



**UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001**

**OFFICE OF THE
INSPECTOR GENERAL**

September 15, 2014

MEMORANDUM TO: Mark A. Satorius
Executive Director for Operations

Maureen E. Wylie
Chief Financial Officer

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

SUBJECT: AUDIT OF NRC'S SEQUESTRATION PROCESS
(OIG-14-A-20)

The Office of the Inspector General (OIG) conducted an audit of the Nuclear Regulatory Commission's (NRC) sequestration process. During this audit, agency managers responsible for implementing sequestration conveyed an unclear and inconsistent understanding of the basis for identifying \$52 million in sequestration reductions made during the fiscal year (FY) 2013 sequestration process. This occurred because NRC did not have agencywide guidance that established a consistent method for implementing sequestration reductions. Lack of agencywide guidance makes it difficult for managers to implement future sequestration reductions in an efficient manner. This report provides a recommendation to improve the agency's sequestration process.

Please provide information on actions taken or planned within 30 days of this report. Actions taken or planned are subject to OIG followup as stated in Management Directive 6.1.

BACKGROUND

Sequestration is the cancellation of budgetary resources provided by discretionary appropriations or direct spending law. Sequestration has been used as a means to control the budget of the United States since enactment of the Balanced Budget Emergency Deficit Control Act of 1985. Following the enactment of the Balanced Budget Emergency Deficit Control Act, several sequestrations followed in the 1980s and 1990s. In August 2011, the Budget Control Act of 2011 specified cuts to eventually be taken each year from 2013 to 2021.¹ The American Taxpayer Relief Act of 2012, which was enacted on January 2, 2013, specified the start of the sequestration mandate during FY 2013, unless Congress agreed to spending cuts to reduce the deficit to prevent the application of the sequestration mandate. Congress made no such agreement. As a result, the President signed the order to sequester approximately \$85 billion of the FY 2013 budget for the Federal Government. Of this total sequestration amount, NRC's portion was eventually determined to be \$52 million.

Offices Involved in the Sequestration Mandate at NRC

To meet the required sequestration mandate, a variety of offices were involved in the decisions surrounding which areas to cut. In October 2012, the Office of the Executive Director for Operations (OEDO) and the Office of the Chief Financial Officer (OCFO) determined the dollar amounts to be cut from the agency business lines.² On December 27, 2012, the Commission approved a proposed plan and related funding adjustments of \$86 million.³ OEDO and OCFO then communicated the dollar amount of the cuts to the agency, which included deputy executive directors and business line managers. In turn, these managers rolled the dollar figures down to the agency staff in the respective program offices, which were tasked with identifying specific cuts and then reporting the proposed cuts back up to agency executives.

¹ According to NRC staff, the Bipartisan Budget Act of 2013, Pub. L. No. 113-67 (2013) suspended sequestration in fiscal years 2014 and 2015.

² A business line is a component part of the agency under the direction of a "responsible lead office" (e.g., Office of New Reactors (NRO)). Examples of a business line include high level waste, new reactors, and financial management. Business lines often include supporting offices (e.g., Office of Nuclear Regulatory Research does not lead a business line, but has a supporting role for several business lines). Business line managers are the lead staff for establishing internal control processes to reasonably ensure that the agency's internal control complies with Federal and NRC requirements.

³ This estimated calculation, which was later reduced to \$52 million, was based on the Budget Control Act of 2011.

Program offices with business line managers then met with their supporting offices to submit proposed changes to their individual budgets to meet the agency sequestration goal. OCFO and OEDO coordinated the effort from the business line managers and supporting offices for the submission of a comprehensive sequestration contingency plan. On February 5, 2013, the Commission approved NRC's sequestration plan and related funding adjustments of \$52 million.⁴

OBJECTIVE

The audit objective was to evaluate NRC's sequestration process.

FINDING

NRC made \$52 million in sequestration reductions; however, agency managers responsible for implementing sequestration conveyed an unclear and inconsistent understanding of the basis for identifying reductions under the FY 2013 sequestration process. This occurred because NRC did not have agencywide guidance that established a consistent method for implementing sequestration reductions. Lack of agencywide guidance makes it difficult for managers to implement future sequestration reductions in an efficient manner.

Agency Processes Should Be Understood

NRC's sequestration process should be understood by managers and staff participating in the process. To ensure that the sequestration process is understood, senior agency executives must communicate the process to agency managers. The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* specifically states that effective communications should occur in a broad sense with information flowing down, across, and up the organization.

⁴ NRC management officials indicated that the agency's Office of Management and Budget Resource Management Officer notified NRC on January 29, 2013, of the agency's actual sequestration reduction of \$52 million, and that OEDO and OCFO, under severe time constraints, made the final reductions largely without involving the offices based on the reductions that the Commission previously approved by SRM COMSECY-12-0029, *Nuclear Regulatory Commission Sequestration Planning and Funding Information*.

Agency Managers' Understanding of Sequestration Process Is Limited

Agency managers responsible for implementing sequestration conveyed an unclear and inconsistent understanding of the basis for sequestration reductions. Managers from 7 of 13 NRC offices stated that they were unaware of any documented sequestration process. For example, the Office of Nuclear Reactor Regulation, the Office of International Programs, and NRO managers did not have a clear understanding of the process for identifying reductions within their respective organizations once they received the dollar figure from business line managers. In one case, a manager characterized sequestration planning as follows:

- The OEDO/OCFO process for identifying cuts is unknown.
- There is no clarity as to what the agency's process is.
- High level decisions lack clarity.

Staff from 9 of 13 NRC offices described different methods of identifying reductions to accommodate the dollar figures provided by OCFO and OEDO. Managers from the Office of Administration, Office of Nuclear Material Safety and Safeguards, and OCFO pointed to budget formulation (*NRC FY 2013 Budget Instructions, March 2011*) and other generic budget guidance (referred to as the office-level "1-to-N" process) that do not specifically identify a consistent method for implementing sequestration reductions.⁵

Lack of Sequestration Guidance

NRC does not have agencywide guidance that establishes a consistent method to use for sequestration. During this audit, offices pointed to various management directives and OEDO guidance documents on prioritizing sequestration reductions.

Management Directives (MD)

- MD 4.2, *Administrative Control of Funds*, which requires that staff should consider common prioritization when determining resource reallocation.

⁵ On August 17, 2011, the Director, Office of Management and Budget, issued memorandum M-II-30 *Fiscal Year 2013 Budget Guidance* to the heads of departments and agencies that required agencies to submit proposed 5-percent and 10-percent reductions in discretionary appropriations for FY 2013. The NRC's FY 2013 budget submission is consistent with M-II-30 requirements. However, these documents do not specifically identify a consistent method for implementing sequestration reductions.

- MD 4.5, *Contingency Plan for Periods of Lapsed Appropriations*, which includes some guidelines on what to do in the event of budget reductions.
- MD 9.20 *Organization and Functions, Office of the Chief Financial Officer*, which contains information on managing NRC's planning, budgeting, and performance management process to meet the intent and requirements of the Government Performance and Results Act.

However, MD 4.2, MD 4.5, and MD 9.20 do not contain a prioritization process for identifying sequestration reductions.

OEDO Guidance

OEDO has office-level prioritization process guidance, but it is not integrated into MDs or higher level agencywide guidance. On November 19, 2012, the OEDO Assistant for Operations issued OEDO Procedure – 601, *Strategic Add/Shed/Defer Process*, effective December 1, 2012, to office directors and regional administrators. This procedure establishes a consistent approach to the add/shed/defer process including implementation, communication, and documentation of decisions. The procedure, however, was not cited by business line and program office managers, who instead indicated that sequestration reductions were made using NRC's budget formulation guidance. In addition, management did not provide any additional agencywide guidance regarding how expenses/activities should be prioritized under sequestration.

Guidance Would Improve Future Program Operations

The sequestration mandate that began in FY 2013 is scheduled to last approximately 9 years. Improved agencywide guidance that specifically addresses sequestration reductions would help the agency in making the reductions in a more efficient manner. The ability of the agency to prioritize different offices' activities and projects to make the necessary cuts will become increasingly difficult without an agencywide process for prioritizing work under sequestration.

Recommendation

OIG recommends that the Executive Director for Operations and the Chief Financial Officer

1. Collaboratively establish agencywide guidance for future sequestration planning activities and reductions.

AGENCY COMMENTS

During an exit conference on August 28, 2014, OIG and the agency discussed the content of the report and informal comments that the agency provided on August 27, 2014. Agency staff generally agreed with the report finding and recommendation and provided suggestions on the draft report. As appropriate, OIG incorporated into the draft report the informal comments, issues discussed during the exit conference, and the suggestions that the agency provided subsequent to the exit conference. Based on a review of the content contained in the revised draft report, the agency opted not to provide formal comments for inclusion in this final report.

SCOPE AND METHODOLOGY

This audit focused on evaluating NRC's sequestration process. OIG revised this objective to align with the current characterization of the sequestration process. We conducted this performance audit at NRC headquarters in Rockville, MD, and regional offices via telephone and email from November 2013 through July 2014. Internal controls related to the audit objective were reviewed and analyzed. Throughout the audit, auditors were aware of the possibility of fraud, waste, or abuse in the program.

To address the audit objective, OIG auditors reviewed relevant Federal documents, including the Budget Control Act of 2011 and GAO's audit report, *2013 Sequestration: Agencies Reduced Some Services and Investments, While Taking Certain Actions to Mitigate Effects*, GAO-14-244, dated March 2014. The audit team also reviewed Office of Management and Budget issued memoranda, NRC management directives, as well as instruction documents, such as the agency's FY 2013 through FY 2015 budget instructions, and office procedures. Several related internal communication documents pertaining to the FY 2013 sequestration were also reviewed. The audit team requested contract data from NRC program offices for contracts that they identified as potentially affected by sequestration. Additionally, OIG auditors conducted numerous interviews

with NRC staff to obtain further information and insights on the processes used when planning for sequestration.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit work was conducted by R.K. Wild, Team Leader; Kevin Nietmann, Senior Technical Advisor; Vicki Foster, Audit Manager; Jacki Storch, Audit Manager; Timothy Wilson, Senior Management Analyst; Avinash Jaigobind, Senior Auditor; Tincy Thomas, Senior Auditor; Roxana Hartsock, Auditor; and Meredith Johnson, Student Analyst.