security, availability, and integrity of the system data.

SCHEDULE:

To begin in the 3rd quarter of FY 2004.

STRATEGIC GOAL 2:

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

Strategy 2-3: Identity threats to NRC security.

Audit of the Reactor Program System

DESCRIPTION AND JUSTIFICATION:

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 indicates that RPS data is not sufficiently reliable and that difficulties with the program have caused various NRC offices to develop their own local applications to perform tasks RPS was intended to perform.

OBJECTIVES:

This audit will determine if the system meets its required operational capabilities and provides for the security, availability, and integrity of the system data.

SCHEDULE:

Initiate in the 3rd quarter of FY 2004.

STRATEGIC GOAL 1:

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

Strategy 1-3: Identify risk areas associated with the prospective licensing of the high-level waste repository and make recommendations, as warranted, for addressing them.

Audit of NRC's Information Security Practices

DESCRIPTION AND JUSTIFICATION:

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 (GISRA), 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 the 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.

OBJECTIVES:

The objectives will be to evaluate (1) the adequacy of NRC's information security programs and practices for NRC major applications and general support systems of record for FY 2004, (2) the effectiveness of agency information security control techniques, and (3) the implementation of the NRC's corrective action plan created as a result of the 2003 FISMA program review.

SCHEDULE:

Initiate in the 4th quarter of FY 2004.

STRATEGIC GOAL 2:

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

Strategy 2-3: Identify threats to NRC security.

Audit of the Design Basis Threat Review and Update Process

DESCRIPTION AND JUSTIFICATION:

Currently, the design basis threat (DBT) represents the largest reasonable threat against which a regulated private guard force should be expected to defend under existing law. In order to determine how much physical protection is enough, NRC monitors intelligence sources to keep abreast of foreign and domestic events and remains aware of the capabilities of potential adversaries. This information and other sources is used to determine the physical protection requirements and to maintain DBTs for nuclear power plants and selected fuel cycle facilities. There are two DBT statements: one provides a reasonable hypothetical threat for radiological sabotage and the other addresses theft and diversion of special nuclear material.

NRC has approved changes to the design basis threat process and has issued orders for nuclear power plants to further enhance security. Under NRC regulations, power plant reactor licensees must ensure that the physical protection for each site is designed and implemented to provide high assurance in defending against the DBT to ensure adequate protection of public health and safety and common defense and security. Extensive changes in those physical protection plans will be made and submitted to NRC for approval by April 29, 2004.

NRC's Threat Assessment Team analyzes the threat environment, performs rapid assessment of the credibility of threats, coordinates with the intelligence and law enforcement community, and reviews the adequacy of NRC's DBTs based on domestic events and intelligence information. NRC headquarters emergency response officers staff the Incident Response Center 24 hours a day to receive initial notifications of events involving potential terrorist events and to ensure the activation of the agency's emergency response if necessary. Since September 11, 2001, NRC has increased communications with the Federal Bureau of Investigation, the Central Intelligence Agency, and the Departments of Energy, Defense, and State to ensure early warning of threats. Every 6 months the Threat Analysis Team documents its assessment for the threat environment and formally provides its conclusions to the Commission in a *Semiannual Threat Environment Review*.

OBJECTIVES:

The purpose of this audit is to assess the effectiveness of the process by which NRC reviews and updates its DBT statements.

SCHEDULE:

Initiate in the 4th quarter of FY 2004.

STRATEGIC GOAL 2:

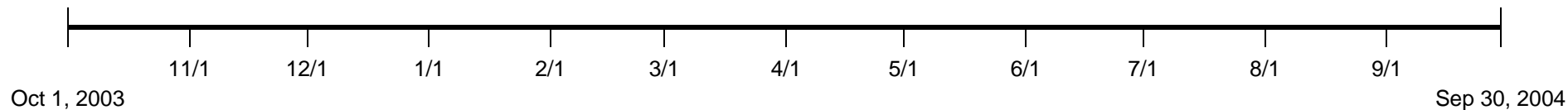
Enhance NRC's efforts to address current and emerging security challenges.

Strategy 2-1: Identify risk areas involved in effectively securing nuclear material and make recommendations as warranted, for addressing them.

**NUCLEAR SAFETY AUDITS
PLANNED FOR FY 2004**

Fiscal Year 2004

Nuclear Safety Audits



Safeguards

Incident Response

Baseline Inspection Program

Non-Discrimination in NRC Activities

Office of Investigations

High Level Waste

Probabilistic Risk Assessment

Reactor Inspection*

Fuel Cycle Facilities*

Audit Report

* Audit concludes in FY 2005.

Audit of NRC's Protection of Safeguards Information

DESCRIPTION AND JUSTIFICATION:

Safeguards information is sensitive unclassified information that specifically identifies the detailed (1) security measures of a licensee or an applicant for the physical protection of special nuclear materials, or (2) security measures for the physical protection and location of certain plant equipment vital to the safety of production or utilization facilities. NRC established its Sensitive Unclassified Information Security Program to ensure that sensitive unclassified information is handled appropriately and is protected from unauthorized disclosure under pertinent laws, management directives, and applicable directives of other Federal agencies and organizations. In accordance with the Atomic Energy Act of 1954 as amended, civil and criminal penalties can be levied for the unauthorized disclosure of safeguards information. The requirements of NRC's program are spelled out in Management Directive and Handbook 12.6, *NRC Sensitive Unclassified Information Security Program*. The safeguards program is in evolution with the advent of safeguards-modified information for irradiators.

OBJECTIVES:

This audit will assess whether NRC's program (1) adequately ensures the protection of safeguards information, (2) prevents the inappropriate release of safeguards information to the public and NRC employees who should not have access, and (3) adequately defines what constitutes safeguards information.

SCHEDULE:

Initiated in the 4th quarter of FY 2002 and scheduled to be completed in the 1st quarter of FY 2004.

STRATEGIC GOAL 2:

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

Strategy 2-3: Identify threats to NRC security.

Audit of NRC's Implementation of Regulations Concerning Non-discrimination Based on Handicap

DESCRIPTION AND JUSTIFICATION:

NRC's regulation concerning non-discrimination based on handicap is codified in 10 CFR Part 4, Subpart E. The regulation implements section 119 of the Rehabilitation, Comprehensive Services, and Developmental Disabilities Amendments of 1978, which amended section 504 of the Rehabilitation Act of 1973. This amendment prohibits discrimination on the basis of handicap in programs or activities conducted by Executive agencies or the United States Postal Service.

OBJECTIVE:

This audit will assess implementation of 10 CFR, Part 4, Subpart E, *Enforcement of Non-discrimination on the Basis of Handicap in Programs or Activities Conducted by the U. S. Nuclear Regulatory Commission*.

SCHEDULE:

Initiate in the 1st quarter of FY 2004.

STRATEGIC GOAL 3:

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

Strategy 3-2: Identify other areas of corporate management risk within the NRC.

Audit of NRC's Incident Response Program

DESCRIPTION AND JUSTIFICATION:

In response to an event at an NRC-licensed facility that could threaten public health and safety or the environment, NRC activates its incident response program at its Headquarters Operations Center and one of its four Regional Incident Response Centers. NRC's highest priority is to provide expert consultation, support, and assistance to state and local public safety officials responding to the event. Once the incident response program is activated, teams of specialists are assembled at the Headquarters Operations Center and Regional Incident Response Center to obtain and evaluate event information and to assess the potential impact of the event on public health and safety and the environment. Communications with the news media, state, other Federal agencies, the Congress, and the White House are coordinated through the Headquarters Operations Center.

Because NRC's incident response program is critical to its mission to ensure adequate protection of public health and safety, the program must operate effectively and efficiently.

OBJECTIVE:

The objective will be to determine whether NRC's incident response program is operating effectively and efficiently.

SCHEDULE:

Initiated in the 4th quarter of FY 2003 and scheduled to be completed in the 2nd quarter of FY 2004.

STRATEGIC GOAL 2:

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

Strategy 2-1: Identify risk areas involved in effectively securing operating nuclear power plants and nuclear materials and make recommendations, as warranted, for addressing them.

Audit of the Baseline Inspection Program

DESCRIPTION AND JUSTIFICATION:

Beginning in FY 2001, the Reactor Inspection Program and the Reactor Performance Assessment program were combined into a single program for commercial power reactors. The combined program implements the revised reactor oversight process which includes risk-informed baseline inspections, use of performance indicator data, and a revised reactor assessment process. The program is designed to ensure, through selective examinations, that the licensee identifies and resolves safety issues before they affect safe plant operations.

Baseline inspections are performed at all operating reactors and focus on licensee performance in the areas of plant operations, maintenance, engineering, plant support (which includes security, radiation protection, and emergency preparedness), and licensee effectiveness in identifying, resolving, and preventing problems. Resident inspectors located at each plant site carry out the major part of the baseline inspection program. In addition, region-based experts are responsible for performing baseline inspections related to speciality areas, such as Radiation Monitoring and Security Plan Changes.

Baseline inspections provide for increased focus on aspects of performance that have the greatest impact on safe plant operation and the level of plant-specific inspection performed at each site is commensurate with that site's performance. The program is an integral part of the NRC's reactor oversight process and provides a mechanism for NRC to remain alert to plant status and conditions at all licensed reactors, and supports the goals and objectives of the reactor oversight process.

OBJECTIVE:

This audit will assess whether the baseline inspection program: (1) is based on a sound methodology, (2) is being completed at all commercial power plants, and (3) has sufficient resources available to carry out the program.

SCHEDULE:

Initiated in the 4th quarter of FY 2003 and scheduled to be completed in the 2nd quarter of FY 2004.

STRATEGIC GOAL 1:

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

Strategy 1-1: Identify risk areas associated with NRC efforts to implement the Reactor Oversight Program and make recommendations, as warranted, for addressing them.

Evaluation of the Impact of the Office of Investigations' Methods and Techniques in Addressing Allegations of Licensee Discrimination

DESCRIPTION AND JUSTIFICATION:

The Office of Investigations (OI) is responsible for the NRC's Investigations Program. OI is composed of four regionally based field offices, each with a Field Office Director, reporting to OI headquarters, which, in turn, reports to the Deputy Executive Director for Reactor Programs. OI Special Agents are criminal investigators with a wide range of experience within the Federal law enforcement community.

The NRC Investigations Program supports the NRC's overall safety mission in protecting the public health and the environment by ensuring that allegations or NRC findings that involve potential wrongdoing by licensees or applicants for licenses, or their contractors or vendors, are thoroughly, objectively and independently investigated. The results of these investigations are provided to the NRC technical, legal, and enforcement staffs for appropriate regulatory action. As part of its responsibilities, OI may investigate cases of alleged NRC licensee discrimination against its employees.

OBJECTIVE:

The objective of this review is to assess the impact of OI investigative methods and techniques to ensure the prompt, fair, and accurate resolution of discrimination complaints by the NRC.

SCHEDULE:

Initiate in the 2nd quarter of FY 2004.

STRATEGIC GOAL 1:

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

Strategy: OI activities are cross-cutting among all areas of safety concern for the NRC including reactors, fuel facilities, materials, and nuclear waste.

Audit of NRC's High-level Waste Program

DESCRIPTION AND JUSTIFICATION:

Under the Nuclear Waste Policy Act of 1982, the Nuclear Waste Policy Amendments Act of 1987, and the Energy Policy Act of 1992, NRC is responsible for the licensing of a high-level waste storage and disposal facility which the Department of Energy (DOE) will construct, operate, and permanently close. Under current legislation, DOE studied the Yucca Mountain site in Nevada and determined it to be suitable as a repository site. DOE is expected to submit a license application for the Yucca Mountain site to NRC in December 2004.

The Office of Nuclear Material Safety and Safeguards manages the agency's high-level waste (HLW) program and receives support from the Office of Nuclear Regulatory Research. NRC established the Advisory Committee on Nuclear Waste to report to and advise NRC on nuclear waste management. Additionally, NRC established the Center for Nuclear Waste Regulatory Analyses, a Federally Funded Research and Development Center, to provide technical assistance and conduct research for the HLW program.

OBJECTIVE:

This audit will determine the status of NRC's HLW program in relation to DOE's projected date for submitting a license application to the agency of initiating construction of the HLW repository at Yucca Mountain. In particular, we will evaluate whether NRC is sufficiently positioned to evaluate the license application in order to meet its statutory mandate of licensing the repository within 3 to 4 years of receiving DOE's license application.

SCHEDULE:

Initiate in the 2nd quarter of FY 2004

STRATEGIC GOAL 1:

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

Strategy 1-3: Identify risk areas associated with the prospective licensing of the high-level waste repository and make recommendations, as warranted, for addressing them.

Audit of the Use of Probabilistic Risk Assessment (PRA)

DESCRIPTION AND JUSTIFICATION:

NRC's PRA policy statement reflects a commitment to increasing the use of PRA technology in all regulatory matters to the extent supported by the state-of-the-art in PRA methods and data, and in a manner that complements the NRC's deterministic approach and supports the NRC's traditional defense-in-depth philosophy. Implementation of this policy was expected to improve regulation in three ways: (1) by incorporating PRA insights in regulatory decisions, (2) by conserving agency resources, and (3) by reducing unnecessary regulatory burden on licensees.

OBJECTIVES:

The objectives are to determine whether NRC is (1) using PRA appropriately in its regulation of licensees given the current state-of-the art in the technology and (2) achieving the objectives of its PRA policy statement.

SCHEDULE:

Initiate in the 2nd quarter of FY 2004

STRATEGIC GOAL 1:

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

Strategy 1-1: Identify risk areas associated with NRC efforts to implement the Reactor Oversight Program and make recommendations, as warranted, for addressing them.

Strategy 1-2: Identify risk areas facing the materials program and make recommendations, as warranted, for addressing them.

Strategy 1-3: Identify risk areas associated with the prospective licensing of the high-level waste repository and make recommendations, as warranted, for addressing them.

Audit of the Reactor Oversight Program

DESCRIPTION AND JUSTIFICATION:

The Reactor Inspection and Performance Assessment program was combined into a single reactor oversight program (ROP). The ROP is designed to ensure, through selective examinations, that licensees identify and resolve safety issues before they affect safe plant operations. The program consists of (1) a baseline inspection program, (2) plant-specific supplemental and reactive inspections, and (3) the revised reactor assessment process.

Baseline inspections are performed at all operating reactors and focus on licensee performance in plant operations. Plant-specific supplemental and reactive inspections follow up on operational events and safety issues. The revised oversight process, implemented in April 2000, provides for a more risk-informed and integrated oversight and plant assessment process.

In 2002, OIG reported on the Significance Determination Process, an important part of the inspection program, and found that a number of improvements were needed. In 2003, OIG initiated an audit of the Baseline Inspection Program (BIP), which is scheduled for completion in the 2nd quarter of FY 2004. This audit is assessing the methodology and the implementation of the BIP. Because the new Reactor Inspection and Performance Assessment program is a mission-critical NRC program, all elements of the program must be effective and efficient in order for NRC to meet its goals.

OBJECTIVE:

The audit will evaluate the effectiveness and efficiency of the program.

SCHEDULE:

Initiate in the 3rd quarter of FY 2004.

STRATEGIC GOAL 1:

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

Strategy 1-1: Identify risk areas associated with NRC efforts to implement the Reactor Oversight Program and make recommendations, as warranted, for addressing them.

Audit of NRC's Regulation of Nuclear Fuel Cycle Facilities

DESCRIPTION AND JUSTIFICATION:

NRC licenses, certifies, and inspects commercial facilities that convert uranium ore into fuel used in nuclear power plants. These facilities include gaseous diffusion plants, highly enriched uranium fuel fabrication facilities, low enriched uranium fuel fabrication facilities, and one uranium hexafluoride production facility. Each facility possesses large quantities of materials that could pose a significant threat to the public and the environment. In September 1999, an apparent criticality accident occurred at a fuel conversion plant Tokaimura, Japan, exposing workers at the plant and members of the public to radiation. Families in the surrounding area were evacuated while others were advised to take shelter.

The agency's regulation of nuclear fuel cycle facilities seeks to ensure that licensees adequately protect public health and safety, worker safety, the environment and promote the common defense and security when source or special nuclear material is used during the nuclear fuel production cycle.

OIG has not previously evaluated this program which has been undergoing change in recent years to make it more risk-informed and performance-based. (OIG is including fuel cycle facilities in its ongoing audit of NRC's incident response program.)

OBJECTIVE:

The objective is to determine whether NRC's regulation of nuclear fuel cycle facilities is effective and efficient.

SCHEDULE:

Initiate in the 3rd quarter of FY 2004

STRATEGIC GOAL 1:

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

Strategy 1-2: Identify risk areas associated with NRC efforts to implement the Reactor Oversight Program and make recommendations, as warranted, for addressing them.

**INVESTIGATIONS — PRIORITIES, OBJECTIVES,
AND INITIATIVES FOR FY 2004**

INTRODUCTION

The Assistant Inspector General for Investigations (AIGI) has responsibility for developing and implementing an investigative program which furthers the OIG's objectives. The AIGI's primary responsibilities include investigating possible violations of criminal statutes relating to NRC programs and activities, investigating allegations of misconduct by NRC employees, interfacing with the DOJ on OIG-related criminal matters, and coordinating investigations and OIG initiatives with other Federal, State, and local investigative agencies and other AIGI's.

Investigations covering a broad range of allegations concerning criminal wrongdoing or administrative misconduct affecting various NRC programs and operations may be initiated as a result of allegations or referrals from private citizens; licensee employees; NRC employees; Congress; other Federal, State, and local law enforcement agencies; OIG audits; the OIG Hotline; and proactive efforts directed at areas bearing a high potential for fraud, waste, and abuse.

This investigative plan was developed to focus OIG investigative priorities and use available resources most effectively. It provides strategies and planned investigative work for FY 2004 in conjunction with the OIG Strategic Plan, and the President's Management Agenda for Improving Government Performance. The most serious management challenges facing the NRC as identified by the Inspector General were also considered in the development of this plan.

PRIORITIES

The OIG will conduct between 60 - 70 investigations and event/special inquiries in FY 2004. As in the past, reactive investigations into allegations of criminal and other wrongdoing will continue to claim priority on our use of available resources. Because the NRC's mission is to protect the health and safety of the public, Investigations' main concentration of effort and resources will involve investigations of alleged NRC staff misconduct that could adversely impact on health and safety related matters.

OBJECTIVES

To facilitate the most effective and efficient use of limited resources, Investigations has established the following specific objectives aimed at preventing and detecting fraud, waste and abuse as well as optimizing NRC effectiveness and efficiency. Investigations will focus its investigative efforts in 6 broad-based areas, which include possible violations of criminal statutes relating to NRC programs and operations and allegations of misconduct by NRC employees.

Employee Misconduct

- ◆ Situations where NRC employees improperly disclosed alleged's (mainly licensee employees) identities and allegations, NRC employees improperly handled allegations, and NRC failed to properly address retaliation issues involving licensee employees who raised health and safety concerns at nuclear power plants.
- ◆ Instances where the NRC has not maintained an appropriate "arms length" distance from licensees, particularly in the inspection process.
- ◆ Instances where NRC employees released predecisional or confidential information to the nuclear industry that could have had an impact on power plant operations or interfered with litigation involving agency decisions.
- ◆ Instances where NRC employees had improper personal relationships with licensees and where NRC employees violated Government-wide ethics regulations concerning the solicitation of employment.

Fraud Program

- ◆ Attempt to detect possible wrongdoing perpetrated against NRC's procurement and contracting program by maintaining a close working relationship with DCPM. This will include periodic meetings between OIG and DCPM management officials and a fraud awareness presentation by OIG special agents to DCPM contract specialists, NRC project managers, NRC project officers, and other identified employees.
- ◆ Pursue aggressively investigations appropriate for Program Fraud Civil Remedies Act action, including abuses involving false reimbursement claims and false statements by contractors.
- ◆ Attempt to detect possible instances of NRC employees improperly receiving FECA benefits. This will include periodic meetings between OIG and Office of Human Resources management officials and the periodic examination of agency and Department of Labor records pertaining to this program.
- ◆ Coordinate with NRC property custodians and the Division of Facilities and Security in instances involving theft of computers and other agency equipment.
- ◆ Coordinate with DCPM regarding accountability issues surrounding property purchased with NRC funds by a contractor or property furnished by the NRC to a contractor.
- ◆ Coordinate with the Office of the Chief Financial Officer in instances involving abuse of individual credit cards issued to agency employees as well as credit cards issued for the procurement of supplies and equipment.

- ◆ Coordinate with the OIG Audit IAMS in an effort to identify areas or programs with indicators of possible fraud, waste, and abuse.
- ◆ Conduct fraud awareness and information presentations regarding the role of the OIG at the NRC to NRC employees as scheduled by the IG.

OIG Hotline

- ◆ Promptly process complaints received via the OIG Hotline. Initiate investigations when warranted and properly dispose of allegations that do not warrant OIG investigation, to include referral to other organizations.

FOIA/Privacy Act

- ◆ Promptly process all requests for information received under the Freedom of Information Act (FOIA). Coordinate as appropriate with the General Counsel to the IG and the Freedom of Information/Local Public Document Room Branch.

NRC Support

- ◆ Participate as observers on Incident Investigation Teams and Accident Investigation Teams as determined by the IG.

Liaison Program

- ◆ Maintain close relationships with other law enforcement bodies, public interest groups, and the Congress. This will be accomplished through periodic meetings with AIGs, pertinent congressional staff, public interest groups, and appropriate law enforcement organizations.
- ◆ Take an aggressive stand to protect NRC infrastructure against both internal and external computer intrusions by working in close coordination with OCIO and NRC systems administrators. This will include developing and disseminating criminal intelligence to assist in protecting NRC computer systems, aggressively pursuing suspected cyber fraud cases and training a second OIG criminal investigator as a Seized Computer Evidence Recovery Specialist.
- ◆ Maintain a viable regional liaison program to foster a closer working relationship with NRC regional offices.
- ◆ Establish and maintain NRC OIG active participation in OIG community fraud working groups, multi-agency fraud task forces, and multi-agency undercover operations where a nexus to NRC programs and operations has clearly been established.

INITIATIVES

OIG Investigations established the following initiatives to increase productivity and improve the effectiveness and efficiency of the OIG investigations program:

1. **Quality Assurance (QA)** - Investigations will use an outside consultant to conduct periodic QA reviews of the investigative program. In FY 2004, these reviews will address such areas as adherence to investigative guidelines, quality of investigative reports, and adherence to standards of the President's Council on Integrity and Efficiency. These reviews will be accomplished through examination of OIG investigative files and will be augmented by interviews with OIG and NRC officials, congressional staff, officials of other agencies, and a customer satisfaction survey.
2. **Case Management and Information Systems** - Investigations used an outside consultant to customize and implement a commercial-off-the-shelf software application to support its business processes. The new application will provide secure, easy-to-use access to investigative data for staff and managers and will go online during the current fiscal year.
3. **Health Improvement Program (HIP)** - The OIG HIP is a mandatory program for all employees in the 1811 series. Other OIG employees are eligible to participate in the HIP if they meet the medical standards and fitness levels required for participation. HIP objectives are to (1) improve and maintain the fitness level of special agents and other OIG employees and (2) encourage lifestyle changes to increase productivity and decrease disability within the workforce.
4. **Revisions to Investigative Guidelines** - In FY 2003, all investigative guidelines, as well as the Special Agent Handbook were analyzed by the Assistant Inspector General for Investigations to identify areas where clarifications were appropriate. A revised Special Agent's Handbook text will be issued in FY 2004.

ALLOCATION OF RESOURCES

Investigations will undertake proactive initiatives where resources allow. Of the resources available for direct investigative activities, it is anticipated that approximately 75 percent will be spent on reactive investigations. The balance of investigative time will be allocated to proactive investigative efforts such as reviews of NRC contract files, participation in interagency task forces and working groups, reviews of delinquent Government credit card accounts, and other initiatives.

**LISTING OF ISSUE AREAS
AND DESIGNATED ISSUE AREA MONITORS**

ISSUE AREAS AND DESIGNATED ISSUE AREA MONITORS

NUCLEAR SAFETY

NUCLEAR REACTOR SAFETY

William Kemper
Cathy Colleli
David Ditto

NUCLEAR MATERIALS SAFETY AND SAFEGUARDS

Robert Moody
Yvette Russell

NUCLEAR WASTE SAFETY

Russell Irish
Sherrie Miotla
Deb Lipkey

SECURITY AND INFORMATION TECHNOLOGY

INFORMATION MANAGEMENT AND SECURITY

Judy Gordon
Vicki Foster
Rebecca Underhill
Elizabeth Bowlin

NUCLEAR SECURITY

Beth Serepca
Shyrl Coker
David Ditto

CORPORATE MANAGEMENT

FINANCIAL AND ADMINISTRATIVE

Anthony Lipuma
Michael Steinberg
Kathleen Stetson
Steven Zane
Steven Shea

INTERNATIONAL PROGRAMS

Susan Jones

CONTRACT AND PROCUREMENT

Kathleen Stetson

Steven Zane

**LISTING OF ABBREVIATIONS
AND ACRONYMS**

ABBREVIATIONS AND ACRONYMS

AID	Agency for International Development
AIIG	Assistant Inspector General for Investigations
ADAMS	Agencywide Documents Access and Management System
CIO	Chief Information Officer
DCAA	Defense Contract Audit Agency
DC	Division of Contracts
DOE	Department of Energy
DOJ	Department of Justice
FFRDC	Federally Funded Research and Development Center
FTE	full-time equivalent
FY	fiscal year
GISRA	Government Information Security Reform Act
HIP	health improvement program
IAM	Issue Area Manager
IG	Inspector General
ISR	International Survey Research
NMMSS	Nuclear Materials Management and Safeguards System
NRC	U.S. Nuclear Regulatory Commission
OCIO	Office of the Chief Information Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
RMOS	Resource Management and Operational Support
SDP	significance determination process
SwRI	Southwest Research Institute
QA	quality assurance