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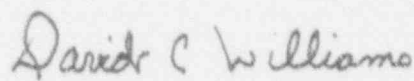
MEMORANDUM TO THE CHAIRMAN

I am pleased to submit to you our semiannual report, which summarizes our significant activities from April 1, 1992, through September 30, 1992. This submittal complies with Section 5 of the Inspector General Act of 1978, as amended.

During this period, we completed seven audits of the U.S. Nuclear Regulatory Commission's (NRC) programs, 1 audit of an NRC contract, and analyzed 50 contract audits as issued by the Defense Contract Audit Agency (DCAA). Our internal audit reports resulted in identifying over \$9.6 million as funds that could be put to better use and six recommendations to NRC management. The contract audit work resulted in identifying over \$3.8 million as funds that could be put to better use and \$367,120 as questioned costs. We also completed 46 investigations and 1 inspection concerning the integrity of the fire barrier material known as "Thermo-Lag."

It is encouraging to report that NRC management has continued to provide complete access and cooperation for our investigative and audit initiatives. There were no instances in which any records or documents were denied to my staff. We appreciate the support of NRC management and employees and look forward to continuing our work in enhancing the integrity and accountability of the programs and operations of the NRC.

Sincerely,



David C. Williams
Inspector General

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EXECUTIVE SUMMARY

AUDITS

During the past 6 months, the Office of the Inspector General (OIG) has continued to conduct audits necessary to fulfill numerous legislative requirements, including those mandated by the Chief Financial Officers Act of 1990. The OIG has also increased its audit effort in the areas of audit follow-up and NRC contracting. In addition to this work, the OIG is evaluating three critical areas within the NRC: the safety inspection programs, the automated information programs, and the research program. A summary of the work completed by the OIG during this reporting period is described below.

■ The OIG conducted a broad survey of NRC's inspection programs as part of its strategic audit plan for Fiscal Year (FY) 1992. The report of this survey provides the foundation for a series of audits that the OIG will conduct over the next several years covering NRC's inspection programs. The report accomplishes two main objectives: (1) it describes in a single document how NRC develops and administers its inspection programs, and (2) it provides detailed information about the allocation and use of inspection resources.

OIG staff members Anthony Lipama and Elmo Allen discuss audit findings.



■ The OIG reviewed NRC's estimated and requested budgets for its inspection programs to determine the nature and the extent of the programmatic increases from FY 1992 to FY 1993. The OIG determined that the budgeted costs

for salary adjustments are projected to increase by 2 percent from FY 1992 to FY 1993 but identified no programmatic growth.

■ NRC's inventory of completed, but not yet closed, contracts increased from 591 in May 1986 to 829 by October 1991. As a result, over \$8 million could have been available for NRC programs, but was unnecessarily tied up as contract obligations. The OIG made one recommendation to strengthen NRC's management and oversight of the contract closeout process and two additional recommendations regarding the deobligation of unexpended balances on completed contracts.

■ The OIG conducted a review of NRC's process for managing allegations concerning potential safety problems in the design, construction, and operation of the Nation's commercial nuclear power reactors. The OIG determined that NRC's process for managing allegations met the intent of Commission policy and NRC guidance. The OIG further determined that both headquarters and regional staff had implemented NRC guidance.

■ The OIG conducted a budget review of NRC's Office of Nuclear Regulatory Research (RES) to determine the extent of budget changes and to ascertain why they occurred. The OIG review disclosed that the RES budget has not grown significantly. In fact, as NRC's budget increased in recent years, RES's portion remained fairly constant resulting in a decreased share of the agency's overall budget. However, program changes being considered to support advanced reactor design testing may increase RES's budget by \$13 million or more through FY 1995.

■ As required, the OIG conducted a review of NRC's compliance with the Anti-Lobbying Act. The OIG reviewed 65 contract actions over \$100,000 that were obligated during FY 1992. The review was conducted to determine whether the required certifications and contract clauses were included in the contract package, where necessary. The OIG found that 3 of the 65 contract actions did not contain the certifications and contract clauses required by the act.

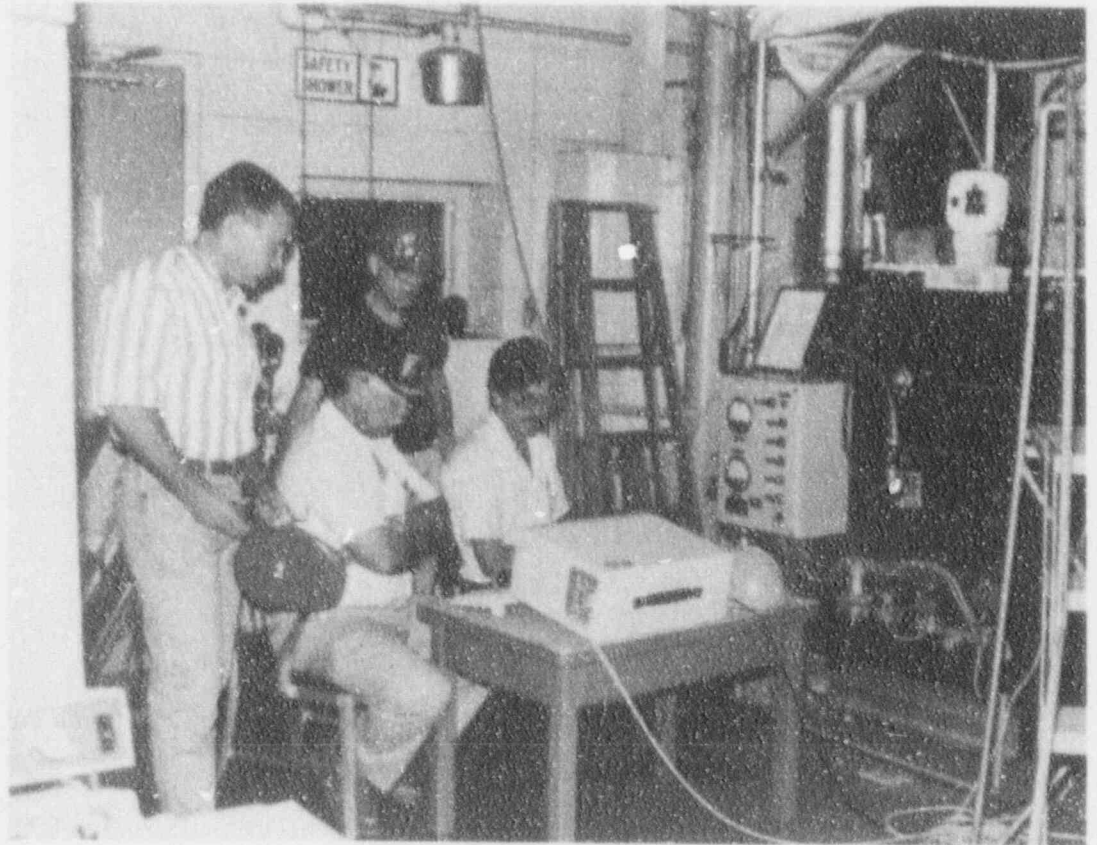
■ The OIG reviewed the project management practices in RES for acquiring services from the Department of Energy (DOE). The OIG found that since 1986, the NRC has disbursed approximately \$500 million to DOE for laboratory services. The disbursements were made without employing the required review and approval process for cost vouchers and without verifying the payments for accuracy. The OIG made three recommendations to ensure that NRC will review and approve cost vouchers and subsequently verify payments to DOE as required.

INVESTIGATIONS

From April 1, 1992, through September 30, 1992, the OIG initiated 53 new investigations, and closed 47. OIG investigations led to 4 referrals to the Department of Justice (DOJ), and 60 referrals to NRC management. At the end of the reporting period, 51 investigations were still in progress. The OIG continues to receive an increasing number of allegations of wrongdoing that are resulting in some complex investigations. Brief summaries of selected cases follow.

■ The OIG conducted an inspection to assess the NRC staff's performance in reviewing and accepting a fire barrier material called "Thermo-Lag." This material is used in nuclear power plants to comply with NRC fire protection requirements. The OIG determined that the NRC staff's performance on this matter, and their response to reported problems with the material over a 10-year period, was inadequate.

OIG inspectors (standing) observe computerized data during a fire test of Thermo-Lag material.



■ The OIG investigated reports of misconduct and a conflict of interest relating to an NRC research project conducted by Sandia National Laboratory (SNL). Although the investigation revealed no evidence of criminal misconduct, the OIG determined that an organizational conflict of interest was involved. An

SNL engineer was assigned to work simultaneously on research projects for the NRC and for the nuclear industry.

■ The OIG investigated allegations of potential misconduct by NRC employees associated with managing a major contract. The investigators determined that members of a program office inappropriately fraternized with contract employees and failed to exercise adequate management oversight of the contractor's activities.

■ Charges of sexual harassment by an NRC manager were mishandled by senior NRC supervisors. The OIG investigators determined that the senior supervisors failed to adequately investigate the charges of inappropriate behavior.

■ Inspectors from an NRC region allegedly failed to adequately examine radiological safety concerns expressed by a former executive of an NRC licensee. The OIG determined that the alleged concerns were not adequately examined during a 1990 inspection. A second NRC inspection disclosed inaccuracies in the initial inspection and disclosed a number of violations committed by the licensee.

■ The OIG investigated an allegation that a senior NRC engineer converted frequent flyer mileage obtained through official Government air travel to personal use. The OIG investigators determined that, on several occasions, the engineer inappropriately redeemed frequent flyer miles in exchange for free airline tickets.

■ The NRC Division of Security notified the OIG that an NRC employee was under investigation by the Federal Bureau of Investigation (FBI) for bank fraud. At the FBI's request, OIG investigators provided investigative support to assist in the prosecution of the employee.

THE U.S. NUCLEAR REGULATORY COMMISSION

The U.S. Nuclear Regulatory Commission (NRC) was established as an independent Federal agency by the Energy Reorganization Act of 1974, as amended. This act, along with the Atomic Energy Act of 1954, as amended, provides the foundation for the regulation of the Nation's commercial nuclear power industry.

The NRC White Flint Complex (scheduled completion, December 1993).



The NRC's scope of responsibility is diverse and complex. Its mission is to ensure that civilian uses of nuclear materials in the United States are carried out in a way that will adequately protect the public health and safety, the environment, and the national security. The NRC fulfills these responsibilities through a system of licensing and regulatory activities. Some of its major activities include —

- licensing the construction and operation of nuclear reactors and other nuclear facilities, such as nuclear fuel cycle facilities, medical use facilities, and nonpower test and research reactors;
- licensing the operators of nuclear power and nonpower test and research reactors;
- licensing the siting, design, construction, operation, and closure of low-level radioactive waste disposal sites under NRC jurisdiction and the construction, operation, and closure of the geologic repository for high-level radioactive waste;

-
- inspecting licensed facilities and activities;
 - investigating nuclear incidents and allegations concerning any matter regulated by the NRC; and
 - conducting the principal Government research program on light-water reactor safety.

To carry out its mission, the NRC is headed by five Commissioners who are appointed by the President and confirmed by the Senate for 5-year terms. One Commissioner is designated by the President to be the Chairman and serves as the official spokesperson for the Commission. The staff, headed by the Executive Director for Operations (EDO), carries out the policies and decisions made by the Commission. The NRC has approximately 3,335 full-time equivalent (FTE) staff in the Washington, D.C., commuting area and the five regional offices located near Philadelphia, Atlanta, Chicago, Dallas, and San Francisco. During FY 1992, the agency operated with an estimated budget of approximately \$513 million. The FY 1993 budget is approximately \$540 million with 3,377 FTE staff.

***T**HE OFFICE OF THE INSPECTOR GENERAL*

The NRC's OIG was established as a statutory entity on April 15, 1989, in accordance with the Inspector General Act of 1978, as amended in 1988. It is one of 26 such entities within the Executive Branch. The Inspector General (IG) is appointed by the President of the United States with the advice and consent of the Senate. To ensure the independence of the office, the IG may only be removed by the President, who must communicate the reasons to the Congress. NRC's IG reports to and is under the general supervision of the NRC Chairman, but operates with independent budget authority.

Inspector General, David C. Williams with Thomas J. Barchi, the Assistant Inspector General for Audits, and Robert W. Shideler at the OIG Planning Conference.



One of the primary goals of the OIG is to assist the NRC in operating more effectively and efficiently by identifying ways to improve the NRC's programs and operations. To accomplish this objective, the OIG, among other things, performs the following activities:

- Performs audits and makes recommendations concerning the effectiveness and efficiency of NRC programs and operations;
- Conducts, and reports on, investigations and inquiries, as necessary, to ascertain and verify the facts affecting the integrity of all NRC programs and operations;
- Recommends policies to (1) promote economy and efficiency and (2) prevent and detect fraud and abuse in the agency's activities; and
- Keeps the Commission and the Congress fully informed of operational and program deficiencies and problems.

The NRC's OIG was authorized 41 positions for FY 1993 with a budget of approximately \$4.6 million.

THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act (FMFIA) was enacted in 1982 in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of funds or assets associated with weak internal control and accounting systems. Congress believed these abuses hampered the effectiveness and accountability of the Federal Government and eroded the public's confidence in Government. The FMFIA requires Federal managers to establish a continuous process of evaluating, improving, and reporting on the internal control and accounting systems for which they are responsible. On an annual basis, the NRC is required to disclose any material weakness (see Glossary) in its financial management to the President and the Congress. The OIG is required to report on the agency's compliance with the FMFIA at the end of each calendar year.



NRC Resident Inspector and Plant Supervisor discuss maintenance issues.

In its 1991 FMFIA report to the President and the Congress, the NRC reported that the management of contract work placed with the DOE laboratories required improvement to adequately protect NRC's business interests. NRC attributed the deficiencies in this area to the lack of an agency-wide standard for contract management.

A recent OIG audit revealed that NRC failed to implement the required review, approval, and verification process for more than \$500 million in payments to DOE for laboratory services over a 6-year period. Therefore, the NRC has no assurance of billing accuracy for the services that DOE rendered. NRC's

position has been that this is a minimum risk area because DOE is another Federal agency.

In addition, as a result of this OIG audit, the NRC initiated a review of its DOE task orders. Over 300 task orders were identified as candidates for closure with an estimated \$1.4 million in funds that could be put to better use if deobligated. In another audit, the OIG identified a major breakdown in the agency's implementation of a process for closing out completed commercial contracts. This breakdown resulted in over 800 completed contracts with an estimated \$8.1 million in unexpended funds that could be put to better use if they were deobligated.

The NRC's Chief Financial Officer (CFO) has taken a very active role in monitoring the actions recommended by the OIG to correct problems in the financial management area. Additionally, NRC is currently in the process of clarifying to senior managers what it considers to be a material weakness (see Glossary). The goal is to preclude officials from narrowly interpreting a material weakness and thus not reporting serious problems that require management attention.

The OIG is continuing to oversee these and other programs operating under the requirements of the FMFIA. The OIG will issue a separate report in December 1992 that will address OIG findings on NRC's compliance with the FMFIA.

THE AUDIT PROGRAM

In the previous reporting period, October 1, 1991 through March 31, 1992, the OIG reported that the agency did not complete corrective action on recommendations contained in two audit reports. The first report concerned recommendations to deter the unauthorized use of the Federal Telecommunications System. Although the NRC initially expected to complete its study by June 1992, it is still reviewing the cost-effectiveness of the OIG recommendations. The revised schedule calls for the study to be completed in early Calendar Year 1993. In the second report, the OIG recommended that NRC develop an automated license fee billing system. The NRC still expects to complete development and implementation of this system in early FY 1993.

During this reporting period, the OIG completed seven audits addressing the NRC's administrative and programmatic functions, completed one audit of an NRC contract, and analyzed 50 contract audit reports that the DCAA issued. The internal audits resulted in six recommendations to NRC management and the identification of \$9,695,281 as funds that could be put to better use. The contract audit work resulted in questioning \$367,120 and identifying an additional \$3,808,308 as funds that could be put to better use. Summaries of the program audits follow.

AUDIT SUMMARIES

NRC Compliance with the Anti-Lobbying Act; Section 319 of Public Law 101-121

The Anti-Lobbying Act requires that the IG provide an annual report to Congress regarding the NRC's compliance with its provisions. Section 319 of the act requires each person who requests or receives a Federal contract, a cooperative agreement, a loan, or a Federal commitment to insure or guarantee a loan, to disclose whether they used appropriated funds to lobby for the specific contract. The law applies to awards of contracts, grants, or cooperative agreements exceeding \$100,000. Each person who requests consideration for an award or actually receives an award must file a certification or disclosure form regarding any lobbying effort.

The OIG reviewed 65 FY 1992 contract actions that exceeded \$100,000 to determine whether the required certifications and contract clauses were contained in each contract package. The OIG found that 3 of the 65 contract actions did not contain the certifications and contract clauses required by this act. One possible cause for their omission was that the original estimate of the contract action was less than \$100,000, which meant that the certifications and contract clauses required by the act were not needed. When the negotiations were completed,

however, the contract actions exceeded \$100,000 and thus required the necessary certifications and clauses. The contract negotiators did not revisit the need for the certifications and clauses and did not add them.

In response to OIG's 1991 report on contracts exceeding \$100,000, the NRC modified the checklist used by its contract administrators to determine which documents or clauses may be required as a result of a contract modification but did not modify the contract negotiator's checklist. As a result of the recent OIG review, NRC modified the negotiator's checklist to correspond to the administrator's checklist.

Survey of NRC's Inspection Programs

The OIG conducted a broad survey of NRC's inspection programs. The inspection programs are one of the primary methods by which NRC ensures that licensees are adhering to regulatory requirements and industry standards. This survey was conducted as part of OIG's strategic audit plan for FY 1992. The results of the survey will be used to identify potential issues for future audits. It describes in a single document how NRC administers and allocates resources among its many inspection programs. The survey report accomplished two objectives.

First, it documents how NRC develops and manages its inspection programs. The report describes NRC's inspection programs for power and nonpower reactors, vendors, and reactor construction. In addition, it outlines the Office of Nuclear Material Safety and Safeguards' licensee inspection programs for fuel facilities, materials, transportation, safeguards, low-level waste, and uranium recovery.

Second, the report gives detailed information about the allocation and use of inspection resources. This information goes beyond the data presented in either NRC's Five-Year Plan or its formal budget documents by isolating resources for inspection from resources for other activities, such as licensing. This body of work provides the foundation for a series of inspection audits that will be performed during the next several years.

OIG Review of Budget Changes for NRC's Inspection Programs

The report of the Senate Committee on Appropriations that accompanied the NRC's FY 1992 appropriation expressed concern about yearly increases for NRC's programs. The Committee questioned the need for "across-the-board increases in all mission areas" and directed the Commission to conduct an external review of these increases. The Commission subsequently requested that the OIG review and report on budget changes in NRC's inspection programs.

The OIG reviewed and compared the NRC's FY 1992 estimated budget with the FY 1993 requested budget for inspection programs. The review revealed that budgeted costs for inspection portions are projected to grow \$2.3 million (2 percent) from FY 1992 to FY 1993. This increase, however, is for salary adjustments and not for programmatic growth. In fact, both staffing levels and program support (contract) costs are projected to decrease for reactor inspection programs. In NRC's materials and low-level waste inspection programs, staffing levels will decrease slightly, while program support costs will remain constant.

Review of NRC's Contract Closeout Process

The closeout of a completed contract is basically the process of gathering all essential documents reflecting the completion and satisfaction of a wide list of obligations that are created during the course of the contract. Contract closeout is normally completed by the submission of a final invoice by the contractor and its acceptance and payment by the NRC.

The NRC's backlog of completed but not yet administratively closed contracts increased significantly since the issuance of an October 1987 report on this subject. Although NRC obtained a contractor in April 1990 to assist in reducing the backlog, only limited progress was made. NRC's inventory of completed but not yet closed contracts increased from 591 in May 1986 to 829 as of October 1991. Many of these contracts had been completed for several years and were valued over \$100,000. As a result, the OIG estimated that over \$8 million in contract obligations could be made available for use in NRC programs.

The OIG concluded that the backlog would continue to remain unacceptably high unless NRC takes aggressive managerial action to improve its oversight of the contract closeout process. The OIG recommended that NRC strengthen its managerial oversight of this process and made two other recommendations about the deobligation of unexpended balances on completed contracts.

Review of NRC's Allegation Management System

In the early 1980s, the Commission recognized a need for a more systematic and structured process for handling allegations. This was especially important for allegations that were made to the NRC at the end of the licensing approval process. As part of this recognition, the Commission issued policy statements on "late-filed" allegations and matters of confidentiality concerning the individuals making them. Additionally, the Commission wanted to ensure that allegations that involved potential wrongdoing issues were effectively tracked and investigated.

In late 1982, responding to the Commission's concerns, NRC managers established the Allegation Tracking System (ATS) as a mechanism to track the large number of allegations that NRC was receiving. Previously, the NRC did not have a system to address and manage the flow of allegations it received. The system was subsequently renamed the Allegation Management System (AMS).

The OIG conducted a review of the allegation management process and concluded that (1) NRC's process for managing allegations met the intent of the Commission's policy; (2) the agency's expectations were clearly documented in NRC guidance, and (3) both headquarters and regional staff had implemented the guidance.

Budget Changes in the Office of Nuclear Regulatory Research

As noted previously, the report of the Senate Committee on Appropriations that accompanied NRC's FY 1992 appropriation expressed concern about NRC's budget increases, including requests for increased research funding. The report directed the agency to conduct an external review of this growth. The Commission subsequently asked the OIG to review and report on increases in NRC's research budget.

The Office of Nuclear Regulatory Research (RES) is one of three NRC offices established by the Energy Reorganization Act of 1974, as amended. The act directs RES to identify research needs and contract with various organizations to conduct research in support of NRC's licensing and related regulatory functions. Most of RES's \$119 million budget for FY 1992 will be used to support about 670 research projects.

The OIG review disclosed that RES's portion of NRC's budget has not grown significantly; in fact, as NRC's budget increased in recent years, RES's portion remained fairly constant, resulting in a decreased share of the agency's overall budget. While the budget for some of RES's various program elements have increased, its 3-percent budget growth rate has been about half that of NRC's overall budget growth rate. The OIG review, however, also noted shifts in RES's budget that could lead to future increases. For example, NRC and the nuclear industry are developing a scale model testing program to support advanced reactor design certification. The testing program could increase NRC costs by more than \$13 million through FY 1995.

Improvement Needed in NRC's Process for Approving Payments to DOE

In December 1991, the OIG initiated a review of NRC's contract management practices relating to the services DOE provides. The audit revealed that since 1986, the NRC has paid about \$500 million to DOE without employing the required review and approval of DOE cost vouchers and subsequently verifying the accuracy of the payments.

This failure to follow statutory and prescribed agency policies and procedures is a serious breakdown in internal controls that leaves NRC vulnerable to fraud, waste, and abuse. Until corrected, the OIG believes this condition constitutes a material weakness in the agency's internal controls over disbursements to DOE.

Subsequent to the OIG exit briefing on the results of the review, NRC management (1) directed that corrective actions be made and (2) notified the OMB that the agency will identify the management of agreements with DOE as a material weakness.

NRC management disagreed, however, with one of the three OIG recommendations concerning the final posting of payments to the accounting system. The OIG stated that although program offices have delegated responsibility for the review and approval of payments, the Office of the Controller is ultimately responsible for ensuring that vouchers are verified as correct for payment before their final posting to the accounting system. The agency's followup official is currently reviewing the disagreement.

AUDITS IN PROGRESS

■ **Review of IRM's Oversight of its Commercial Contracts**—Many of the information resources services provided by the Office of Information Resources Management (IRM) are performed by contractors; in fact, contractors perform the majority of these services. These contracts account for a large percentage of IRM's overall budget. The objective of this review is to assess the adequacy of IRM's oversight of its contracts. The OIG will evaluate the various controls and processes that IRM uses to manage its contracts.

■ **Review of NRC's Computer Security Program**—As part of an ongoing audit of NRC's IRM contract management practices, the OIG examined the results of an independent compliance review of NRC's computer security program. The OIG is assessing the status of NRC's actions to implement the recommendations that resulted from the review.

■ **Review of the Management of NRC's Research Program**—During this review, the OIG will assess the adequacy of the procedures NRC and the Office of Nuclear Regulatory Research use to ensure that NRC conducts necessary and beneficial research. This audit responds to concerns about program cost increases expressed in a Senate Appropriations Committee Report on NRC's FY 1992 appropriation request and by NRC's Chairman.

■ **Review of NRC's Budget Execution Process**—The objective of this review is to determine whether NRC's budget is being executed in an efficient and effective manner. It will include an examination of the methods the NRC employs to maintain administrative control over its appropriated funds and an assessment of the NRC's ability to execute its budget according to the original budget planning assumptions.

■ **Review of the Management of the Work Placed with DOE's National Laboratories**—The review is assessing the adequacy of NRC's administrative management practices for closing out completed projects managed by the Office of Nuclear Regulatory Research.

■ **Review of NRC's Policies for Deferring Materials Inspections**—The OIG initiated this review to follow up on a programmatic issue raised by an OIG investigative report. In the investigative report, the OIG noted that a licensee was not inspected annually, as required, because a regional office believed that no licensed activities were underway. In effect, the required inspections were deferred for several years. OIG subsequently learned that the licensee was, in fact, conducting licensed operations. OIG is therefore reviewing the adequacy of NRC's policies and procedures for deferring materials inspections.

■ **Followup Review of the Atomic Safety and Licensing Board Panel (ASLBP)**—In June 1990, the OIG issued a report on its review of the functions and operations of the ASLBP. The report contained seven recommendations: five to the Chief Administrative Judge, ASLBP, and two to NRC's Executive Director for Operations. This follow-up review is to determine whether (1) the recommendations have been implemented and (2) the resulting actions meet the intent of the report.

■ **Review of NRC's Policy and Practice Regarding the Use of Frequent Flyer Benefits**—This audit is to determine whether NRC's policies and practices ensure that frequent flyer benefits resulting from official travel are used for the agency's economic benefit.

■ Review of NRC's "M" Account—The OIG, with the support of contracted services, is conducting a review of certain aspects of NRC's prior fiscal year fund accounting. The audit objectives are to examine the composition of the "M" account (see Glossary) and NRC's oversight of it.

AUDIT TABLES

The NRC's dependence on commercial contract activity is relatively small. Thus, questioned costs and savings are inherently smaller than those reported by most other agencies. During the reporting period, the OIG analyzed 50 contract audit reports issued by the DCAA and performed one audit of an NRC contract. The following tables depict the cost savings from this contract work and two other internal audits.

Table 1
Office of the Inspector General
Reports Containing Questioned Costs

Reports	Number of Reports	(Dollar Value)	
		Questioned Costs	Unsupported Costs
A. For which no management decision had been made by the commencement of the reporting period	1	33,876*	0
B. Which were issued during the reporting period	2**	367,120	0
Subtotals (A + B)	3	400,996	0
C. For which a management decision was made during the reporting period:	2	762	0
(i) dollar value of disallowed costs	2	762	0
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision had been made by the end of the reporting period	1	366,358	0
E. For which no management decision was made within 6 months of issuance	0	0	0

*The beginning figure of \$33,876 was reduced to 0 after further discussion with DCAA.

**The figure differs from the number of postaward contracts reviewed because 11 audit reports resulted in no questioned costs.

THE AUDIT PROGRAM

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

Reports	Number of Reports	Dollar Value of Funds
A. For which no management decision had been made by the commencement of the reporting period	2	72,020
B. Which were issued during the reporting period	9**	13,283,806*
Subtotals (A + B)	11	13,355,826*
C. For which a management decision was made during the reporting period:	7	10,880,146
(i) dollar value of recommendations that were agreed to by management	7	10,880,146***
(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	4	62,840
E. For which no management decision was made within 6 months of issuance	0	0

*Dollar figure contains the average cost savings for four different contracts that have not been awarded.

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

***The reported savings on one contract was eventually reduced during the negotiation phase because of additional proposed costs submitted by the contractor that were concurred with by DCAA.

***T**HE INVESTIGATIVE PROGRAM*

During this reporting period, the OIG received 161 allegations, initiated 53 new investigations and closed 47 cases; 4 referrals were made to the Department of Justice and 60 to NRC management. The next section presents summaries of the OIG's most significant investigations.

INVESTIGATIVE CASE SUMMARIES

Inspection of NRC Staff's Review and Acceptance of Fire Barrier Material

The NRC received an allegation that questioned the capabilities of a fire barrier material commonly used by the nuclear industry. The material, Thermo-Lag, is installed in a majority of the Nation's power plants to satisfy NRC fire protection requirements.

Because of the widespread use of this material since 1981, the OIG conducted an inspection to assess the adequacy of the NRC staff's review and acceptance of Thermo-Lag. In addition, the inspection assessed the staff's response to problems with Thermo-Lag reported to the NRC over approximately a 10-year period.

The OIG inspectors determined that the NRC staff did not conduct an adequate review of the fire protection capabilities of Thermo-Lag and other related information. If the staff had conducted a thorough review of this information and verified test reports submitted by the nuclear industry, a number of problems with the test program and Thermo-Lag would have been discovered. Because the NRC had not conducted the proper reviews and inspections, the staff did not determine until 1991 that Thermo-Lag might not meet NRC requirements. In addition, the NRC did not take substantive action between 1981 and 1991 when NRC received reports of problems with Thermo-Lag.

The OIG inspection disclosed at least seven instances in which NRC staff failed to pursue possible problems with Thermo-Lag. As a result of the inspection, a commission-directed task force is currently addressing the findings of the OIG report.



Investigators William J. Stryker and Robert A. Watkins attend an OIG conference.

Alleged Conflict of Interest With a Sandia National Laboratory Contract

The NRC staff reported a potential conflict of interest relating to an NRC research project at the Sandia National Laboratory (SNL) in Albuquerque, New Mexico. An SNL engineer formerly assigned to the NRC project continued serving as a technical reviewer after being reassigned to a Department of Energy (DOE) project benefiting the nuclear industry. It was also reported that the engineer inappropriately obtained NRC research information to prepare an industry report. OIG determined that the NRC project manager requested the engineer's continued participation in the NRC research program even though the NRC program was to have been separate and distinct from the DOE project. The project manager failed to obtain a waiver for a conflict of interest as required by NRC policy.

The OIG has not determined whether the information exchanged by the SNL engineers constituted personal misconduct. However, OIG concluded that SNL created an organizational conflict of interest by allowing an engineer to work simultaneously for the industry and the NRC on similar research projects.

NRC Employees Counseled for Fraternizing With Contractors

The OIG received allegations that certain employees assigned to a program office were involved in inappropriate activities during the course of their work. It

was alleged that the employees were guilty of time and attendance abuse, had developed an inappropriate relationship with a contractor, and had failed to exercise proper oversight responsibilities during their management of a major NRC contract.

The investigation confirmed that the employees attended luncheon meetings with contractor employees. Some of these meetings lasted several hours and included the consumption of alcohol. The investigation further determined that inadequate management oversight by these NRC employees allowed the contractor to purchase several types of automated data processing equipment without prior approval of the NRC contracting officer as mandated in the contract terms.

The employees were counseled by NRC management, and one received a letter of reprimand and was relieved of supervisory duties. The Division of Contracts and Property Management, in concert with the program office, developed a training curriculum designed to cover acquisition procedures and ethical conduct relating to procurement.

Allegations of Sexual Harassment Against an NRC Manager

An NRC program office notified the OIG after a female employee complained of several incidents involving sexual harassment and the handling of the incidents by NRC managers. OIG investigators determined that an NRC manager made repeated advances toward a female employee that she found offensive. Despite her attempts to discourage the manager, his behavior continued. It was also determined that cognizant supervisors failed to appropriately address the issue when it was reported to them. The OIG investigative report was sent to NRC management for possible administrative action.

Inspection of Radiological Safety Concerns Found Inadequate and Incomplete

The OIG investigated allegations that staff from an NRC region failed to adequately address safety concerns brought to their attention. A former executive of a nuclear industry consulting firm advised the OIG that NRC inspectors performed an inadequate and incomplete inspection of reported radiological safety violations by his firm, an NRC licensee.

The OIG determined that the alleged concerns were not adequately examined during a 1990 NRC inspection. The NRC inspectors did not interview witnesses purportedly capable of corroborating the alleged claims and did not examine key documents disputing certain assertions the licensee made. The regional staff

conducted a second inspection that revealed inaccuracies in the report of the initial inspection and disclosed a number of violations by the licensee.

The OIG investigative report was sent to NRC management, and a task force is being convened to address lessons learned in connection with this matter.

Misuse of Frequent Flyer Mileage by an NRC Engineer

The OIG received information that a senior NRC engineer repeatedly converted frequent flyer mileage accumulated through official Government air travel to personal use. Investigators determined that the engineer inappropriately redeemed frequent flyer mileage credit on numerous occasions to obtain bonus tickets for personal airline travel, which included foreign travel. The accumulated value of the personal travel was approximately \$10,750.

The U.S. Attorney, Baltimore, Maryland, declined prosecution of the engineer in lieu of administrative action by the NRC.

As a result of this and several similar investigations, the OIG audit staff is reviewing the NRC program for the use of travel benefits to reduce the cost of Government travel.

Alleged Bank Fraud by an NRC Employee

The NRC Division of Security notified the OIG that an NRC employee was under investigation by the FBI for an alleged violation of Title 18, United States Code, Section 1344 (Bank Fraud). At the FBI's request, OIG investigators provided investigative support that aided in the arrest of the employee. Following the employee's arrest, the OIG provided background information about the employee involving a similar prior offense that was not previously available to the pretrial service officer. The employee resigned from the NRC soon after being arrested and is currently awaiting Federal prosecution.

INVESTIGATIVE STATISTICS

ALLEGATIONS

Source	Number
NRC employee	34
NRC management	34
Congress	1
Other Government agencies	6
Intervenor	16
General public	18
Media	1
OIG investigation or audit	3
Contractor	0
Regulated industry (licensee/utility)	33
Anonymous	<u>15</u>
Total	161*

*Of the 161 allegations, 27 resulted from hotline calls.

Allegations	Number
Carried forward from previous period	0
Received during this period	<u>161</u>
Total	161

Disposition	Number
Closed administratively	24
Referred for OIG investigation or inspection	74
Referred for OIG audit	0
Referred to NRC management and staff	60
Referred to external agency	3
Pending review or action	<u>0</u>
Total	161

INVESTIGATIONS

Status of Investigations	Number
Pending DOJ action	5
DOJ declinations	4
Indictments and arrests	1
Convictions	0
PFCRA referrals	0
Total	10

NRC ADMINISTRATIVE ACTIONS

Status of NRC Actions	Number
Terminations and resignations	4
Suspensions and demotions	2
Other administrative actions	13
Total	19

Classification of Investigations	Carried Over	Opened	Closed	In Progress
A - Conflict of interest	3	5	1	7
B - Internal fraud	8	5	10	3
C - Contract/contractor-related misconduct	2	5	3	4
D - Falsification of records or statements	4	2	3	3
E - Theft-related offenses	1	7	6	2
F - Misuse of Government property	1	0	1	0
G - Employee misconduct affecting NRC programs	6	7	6	7
H - Management misconduct and abuse	12	15	9	18
I - Other	8	7	8	7
Total	45	53	47	51

REGULATORY REVIEW

The Inspector General Act of 1978, as amended, requires the IG to review existing and proposed legislation and regulations and to make recommendations in the semiannual report concerning their impact on the economy and efficiency of the administration of the agency's programs and operations and on the prevention of fraud, waste, and abuse. In carrying out its responsibilities under Section 4(a), the OIG reviewed numerous initiatives.

The OIG provided comments on draft NRC management directives in several topic areas. The directives are the agency's central referencing system. They provide information on responsibilities and processes for NRC's major programs. Before publication, the NRC submits the draft directives to the OIG for review and concurrence. The following directives warranted OIG comment.

The proposed directive on the Freedom of Information Act (FOIA) procedures required clarification of the OIG FOIA denial and appeal authority. Specifically, the OIG requested that its FOIA function be segregated and that more detail be provided in the directive concerning the OIG FOIA processes.

As a result of OIG's comments, the draft directive on implementing the Hatch Act was revised to more correctly identify the investigative and reporting responsibilities of the OIG and coordination by the OIG with the Office of the General Counsel. In addition, the OIG provided extensive comments on the draft directive on "NRC Procedures and Management Controls for Placement and Monitoring of Work With the Department of Energy." These remarks focused on the need for clarifying NRC's procedures for controlling and monitoring the contract work placed with the Department of Energy.

In addition, the OIG provided an assessment of the impact of the proposed "Contractor Licensing Reform Act of 1992." Specifically, the OIG noted the need for (1) establishing adequate criteria for conducting the required audits and (2) identifying the scope of the subject area concerning the audit of possible circumventions of personnel ceilings.

OTHER ACTIVITIES

During this reporting period, the OIG has engaged in several activities to enhance the performance of its audit and investigative responsibilities. Brief summaries of the activities follow.

Legal Update Seminar

The President's Council on Integrity and Efficiency Investigative Standards and Training Subcommittee, chaired by the NRC's IG, sponsored a Legal Update Seminar during the first week of September 1992. The seminar, held in Washington, D.C., brought together senior OIG investigators, OIG attorneys, and accomplished instructors from the Department of Treasury's Federal Law Enforcement Training Center. The purpose of this conference was to provide the IG community with current updates and changes regarding recent court decisions and legislation in selected topic areas.



Participants in the PCIE Standards and Training Subcommittee Legal Update Seminar (September 1992).

The seminar featured a 2-day program that was tailored to the needs and interests of the attendees. Highlights of the session included briefings on evidence, entrapment, and electronic surveillance. Individuals participated in selected briefings and then joined together for a half-day plenary session on civil liberties. The plenary session addressed the current status of applicable civil statutes and case law relating to the vulnerability of the executive manager to civil suit.

OIG Planning Conference

In September 1992, the second annual OIG Planning Conference was held at the Hyatt Regency in Bethesda, Maryland. The conference was designed to focus on

issues that will affect the NRC in the coming years and to assist the OIG audit staff in structuring its annual audit plan. This year's conference focused on the growing importance of performance indicators and how these unique management tools could be developed to assess the NRC's effectiveness. Because of recent legislation, specifically the Chief Financial Officers Act and its mandated requirement for performance measures, the IG is particularly interested in how NRC perceives these indicators.

NRC Executive Director for Operations, James M. Taylor (center) exchanges ideas with panel member Robert M. Bernero (right) and Mr. John Hidalgo.



Through a series of panels, various perspectives were presented. The first panel addressed the views of NRC's senior managers on performance indicators, while the second panel presented the views of the utility industry on license renewal. The final panel provided thoughts from the Office of Management and Budget (OMB), the Congress, a public interest group, and a nuclear medicine professional association regarding NRC's regulatory process.

SPECIAL FEATURE

THE CHIEF FINANCIAL OFFICERS ACT OF 1990

In November 1990, Congress passed Public Law 101-576, the Chief Financial Officers Act of 1990. The purpose of the act is to bring more effective general and financial management practices to the Federal Government. As a result, each executive department and major executive agency in the Government is required to have a Chief Financial Officer (CFO). Beginning in 1992, and every year thereafter, each agency is required to prepare and submit a financial statement for the preceding year to OMB. The statements are due no later than March 31 each year.

The Director of OMB is responsible for prescribing the form and content of the financial statements consistent with applicable accounting principles, standards, and requirements. Each agency's financial statements will reflect its (1) overall financial position, (2) results of operations, (3) cash flow or changes in financial position, and (4) reconciliation to its budget.

The act further specifies that the financial statements prepared by an agency will be audited in accordance with generally accepted Government auditing standards by the IG or an independent external auditor, as determined by the IG. An audit report on the financial statements is required by June 30 following the fiscal year for which a financial statement is submitted. The audit report will be made up of at least the following three parts:

- a report containing an opinion as to whether the agency's principal statements, including the notes to the principal statements, and the combining statements are fairly presented in all material respects in accordance with applicable accounting standards;
- a report on internal controls; and
- a report on compliance with applicable laws and regulations, including an assessment of the process by which the agency identifies and evaluates weaknesses required to be reported under the FMFIA.

Agency CFOs are also responsible for preparing annual reports and transmitting them to the agency heads and OMB. These reports are due within 60 days of the submission of the auditor's report on its audit of the annual financial statements.

The CFO's report should include the following information:

- a description and analysis of the status of the agency's financial management;
- the annual financial statements and audit reports prepared under the act;
- a summary of the reports on internal accounting and administrative control systems submitted to the President and the Congress under the FMFIA; and

-
- other information the agency head considers appropriate concerning agency financial management.

To emphasize the significance of NRC's Executive Director for Operations' (EDO's) role in financial management, the EDO is the agency's appointed CFO. Since the NRC Controller has the authority for most of the agency's day-to-day financial management activities, the Controller's position is designated as the Deputy CFO (DCFO). As a result, the CFO, assisted by the deputy, is responsible for the following CFO act-related duties:

- developing, maintaining, and overseeing the implementation of policies, procedures, and standards for carrying out all financial management activities;
- developing and maintaining an integrated agency accounting and financial management system;
- monitoring the financial execution of the NRC's budget and submitting timely performance reports to the Chairman;
- preparing agency financial statements;
- ensuring that these financial statements are auditable; and
- preparing the annual report.

The NRC's Office of the Controller (OC) has complemented its existing staff by adding individuals who possess significant Government financial management experience. OC has also obtained the services of an independent certified public accounting firm to assist in preparing the agency's financial statements.

As a result of the CFO legislation, the NRC must ensure that its internal controls are in place and are operating as intended. The OIG has established a financial management audit team whose purpose is to review the financial management controls within the agency. This team places the OIG in a position to assist the agency in implementing the provisions of the act. Guidelines have been formulated that will allow the OIG to advise the agency on matters affecting the preparation of the financial statement while maintaining OIG independence.

The OIG has also obtained the services of a certified public accounting firm to assist in reviewing the financial management practices within the agency. This assistance ensures that key financial areas will undergo a thorough review as the agency prepares and issues its audited financial statements in accordance with the requirements of the act. NRC's management and the OIG are working together to ensure that the goals of the CFO act are successfully achieved.

APPENDICES

AUDIT LISTINGS

INTERNAL AUDIT REPORTS

Date	Title	Number
04/03/92	Review of NRC's Allegations Management System	OIG/91A-07
05/01/92	Budget Changes in the Office of Nuclear Regulatory Research	OIG/92A-03
05/01/92	Budget Changes in NRC's Inspection Programs	OIG/91A-13A
06/26/92	Review of NRC's Contract Close-out Process	OIG/92A-04
07/27/92	Survey of NRC's Inspection Program	OIG/91A-13
08/17/92	NRC's Compliance with the Anti-Lobbying Act, Section 319 of Public Law 101-121	OIG/92A-14
08/31/92	Improvements Needed in NRC's Process for Approving Payments to the Department of Energy	OIG/92A-08

CONTRACT AUDIT REPORTS

OIG Issued	Contractor	Questioned Costs (Dollars)	Funds Put to Better Use (Dollars)
04/06/92	Bernard Hodes Advertising RS-PER-91-322		0
04/17/92	ERC Environmental Services Co. NRC-05-84-160; NRC-05-84-151; NRC-05-86-155; NRC-05-86-158-002	0	
04/17/92	United Engineers & Construction NRC-33-85-311	0	
04/17/92	Science & Engineering Associates NRC-33-83-407	0	
04/17/92	Science & Engineering Associates NRC-33-83-407	762	
04/17/92	Science & Engineering Associates NRC-33-84-407	0	
04/17/92	Washington Data Systems, Inc. RS-IRM-92-173		0
05/01/92	Southwest Research Institute NRC-02-88-005 OIG/92A-09A		3,494,758
05/04/92	Analytical & Research Technology RS-IRM-92-203		0
05/05/92	Ruland & Associates (Subcontractor) RS-IRM-92-203		0
05/11/92	Technology Applications, Inc. NRC-33-85-330	0	
05/13/92	Systems Automation Corp. RS-IRM-92-203		0
05/13/92	Creative Associates International RS-IRM-92-203		0
05/13/92	R.S. Data Systems, Inc. RS-IRM-92-203		0
05/13/92	American Management Systems RS-IRM-92-203		0
05/20/92	Buffalo Material Research NRC-04-84-102	366,358	
05/20/92	Applied Management Systems, Inc. RS-IRM-92-203		0

OIG Issued	Contractor	Questioned Costs (Dollars)	Funds Put to Better Use (Dollars)
05/20/92	Pinkerton Computer (Subcontractor to Applied Management Systems, Inc.) RS-NRR-92-203		0
05/20/92	VGS, Inc. (Subcontractor to User Technology Associates) RS-NRR-92-203		0
05/26/92	Mastech System Corporation RS-IRM-92-203		0
05/27/92	Itasca Consulting Group, Inc. NRC-02-85-002	0	
05/27/92	User Technology Associates RS-IRM-92-203		0
06/01/92	Computech, Inc. RS-IRM-92-203		0
06/01/92	Science Applications International Corp. RS-NRR-92-033		0
06/02/92	Sonalyt, Inc. RS-NRR-92-034		39,519
06/02/92	Science Applications International Corp. RS-NRR-92-021		0
06/02/92	Science Applications International Corp. RS-NRR-92-027		0
06/02/92	Science Applications International Corp. RS-NRR-92-035		0
06/02/92	Science Applications International Corp. RS-NRR-92-034		0
06/04/92	Scientech (Subcontractor to Sonalyt) RS-NRR-92-034		0
06/11/92	Science & Engineering Associates RS-NRR-92-021		47,901
06/11/92	Science & Engineering Associates RS-NRR-92-027		28,331
06/11/92	Science & Engineering Associates RS-NRR-92-033		97,971

OIG Issued	Contractor	Questioned Costs (Dollars)	Funds Put to Better Use (Dollars)
06/11/92	Science & Engineering Associates RS-NRR-92-035		30,927
06/15/92	Science & Engineering Associates RS-NRR-92-034		68,901
06/15/92	Comex Corp. (Subcontract to Science and Engineering Associates, Inc.) RS-NRR-92-021		0
06/15/92	Comex Corp. (Subcontract to Science and Engineering Associates, Inc.) RS-NRR-92-027		0
06/15/92	Comex Corp. (Subcontract to Science and Engineering Associates, Inc.) RS-NRR-92-033		0
06/15/92	Comex Corp. (Subcontract to Science and Engineering Associates, Inc.) RS-NRR-92-034		0
06/15/92	Scientech, Inc. RS-NRR-92-033		0
06/15/92	Scientech, Inc. RS-NRR-92-021		0
06/15/92	Scientech, Inc. RS-NRR-92-027		0
06/23/92	PAL Consultants (Subcontract to Science and Engineering Associates, Inc.) RS-92-035-021		0
07/01/92	Logicon R&D Associates, Inc. NRC-03-83-092	0	
07/14/92	Compuware Corp. (Subcontract to Systems Automation Corp.) RS-IRM-90-203	0	
07/15/92	Analytical & Research Technology NRC-33-91-183	0	
08/11/92	S. Cohen and Associates, Inc. RS-RES-92-061		0
08/11/92	Science & Engineering Associates RS-NRR-92-021		0

OIG Issued	Contractor	Questioned Costs (Dollars)	Funds Put to Better Use (Dollars)
08/19/92	Quality Services International, Inc. RS-AED-92-266		0
08/24/92	Westinghouse Electric Corp. NRC-04-85-103	0	
08/25/92	National Council on Radiation Protection and Measures NRC-04-85-118; NRC-G-04-81-027	0	
	Subtotal	\$367,120	\$3,808,308

INTERNAL AUDIT REPORTS

06/26/92	Review of NRC's Contract Close-out Process		8,295,281
08/31/92	Improvements Needed in NRC's Process for Approving Payments to the Department of Energy		1,400,000
	Subtotal	\$367,120	\$9,695,281
	TOTAL	<u>\$367,120</u>	<u>\$13,503,589</u>

ABBREVIATIONS

AMS	Allegation Management System
ASLBP	Atomic Safety and Licensing Board Panel
ATS	Allegation Tracking System
CFO	Chief Financial Officer
CPA	certified public accountant
DCAA	U.S. Defense Contract Audit Agency
DCFO	Deputy Chief Financial Officer
DOE	U.S. Department of Energy
DOJ	U.S. Department of Justice
ED	NRC's Executive Director for Operations
FBI	U.S. Federal Bureau of Investigation
FMFIA	Federal Managers' Financial Integrity Act
FOIA	Freedom of Information Act
FTE	full-time equivalent
FY	fiscal year
IG	Inspector General
IRM	NRC's Office of Information Resources Management
NRC	U.S. Nuclear Regulatory Commission
NRR	NRC's Office of Nuclear Reactor Regulation
OC	Office of the Controller
OIG	NRC's Office of the Inspector General
OMB	U.S. Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
PFCRA	Program Fraud Civil Remedies Act
RES	NRC's Office of Nuclear Regulatory Research
SNL	Sandia National Laboratory

GLOSSARY

FINAL ACTION. The completion of all management actions discussed in management decisions concerning audit recommendations and findings. Final action occurs when management issues a decision.

FINANCIAL AUDIT. Financial audits are carried out to assess the effectiveness of internal control systems, transaction processing, financial systems, and contracts.

FUNDS PUT TO BETTER USE. Funds identified in audit recommendations that could be used more efficiently by avoiding unnecessary expenses.

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

M-ACCOUNT. Unliquidated obligations under an appropriation are transferred to (or merged into) an "M" account at the end of the second full fiscal year following expiration. The "M" account remains available for the payment of the unliquidated obligations charged to various-year appropriation accounts.

MANAGEMENT DECISION. Management evaluation of audit recommendations and findings. A final decision is issued that is based on management's response to recommendations and findings.

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

NONCONFORMANCE. The failure of an agency's accounting system to conform with appropriate accounting principles, requirements, and/or standards.

OBLIGATIONS. Amounts of orders placed, contracts awarded, services rendered, or other commitments made by Federal agencies during a given period, that will require outlays during the same or some future period.

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

UNSUPPORTED COST. A cost questioned because of a lack of adequate documentation at the time of the audit.

THE INSPECTOR GENERAL HOTLINE

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

U.S. Nuclear Regulatory Commission
The Office of the Inspector General
Hotline Program
Mail Stop EW/W 542
Washington, D.C. 20555

HOTLINE NUMBER:
1-800-233-3497

