

July 12, 2007

MEMORANDUM TO: Luis A. Reyes  
Executive Director for Operations

FROM: Stephen D. Dingbaum */RA/*  
Assistant Inspector General for Audits

SUBJECT: AUDIT OF NRC'S NON-CAPITALIZED PROPERTY  
(OIG-07-A-14)

Attached is the Office of the Inspector General's (OIG) report titled, *Audit of NRC's Non-Capitalized Property*.

This report presents the results of the subject audit. Agency comments provided at the exit conference on June 26, 2007, have been incorporated, as appropriate, into this report. The agency did not provide formal comments.

Please provide information on actions taken or planned on each of the recommendations within 30 days of the date of this memorandum. Actions taken or planned are subject to OIG follow up as stated in Management Directive 6.1.

We appreciate the cooperation extended to us by members of your staff during the audit. If you have any questions or comments about our report, please contact me at 415-5915, or Steven Zane at 415-5912.

Attachment: As stated

cc: V. Ordaz, OEDO  
M. Malloy, OEDO  
P. Tressler, OEDO

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# AUDIT REPORT

Audit of NRC's Non-Capitalized Property

OIG-07-A-14 July 12, 2007



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## **EXECUTIVE SUMMARY**

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### **BACKGROUND**

The Nuclear Regulatory Commission (NRC) has an established property management program to account for and control property.<sup>1</sup> Property management encompasses both capitalized<sup>2</sup> and non-capitalized<sup>3</sup> property. This report focuses on NRC's program to account for and control non-capitalized property. As of June 2006, non-capitalized property was comprised of almost 16,000 pieces of equipment costing approximately \$26 million.

The Space Planning and Property Management Branch (Property Branch), Division of Facilities and Security, is currently responsible for developing and administering the agency's property management program, including the Space and Property Management System (SPMS). Since March 1999, NRC management has moved this responsibility to three different divisions.

### **PURPOSE**

This audit was conducted to determine whether NRC has established and implemented an effective system of management controls for maintaining accountability and control of non-capitalized property.

### **RESULTS OF AUDIT**

While NRC's property management policies for non-capitalized property provide a framework to control and safeguard property, the program, as implemented, needs improvement to provide effective control. Specifically:

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<sup>1</sup> Management Directive 13.1, *Property Management*, defines government personal property as any equipment, furniture, or supply items that are owned, leased, borrowed, donated, forfeited, or transferred from another Federal agency, purchased with NRC funds, or otherwise in the possession or control of the NRC.

<sup>2</sup> Management Directive 13.1 defines capitalized property as any NRC-purchased property with an initial acquisition cost of \$50,000 or more.

<sup>3</sup> Management Directive 13.1 defines non-capitalized property as NRC property with an initial acquisition cost of less than \$50,000.

- A. SPMS data is not accurate;
- B. Controls for Information Technology (IT) property that may contain personally identifiable information (PII)<sup>4</sup> are lacking;
- C. Physical security deficiencies exist; and
- D. The policy for notifying Office of the Inspector General (OIG) of missing property needs improvement.

In light of NRC's imminent growth in full-time equivalents (FTE), and anticipated office relocations, it is increasingly important that NRC maintain effective and efficient accounting and control over non-capitalized property. Therefore, now is an opportune time for NRC management to increase accountability for, and improve control of, the property management program. An effective and efficient property management program is essential to assure that staff have the property needed to carry out their duties and assure optimum utilization of staff time, property and fiscal resources.

#### **RECOMMENDATIONS**

This report makes recommendations to the Executive Director for Operations to help NRC strengthen the effectiveness of management controls with respect to maintaining accountability and control of non-capitalized property. This report also recommends that the threshold for accountable non-sensitive property<sup>5</sup> be raised so that property custodians can focus on maintaining accurate and reliable property records for sensitive and more expensive items.

#### **AGENCY COMMENTS**

At an exit conference held on June 26, 2007, agency managers generally agreed with the audit findings and recommendations and provided comments concerning the draft audit report. We modified the report in response to the comments, as we deemed appropriate. NRC reviewed these modifications and opted not to submit formal written comments for the final version of this report.

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<sup>4</sup> "Personally Identifiable Information (PII)" represents information about an individual that can be used to distinguish or trace a person's identity (e.g., Social Security Number, Date and Place of Birth, Mother's Maiden Name, etc.).

<sup>5</sup> MD 13.1 defines accountable property as any equipment, excluding furniture and supplies, that is complete in itself, is of a durable nature with an expected life of 2 years or more, does not ordinarily lose its identity or becomes a component of another article, and is not consumed in its useful life. Accountable property is classified either as "sensitive" or as "non-sensitive." Footnote 9 defines sensitive property.

## **ABBREVIATIONS AND ACRONYMS**

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ADM	Office of Administration
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	Government Accountability Office
IT	Information Technology
JFMIP	Joint Financial Management Improvement Program
MD	Management Directive
NRC	Nuclear Regulatory Commission
OIG	Office of the Inspector General
OIS	Office of Information Services
OMB	Office of Management and Budget
PII	Personally Identifiable Information
SPMS	Space and Property Management System
Property Branch	Space Planning and Property Management Branch

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## I. BACKGROUND

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The NRC has an established property management program to account for and control property. Property management encompasses both capitalized and non-capitalized property. This report focuses on NRC's program to account for and control non-capitalized property. The planned growth in NRC's FTE's,<sup>6</sup> coupled with anticipated office relocations, heightens the importance of having the right equipment, at the right place, with the right person, at the right time, to facilitate efficient and effective mission accomplishment. As of June 2006, non-capitalized property was comprised of almost 16,000 pieces of equipment costing approximately \$26 million.

### **Guidance**

Certain rules and regulations are in place to ensure that Federal property is safeguarded, properly accounted for, and adequately controlled to reduce the potential for waste, fraud, and mismanagement. Below is a list of key guidance pertinent to NRC's accounting and control of non-capitalized property:

- The Office of Management and Budget (OMB) Circular A-123, Revised, *Management's Responsibility for Internal Control*,
- The Joint Financial Management Improvement Program (JFMIP),<sup>7</sup> *Property Management Systems Requirements*, and
- NRC Management Directive 13.1, *Property Management*, revised January 14, 2002 (MD 13.1).

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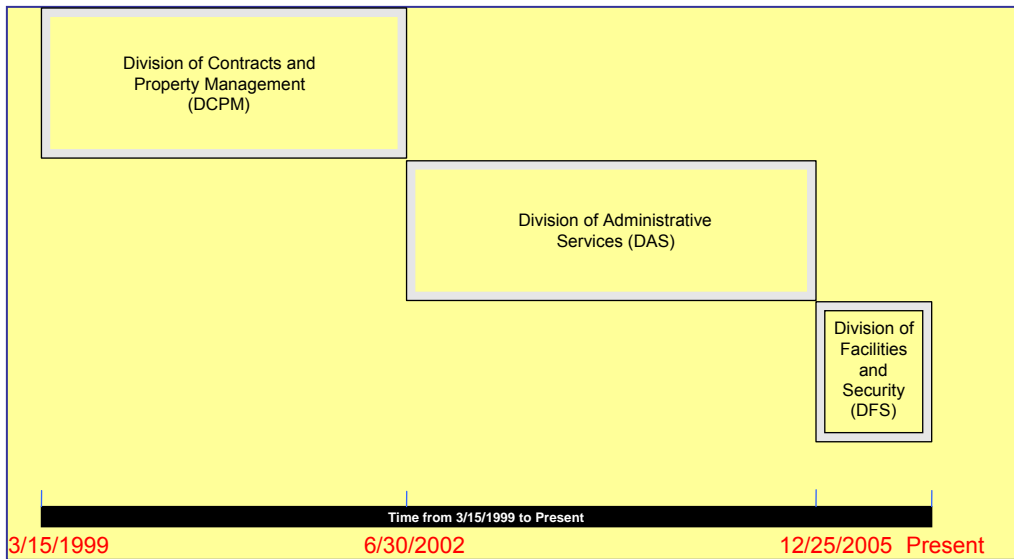
<sup>6</sup> The agency plans to increase the number of FTEs by 228 over the FY 2007 level by the end of FY 2008.

<sup>7</sup> JFMIP is a joint undertaking of OMB, the Government Accountability Office, the Department of the Treasury, and the Office of Personnel Management, to work in cooperation with each other and with other agencies to improve financial management practices throughout the government.

**Responsibility for Property Management**

The Property Branch, Division of Facilities and Security, is currently responsible for developing and administering the agency's property management program, including the SPMS. Since March 1999, NRC management has moved this responsibility to three different divisions (see following chart). In addition to changing the reporting lines, the Property Branch has experienced a turnover of both the division director and the branch chief positions since December 2005. In FY 2006, the estimated total resources dedicated to administering NRC's property management program was approximately \$923,000 and 5.25 FTEs.<sup>8</sup>

**Responsibility for Property Management**



As of May 10, 2006, 71 property custodians and 36 alternate property custodians, located in individual NRC offices, assist the Property Branch with property management functions. After the Property Branch assigns property to their accounts, property custodians and their alternates manage and control those accounts by —

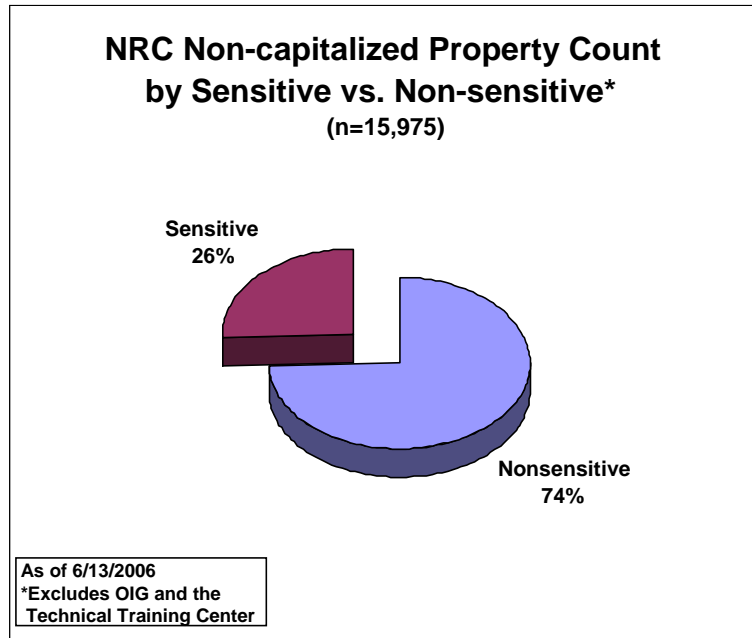
- Updating records,
- Recovering property assigned to separating employees,
- Assisting in locating missing property,

<sup>8</sup> This total does not include property custodian and alternate property custodian salaries and overhead expenses.

- Conducting annual reviews of their property accounts, and
- Participating in official biennial inventories.

**Property System Replaced**

In June 2005, SPMS replaced the Property and Supply System as the agency’s official property management system. MD 13.1 requires that SPMS contain records for all sensitive equipment,<sup>9</sup> regardless of cost, and accountable non-sensitive equipment<sup>10</sup> having an acquisition cost of at least \$500. Non-sensitive items with an acquisition cost of at least \$500 and all sensitive items are assigned a unique blue tag number. Non-sensitive items with an acquisition cost below \$500 are assigned a red tag and generally are not recorded in SPMS. The following chart illustrates the percent of items that are sensitive and non-sensitive.



**Inventories**

MD 13.1 requires NRC to conduct physical inventories of property every two years. The Property Branch is required to reconcile all discrepancies for missing items with SPMS once an inventory is completed. The Property Branch reports the results to NRC senior

<sup>9</sup> MD 13.1, defines sensitive property as property that is desirable for personal use and can be easily removed from the premises (e.g., laptop computers, cell phones, etc.).

<sup>10</sup> MD 13.1, defines accountable property as any equipment, excluding furniture and supplies, that is complete in itself, is of a durable nature with an expected life of 2 years or more, does not ordinarily lose its identity or becomes a component of another article, and is not consumed in its useful life. Accountable property is classified either as “sensitive” or as “non-sensitive.”

management after reconciliation. In addition, property custodians are required to conduct an annual review of their property accounts to certify that the SPMS records are accurate.

## **II. PURPOSE**

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This audit was conducted to determine whether NRC has established and implemented an effective system of management controls for maintaining accountability and control of non-capitalized property.

### III. FINDINGS

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While NRC's property management policies for non-capitalized property provide a framework to control and safeguard property, the program, as implemented, needs improvement to provide effective control. Specifically:

- A. SPMS data is not accurate;
- B. Controls for IT property that may contain PII are lacking;
- C. Physical security deficiencies exist; and
- D. The policy for notifying OIG of missing property needs improvement.

A rigorous effort by NRC senior management is needed to initiate and sustain improvements to the property management program.

#### A. SPMS Data is Not Accurate

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Although the agency uses SPMS to maintain property records, SPMS data is not accurate. This condition exists primarily because the property management program lacks adequate accountability. Without accurate and reliable records for non-capitalized property, NRC is subject to loss of property and information, inefficient use of staff time, and potential unnecessary expense.

##### **Guidance**

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* requires agencies to: (1) record transactions promptly and (2) periodically inventory property and compare results to property records. NRC guidance requires staff to maintain accurate personal property records. Additionally, *JFMIP Property Management Systems Requirements* call for the property management system to capture:

- property identification number,
- location,
- current user,
- identity of property custodian, and
- accountable organization.

**SPMS Contains Inaccurate Data**

Various tests of SPMS records performed by OIG during this audit revealed that SPMS contains inaccurate data. Specifically, location/sub-location information is inaccurate, SPMS contained errors on firearms location/sub-location and serial numbers, and SPMS shows property assigned to separated employees.

**a. SPMS Location/Sub-Location Information is Inaccurate**

SPMS does not accurately reflect the location and sub-location<sup>11</sup> for many non-capitalized property items. The results of OIG's unannounced physical inventory of a statistical random sample of non-capitalized property at NRC Headquarters, Region III, and Region IV are summarized in the following table.<sup>12</sup>

	<b><u>Error Rates</u></b>		
	<b>Percent of Errors</b>	<b>The Percent of Errors Could be as Low as</b>	<b>The Percent of Errors Could be as High as</b>
<b>Headquarters</b>	37.5%	31.58%	43.52%
<b>Region III</b>	6.1%	.3%	11.82%
<b>Region IV</b>	17.1%	8.31%	25.97%

Reference to the first line of the table reveals that there was a 37.5 percent error rate for headquarters' location/sub-location data in SPMS. We can project the sample results to all of headquarters and say, with 95 percent confidence, that the location/sub-location error rate could be as low as 31.58 percent and as high as 43.52 percent. The table reflects the sample results and 95 percent confidence for Regions III and IV as well.<sup>13</sup> The cumulative acquisition cost associated with the high-end of the projection is \$7.42 million at headquarters, and over \$8 million for all three locations.

<sup>11</sup> Sub-location means the room or cubicle designation within a building.

<sup>12</sup> OIG requested that the agency perform follow-up effort to locate the items identified as missing, as a result of our unannounced physical inventory, and correct SPMS.

<sup>13</sup> Subsequent to OIG's sample physical inventory, personnel from Regions III and IV located the missing property for OIG auditors. Reportedly, Region IV personnel updated SPMS location/sub-location information accordingly.

**b. SPMS Contained Errors on Firearms Location/Sub-Location and Serial Numbers**

OIG found that SPMS contains inaccurate data for NRC firearms. During an unannounced physical verification to locate 48 Office of Investigations' firearms,<sup>14</sup> OIG found incorrect information recorded in SPMS.

Specifically, of the 48 firearms, SPMS showed 17 firearms as being located at headquarters. Only 2 of these 17 firearms were actually located at headquarters. A third firearm located at headquarters was shown in SPMS as being located in Region I. Subsequently, based on information contained in Office of Investigations' records, OIG accounted for the remaining 45 firearms. OIG auditors accounted for all 48 firearms included in our test.

OIG also noted that the serial numbers for 13 of the 48 firearms contained typographic errors. Because of the highly sensitive nature of this property, the recording of accurate serial numbers for firearms is particularly important.

**c. SPMS Shows Property Assigned to Separated Employees**

MD 13.1 requires that "...all Government-furnished property ... assigned to NRC employees be returned [to the property custodian] or accounted for at least 10 working days before separation, and all items must be returned before clearance from NRC." MD 13.1 also requires property custodians to reassign sensitive equipment before the Property Branch can approve separation clearance for an individual.

OIG's analysis of SPMS records revealed that, as of August 11, 2006, 39 (or 10.7 percent) of 366 employees who separated between January 1, 2005, and June 30, 2006, had a cumulative total of 106 items with a total acquisition cost of \$110,188 still assigned to them. Of the 39 separated employees, six had sensitive property assigned, consisting of four laptop computers, four cell phones, and three cameras. One separated Office of Nuclear Security and Incident Response employee had 17 items assigned to his name with a total acquisition cost of \$34,710. In some cases, property remained assigned to separated employees for as long as 18 months beyond their effective date of separation from the agency. OIG requested that the agency perform follow-up effort to locate these items and correct SPMS.

<sup>14</sup> The 48 firearms were handguns, 16 manufactured by Smith & Wesson, 32 manufactured by Glock.



## **Reasons for Inadequate Property Management**

SPMS contains inaccurate property records because the property management program lacks adequate accountability and the threshold for accounting and controlling non-sensitive property is too low.

### **Inadequate Accountability**

OIG believes the following areas contribute to the lack of accountability:

#### **Reorganizations and Changes in Management**

Frequent reorganizations and changes in management in the Property Branch do not create an effective control environment that fosters monitoring and continuous process improvements. Management continuity is critical to achieve focused and sustained program improvements.

#### **Senior Executives**

Senior Executives' performance plans and appraisals do not reflect accountability for property management. Accordingly, little attention and low priority are given to the property management function.

#### **Property Custodians**

Property custodian duties and responsibilities are essential to maintaining an effective, efficient, and accurate property management program. However, property custodians' elements and standards generally do not reflect property management duties and responsibilities,<sup>15</sup> despite the fact that the Director, Office of Administration (ADM), issued a memorandum, dated September 25, 2001, requesting that position descriptions be updated appropriately. ADM reissued the memorandum on October 10, 2006.

#### **Performance Measures**

NRC's performance measures for property management evaluate performance after inventory reconciliation activities. Measuring the accuracy after reconciliation does not provide transparency

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<sup>15</sup> OIG found that only 24 out of 69 property custodians' elements and standards included property custodian duties as of August 2006.

regarding the property custodians' performance of maintaining accurate SPMS records. This does not enable effective monitoring of program performance, accuracy, or easy identification of program improvements.

### Property Custodian Training

Property custodians are not required to take formal periodic training. Instead, they are provided an SPMS Users Guide and advised to call the Property Branch, if needed. The Property Branch conducts training on a one-on-one basis upon request. The effective accounting and control of non-capitalized property relies heavily on the performance of property custodians, therefore, it is critical that property custodians receive formal periodic training.

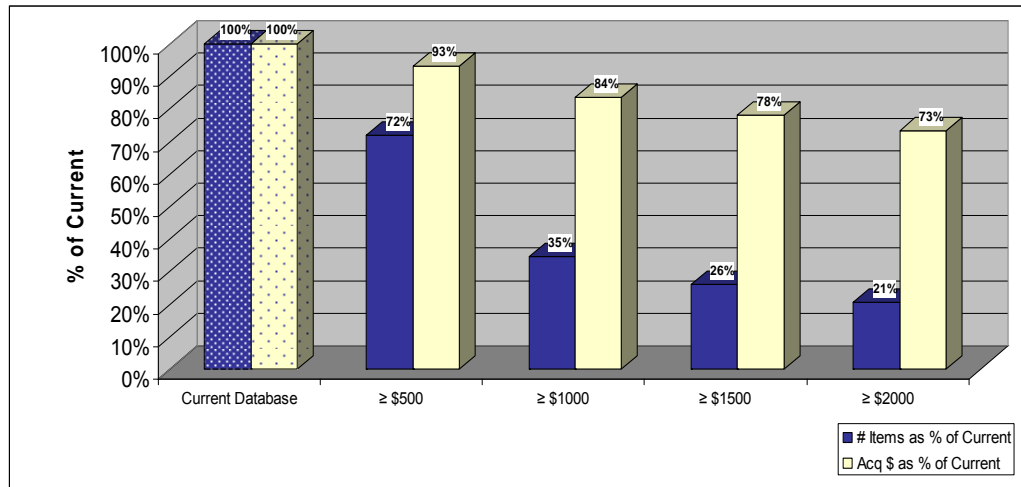
### Reporting Threshold is Too Low

The threshold for recording accountable non-sensitive property in SPMS is \$500. There are 4,485 non-sensitive items with an approximate acquisition cost of \$2.2 million currently recorded in SPMS, with a value between \$500 and \$1,000. Property custodians' recording and monitoring these inexpensive items takes time away from maintaining accurate and reliable property records for sensitive and more expensive items. OIG contacted other Federal agencies<sup>16</sup> and learned that their threshold for recording accountable property in their respective property management systems ranged from \$50 - \$5,000. Raising NRC's threshold for reporting accountable non-sensitive property in SPMS from \$500 to \$1,000 would reduce the number of items tracked in SPMS by 37 percent (72 percent minus 35 percent) while still accounting for 84 percent of the dollar value of property that is both non-capitalized and non-sensitive (see the following chart).

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<sup>16</sup> Other Federal agencies contacted were the Small Business Administration, National Oceanic and Atmospheric Administration, and the Office of Personnel Management.

### Impact of Accountable Thresholds on SPMS<sup>17</sup>



### Risk of Loss of Property and Information

Accurate and reliable information on the location and sub-location of property is essential for NRC to assure the optimum use of property and the efficient use of staff time. The high level of errors found in SPMS combined with property assigned to separated employees:

- Increases the risk of loss of property and information,
- Results in inefficient use of staff time, and
- May result in unnecessary expense.

### Recommendations

OIG recommends that the Executive Director for Operations:

1. Incorporate responsibility for property management into the Senior Executive Service Performance Plan and Appraisal.
2. Incorporate property management duties and responsibilities into all property custodian and alternate property custodian performance evaluations.
3. Develop and implement performance measures to provide transparency of inventory results immediately after the physical inventory is taken.

<sup>17</sup> The number of items and acquisition costs taken from SPMS and used as the basis for the chart excludes capitalized property and sensitive property.

4. Provide formal periodic mandatory property management training to property custodians and their alternates.
5. Raise the threshold for recording non-sensitive property in SPMS to \$1,000.

## **B. Controls for Information Technology Property That May Contain Personally Identifiable Information Are Lacking**

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Although, NRC has initiated improvements for protecting PII as required by OMB and NRC guidance,<sup>18</sup> not all reports of potential releases of PII are reported to the Office of Information Services (OIS) as required. This condition exists because a control is lacking on NRC Form 395, "Report of Property for Survey," to flag missing property capable of storing PII and requiring coordination with the OIS. Without this critical internal control, NRC is at risk of not detecting potential or actual releases of PII, and of not mitigating the damage caused by such releases.

As of March 2006, NRC staff had not found 25 items capable of storing PII identified as missing during the FY 2005 biennial inventory. However, the staff filed no reports of potential releases of PII to OIS. OIG requested that the agency perform follow-up effort to locate these items.

While the Agency has increased efforts to protect PII, these efforts do not include improving the process for reporting missing IT property that may contain PII. NRC Form 395 does not include a field to alert agency personnel about a possible release of PII due to missing IT devices such as laptops, personal digital assistants, and cell phones. Currently, Form 395 preparers are not required to report —

- Whether missing IT property contains/may contain PII, or
- Whether OIS has been alerted, as warranted.

Additionally, in instances involving missing IT property, MD 13.1 procedures for reporting the loss or theft does not reference MD 12.5, *NRC Automated Information Security Program*, and does not include procedures for coordinating with the OIS.

Without adequate controls for IT property that may contain PII, NRC is at risk of not detecting potential or actual releases of PII and of not mitigating the damage caused by such releases.

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<sup>18</sup> OMB guidance dated June 23, 2006, memorandum (M-06-16), "Protection of Sensitive Agency Information," and Chairman Klein's memorandum dated July 26, 2006, "Protection of Personal Privacy Information." NRC is required to ensure that any files or images that may contain PII are adequately protected from unauthorized access.

## **Recommendations**

OIG recommends that the Executive Director for Operations:

6. Modify NRC Form 395 to include a field for reporting instances to OIS when missing NRC property contains or may contain personally identifiable information.
7. Modify Management Directive 13.1, "Property Management," to reference, where applicable, Management Directive 12.5, "NRC Automated Information Security Program," to include procedures for coordinating with OIS regarding missing property that contains or may contain PII.
8. Issue interim guidance to accomplish the intent of Recommendation 7, pending revision of Management Directive 13.1.

## **C. Physical Security Deficiencies Exist**

Four rooms, containing equipment vital to the continuity of agency operations and valued in excess of \$1 million, were found unsecured during OIG's unannounced sample inventory at NRC's Headquarters. GAO guidance<sup>19</sup> requires that vulnerable assets must be safeguarded to prevent loss or unauthorized use. Unsecured rooms, caused by lack of due care exercised by employees/contractors, could lead to:

- Interruptions to agency operations,
- Loss of property and/or PII, and
- Unnecessary expense.

### **Physical Security Guidance**

MD 12.5, *NRC Automated Information Security Program*, requires controls be in place to protect NRC buildings, facilities, and related supporting infrastructures that house essential resources, such as data centers, server rooms, rooms that contain telecommunications equipment and wiring closets. For instance, as shown in the photograph, certain rooms containing servers and/or telecommunications equipment have multiple locks.



These controls protect against potential threats to the physical environment and are intended to help prevent:

- interruptions in computer services,
- physical damage,
- unauthorized disclosure of information,
- loss of control over system integrity, and
- theft.

In addition, the directive provides guidance on protection against insider threats posed by disgruntled employees or contractors who may attempt to:

- intentionally disrupt computer operations,

<sup>19</sup> GAO *Standards for Internal Control in the Federal Government*, November 1999.

- gain unauthorized access to network resources or services, or
- perform other related unauthorized activities.

**Physical Security Observations**

During this audit, OIG found four rooms at headquarters with computer and telecommunication equipment unsecured. Many of these items are capable of storing PII. The initial acquisition cost of the 144 items reported in SPMS as being located in the four rooms was in excess of \$1 million.

One of the four rooms found unsecured is labeled, "Authorized Personnel Only," and is protected by a card reader, keypad, and door lock (see photo).



During the physical verification of property, OIG auditors gained entry to this room through an unlocked door (i.e., no card or key code was needed) and the room was unattended. A system query by OIG found that this room contained 40 items (primarily high value computer equipment) with an acquisition cost of \$519,168.

Another unsecured room contained system units and telecommunications equipment. The room was protected by a push button deadbolt lock and two keyed locks; however, OIG auditors found the door propped open. A system query found that this room contained 17 items with an initial acquisition cost of \$116,198.

Additionally, as shown in the photograph, auditors were able to enter another unsecured and unattended room containing system units and other computer equipment. The room was not protected by a card reader and the door lock was broken. A system query revealed that this room contained 63 items with an initial acquisition cost of \$367,935. SPMS listed 2 of the 63 items as laptop computers.





Additionally, three headquarters telephone equipment closets were identified as unsecured and unattended in a prior OIG audit report, OIG-05-A-13, *Audit of NRC's Telecommunications Program*, dated June 7, 2005.

Based on these observations, OIG concludes that employees and/or contractors did not exercise due care.

### **Impact on Agency Operations**

IT equipment left unattended and unsecured is more likely to be lost or stolen risking a potential information security breach. In recent months, media reports of laptop computer thefts from various Federal agencies has raised the public's sensitivity to risks associated with the loss of PII. Without due care by employees and contractors to assure that rooms containing IT equipment are appropriately secured, NRC risks a possible release or theft of PII pertaining to employees, licensees, or other stakeholders. A release or theft of PII could result in significant damage to an individual's identity and could compromise the public's confidence in the agency.

Unauthorized access to agency computer or telecommunication systems could lead to potential interruptions of agency operations due to intentional or accidental damage. Unsecured rooms leave NRC vulnerable to intentional damage (i.e. cutting of cables, breaking components, etc.) by a disgruntled employee or contractor or accidental damage by someone that may mistake the space to be a storage area.

### **Recommendations**

OIG recommends that the Executive Director for Operations:

9. Reemphasize the importance of physical security to both employees and contractors using means such as yellow announcements or posters.
10. Periodically survey NRC buildings to ensure that physical security measures (i.e. locks, latches, door closers, badge readers, etc.) are functioning as intended for rooms containing mission critical equipment.

## **D. Policy for Notifying OIG of Missing Property Needs Improvement**

Although MD 13.1 requires OIG notification for incidents involving suspected theft of NRC property, in OIG's opinion, the emphasis on "suspected" theft has caused staff to frequently characterize missing property as simple loss rather than theft. While it is commonly understood that the timeliness of reporting missing property has a direct correlation to the likelihood of recovering it, OIG received few security incident reports regarding missing non-capitalized property in recent years. Unless OIG is notified of incidents of missing accountable property, the opportunity for OIG and other law enforcement officials to assist the agency with recovering property may be missed and potential wrongdoing may go undetected.

During FYs 2005 and 2006, agency staff filed approximately 130 NRC Form 395s for missing property. However, during this same two-year period, staff filed only two security incident reports for suspected theft of NRC property, resulting in OIG notification.

Since the prevailing attitude for missing property emphasizes loss rather than suspected theft, OIG may not have received all reports of missing property that warrant investigation. Unless NRC notifies the OIG Assistant Inspector General for Investigations of all instances requiring Form 395s in a timely manner —

- Cases that may warrant OIG investigation may go undetected, and
- The agency compromises the likelihood of recovering missing property.

### **Recommendations**

OIG recommends that the Executive Director for Operations:

11. Collaborate with OIG to modify NRC Management Directive 13.1, "Property Management," to develop a process for notifying the OIG Assistant Inspector General for Investigations of all reports (i.e., Form 395s) of missing sensitive property (regardless of value) and missing non-sensitive property with a current value of at least \$1,000.
12. Issue interim guidance to accomplish the intent of Recommendation 11, pending revision of Management Directive 13.1.

## **Summary**

Although it is NRC's policy "to manage and use property and supplies in its possession or its contractors' possession effectively and efficiently and to provide sufficient controls to deter or eliminate loss through fraud, waste, or misuse"; the program, as implemented, needs improvement. NRC's property management program lacks adequate controls to assure that—

- SPMS records are accurate,
- Staff alert OIS when IT equipment capable of storing PII is missing,
- Employees and contractors exercise due care to physically secure rooms containing expensive equipment important to the continuity of NRC operations, and
- OIG Assistant Inspector General for Investigations is appropriately notified of missing property.

In light of NRC's imminent growth in FTEs, and anticipated office relocations, it is increasingly important that NRC maintain effective and efficient accounting and control over non-capitalized property. Therefore, now is an opportune time for NRC management to increase accountability for, and improve control of, the property management program. An effective and efficient property management program is essential to assure that staff have the property needed to carry out their duties and assure optimum utilization of staff time, property and fiscal resources.

## **IV. AGENCY COMMENTS**

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At an exit conference held on June 26, 2007, agency managers generally agreed with the audit findings and recommendations and provided comments concerning the draft audit report. We modified the report in response to the comments, as we deemed appropriate. NRC reviewed these modifications and opted not to submit formal written comments for the final version of this report.

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## **V. CONSOLIDATED LIST OF RECOMMENDATIONS**

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OIG recommends that the Executive Director for Operations:

1. Incorporate responsibility for property management into the Senior Executive Service Performance Plan and Appraisal.
2. Incorporate property management duties and responsibilities into all property custodian and alternate property custodian performance evaluations.
3. Develop and implement performance measures to provide transparency of inventory results immediately after the physical inventory is taken.
4. Provide formal periodic mandatory property management training to property custodians and their alternates.
5. Raise the threshold for recording non-sensitive property in SPMS to \$1,000.
6. Modify NRC Form 395 to include a field for reporting instances to OIS when missing NRC property contains or may contain personally identifiable information.
7. Modify Management Directive 13.1, "Property Management," to reference, where applicable, Management Directive 12.5, "NRC Automated Information Security Program," to include procedures for coordinating with OIS regarding missing property that contains or may contain PII.
8. Issue interim guidance to accomplish the intent of Recommendation 7, pending revision of Management Directive 13.1.
9. Reemphasize the importance of physical security to both employees and contractors using means such as yellow announcements or posters.
10. Periodically survey NRC buildings to ensure that physical security measures (i.e. locks, latches, door closers, badge readers, etc.) are functioning as intended for rooms containing mission critical equipment.

11. Collaborate with OIG to modify NRC Management Directive 13.1, "Property Management," to develop a process for notifying the OIG Assistant Inspector General for Investigations of all reports (i.e., Form 395s) of missing sensitive property (regardless of value) and missing non-sensitive property with a current value of at least \$1,000.
12. Issue interim guidance to accomplish the intent of Recommendation 11, pending revision of Management Directive 13.1.

## SCOPE AND METHODOLOGY

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To accomplish the audit objective, OIG identified and analyzed pertinent laws, regulations, authoritative guidance, NRC policies and procedures, and prior relevant NRC OIG reports. OIG also obtained and analyzed information from three other Federal agencies<sup>20</sup> related to their property program best practices.

Working with NRC's statistician, OIG designed and implemented a statistical sample to test the accuracy of location/sub-location information of property records in SPMS for headquarters, Region III and Region IV. The results of the sample were projected to the universe of each of the three locations, with a 95 percent confidence level.

In addition, OIG reviewed the Office of Administration's property program metrics and performed various tests of internal controls associated with non-capitalized property recorded in SPMS.

OIG also conducted interviews with selected headquarters and regional officials to:

- Gain an understanding of NRC's property management operations;
- Determine current issues, problems, or known deficiencies; and
- Assess internal controls.

This audit did not include a review of property assigned to OIG,<sup>21</sup> NRC's Technical Training Center,<sup>22</sup> NRC's Warehouse,<sup>23</sup> or Department of Energy Laboratories.<sup>24</sup> OIG conducted this audit in accordance with Generally Accepted Government Auditing Standards from May 2006 through March 2007.

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<sup>20</sup> OIG obtained and analyzed information from the Office of Personnel Management, the National Oceanic and Atmospheric Administration, and the Small Business Administration.

<sup>21</sup> Property assigned to OIG was removed from the scope because the OIG cannot audit itself.

<sup>22</sup> Property management at NRC's Technical Training Center was excluded from the scope of this audit because it was included in the 2007 Audit of NRC's Technical Training Center.

<sup>23</sup> Property management at NRC's Warehouse was excluded from this audit because OIG plans to conduct an audit on the Warehouse in the future.

<sup>24</sup> Oversight of property purchased with NRC funds by Department of Energy Laboratories was excluded from this audit because OIG plans to perform an audit of the placement and monitoring of work at DOE Laboratories that will include property management.



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