
**OFFICE OF
THE INSPECTOR GENERAL**

**U. S. NUCLEAR
REGULATORY COMMISSION**

Audit of AID-Funded Activities

OIG-02-A-04 December 3, 2001

AUDIT REPORT



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December 3, 2001

MEMORANDUM TO: William D. Travers
Executive Director for Operations

Janice Dun Lee
Director, Office of International Programs

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

SUBJECT: AUDIT OF AID-FUNDED ACTIVITIES (OIG-02-A-04)

Attached is the Office of the Inspector General's audit report titled, *Audit of AID-Funded Activities*.

This report reflects the results of our audit to determine whether NRC has adequate management controls in place to manage the AID-funded assistance programs for Russia, Ukraine, Armenia, and Kazakhstan. The audit found that NRC recently made program improvements in a number of areas that reflect positively on the program's management. However, further improvements in the program's management controls are needed. Specifically, the program would benefit from (1) better oversight of the full scope of its activities, (2) a formal approval process for new implementing agreements with other countries, and (3) improved internal coordination and communication. As a result, NRC needs to develop and implement detailed policies and procedures as well as a strategic plan for the program.

At an exit conference held on November 7, 2001, NRC officials generally agreed with the report's findings and recommendations. While agency officials chose not to provide a formal written response for inclusion in the report, they did provide editorial suggestions, which have been incorporated where appropriate.

If you have any questions, please contact Tony Lipuma at 415-5910 or me at 415-5915.

Attachment: As stated

cc: John Craig, OEDO

R. McOsker, OCM/RAM
B. Torres, ACMUI
G. Hornberger, ACNW
G. Apostolakis, ACRS
J. Larkins, ACRS/ACNW
P. Bollwerk III, ASLBP
K. Cyr, OGC
J. Cordes, OCAA
S. Reiter, CIO
J. Funches, CFO
P. Rabideau, Deputy CFO
D. Rathbun, OCA
W. Beecher, OPA
A. Vietti-Cook, SECY
W. Kane, DEDR/OEDO
C. Paperiello, DEDMRS/OEDO
P. Norry, DEDM/OEDO
M. Springer, ADM
R. Borchardt, NRR
G. Caputo, OI
P. Bird, HR
I. Little, SBCR
M. Virgilio, NMSS
S. Collins, NRR
A. Thadani, RES
P. Lohaus, OSP
F. Congel, OE
M. Federline, NMSS
R. Zimmerman, RES
J. Johnson, NRR
H. Miller, RI
L. Reyes, RII
J. Dyer, RIII
E. Merschoff, RIV
OPA-RI
OPA-RII
OPA-RIII
OPA-RIV

EXECUTIVE SUMMARY

BACKGROUND

The Foreign Assistance Act of 1961, as amended, and the Freedom Support Act contain the funding authority to provide nuclear regulatory assistance to countries of the former Soviet Union (FSU). For fiscal years 1992 through 2001, the U. S. Agency for International Development (AID) provided the U. S. Nuclear Regulatory Commission (NRC) approximately \$38,950,000 in funding for assistance programs for Russia, Ukraine, Armenia, and Kazakhstan. The objective of these assistance programs is to increase the capacity and stature of each country's regulatory body to ensure the operational safety of their Soviet-designed reactors.

PURPOSE

The objective of the audit was to determine whether NRC has adequate management controls in place to manage the AID-funded assistance programs for Russia, Ukraine, Armenia, and Kazakhstan.

RESULTS IN BRIEF

NRC has recently made program improvements in a number of areas. Specific progress includes, but is not limited to, (1) substantially reducing the amount of unobligated funds that had to be returned to the U. S. Treasury, (2) requesting and receiving AID preapproval to use carryover funds in increasing amounts to avoid funding lapses, (3) consolidating program responsibilities into the Office of International Programs (OIP), and (4) establishing an International Council comprised of NRC executives to ensure a focused integrated international program.

While these improvements reflect positively on the program's management, further improvements in the program's management controls are needed. Specifically, the program would benefit from (1) better oversight for the full scope of its activities, (2) a formal approval process for new implementing agreements with other countries, and (3) improved internal coordination and communication. These conditions exist because OIP does not have detailed policies or procedures to address these control issues and considers the need for them to be a low priority. Effective implementation of these improvements will make the program less susceptible to fraud, waste, and mismanagement.

Additionally, NRC has not developed a strategic plan for the program, as recommended by the U. S. General Accounting Office (GAO).

RECOMMENDATIONS

This report makes five recommendations to the Director, OIP, in coordination with the Executive Director for Operations. Four recommendations are made to strengthen controls and one recommendation addresses the need to complete action on the GAO recommendation.

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ABBREVIATIONS AND ACRONYMS

DCPM	Division of Contracts and Property Management
AID	U. S. Agency for International Development
EDO	Executive Director for Operations
FSU	former Soviet Union
FY	fiscal year
GAO	U. S. General Accounting Office
NRC	U. S. Nuclear Regulatory Commission
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OIP	Office of International Programs
OMB	Office of Management and Budget

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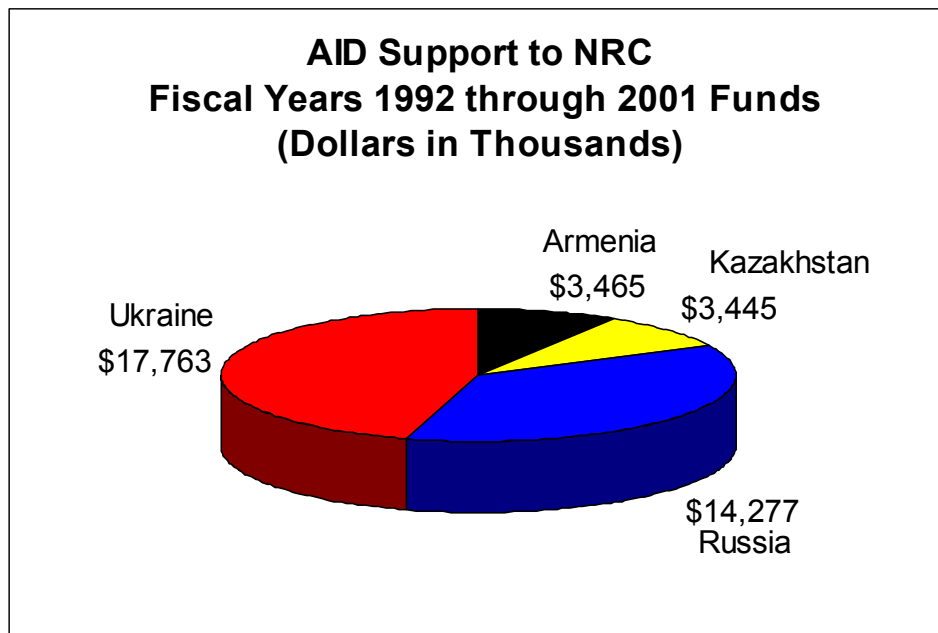
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I. BACKGROUND

The Foreign Assistance Act of 1961, as amended, and the Freedom Support Act contain the funding authority to provide nuclear regulatory assistance to countries of the former Soviet Union (FSU). For fiscal years 1992 through 2001, the U. S. Agency for International Development (AID) provided the U. S. Nuclear Regulatory Commission (NRC) approximately \$38,950,000 in funding for assistance programs for Russia, Ukraine, Armenia, and Kazakhstan. The following chart shows a breakdown of funding by country, as provided by NRC.



The objective of these assistance programs is to increase the capacity and stature of each country's regulatory body to ensure the operational safety of their Soviet-designed reactors.

NRC's program for providing foreign assistance is contained in the agency's International Nuclear Safety Support strategic arena. This strategic arena includes responsibility for international nuclear safety and regulatory policy formulation, import/export licensing for nuclear materials and equipment, treaty implementation, international information exchange, international safety and safeguards assistance, and deterring nuclear proliferation. To accomplish this effort, NRC requested funding of \$5.1 million and 39 full time equivalent positions for fiscal year (FY) 2002. Of those amounts, NRC's Office of International Programs (OIP), which oversees the agency's international program, has a projected budget of \$3.1 million and 25 full-time equivalent positions for FY 2002. The balance of funding and staff is designated for other NRC offices, which supplement OIP's efforts.

II. PURPOSE

The objective of the audit was to determine whether NRC has adequate management controls in place to manage the AID-funded assistance programs for Russia, Ukraine, Armenia, and Kazakhstan. Appendix A contains the scope and methodology of this review.

III. FINDINGS

NRC has recently made several program improvements to address Office of the Inspector General (OIG) and U. S. General Accounting Office (GAO) concerns, and to better manage the NRC's AID-funded FSU program. However, additional improvements are needed to establish effective management controls. OIP also needs to develop a strategic plan for NRC's nuclear safety assistance activities, as recommended by GAO.

A. PROGRAM IMPROVEMENTS MADE SINCE OIG AND GAO REVIEWS

During FY 1998, the OIG issued a report on NRC's assistance programs for Russia, Ukraine, Kazakhstan, and Armenia. That report noted two issues that affected the program's efficiency: (1) two offices each had program responsibilities that created the potential for duplication, and (2) AID's method for reallocating funds impaired program activities.

In April 2000, GAO issued a report¹ that expressed concerns about the continuing operation of Soviet-designed nuclear power reactors. GAO made recommendations to the Secretary of Energy and the NRC Chairman to improve the management of the nuclear safety assistance program and maximize the use of program funds. GAO made four recommendations to the NRC Chairman. These recommendations included integrating program office responsibilities (into a single office) and improving how NRC monitors the program's funding requirements.

NRC has recently made program improvements in many of these areas. Specific progress includes, but is not limited to, (1) substantially reducing the amount of unobligated funds that had to be returned to the U. S. Treasury, (2) requesting and receiving AID preapproval to use carryover funds in increasing amounts to avoid funding lapses, (3) consolidating program responsibilities into OIP, and (4) establishing an International Council comprised of agency executives to ensure a focused integrated international program.

¹ *Nuclear Safety -- Concerns With the Continuing Operation of Soviet-Designed Nuclear Power Reactors*, GAO/RCED-00-97, April 2000.

B. MANAGEMENT CONTROLS NEED IMPROVEMENT

The FSU program would benefit from making improvements to management controls. Controls, as defined by the Office of Management and Budget (OMB), are developed to ensure that programs achieve intended results and maintain their integrity. The program would benefit from (1) better oversight for the full scope of its activities, (2) a formal approval process for new implementing agreements with other countries, and (3) improved internal coordination and communication. These conditions exist because OIP does not have detailed policies or procedures to address these control issues and considers the need for them to be a low priority. Effective implementation of these improvements will make the program less susceptible to fraud, waste, and mismanagement.

Guidance promulgated by both OMB and GAO serves as criteria that should heighten OIP management's awareness of the need for cost-effective management controls in day-to-day program operations. OMB Circular No. A-123, "Management Accountability and Control," revised June 21, 1995, encourages agency managers to continuously monitor and improve the effectiveness of management controls associated with their programs. The circular states:

Management controls are the organization, policies, and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported, and used for decision making.

In addition, GAO's internal control standards² explain that internal controls are a key factor in helping program managers to achieve agencies' missions, program results, and minimize operational problems.

FSU Program Oversight Needs Improvement

OIP management has not established routine procedures covering all aspects of management and oversight of its FSU program. OIP staff could not summarize or provide the status of all the individual projects that comprise the program or the issues related to each project. For example, OIP has not compiled a list or matrix that concisely identifies and consolidates the program's active work (contracts/implementing agreements). Ideally, a list/matrix of active work would include a brief description of each contract/agreement and contain such

² *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, November 1999.

information as contract type, period of performance, key financial information, status, and any known problems. Periodic reporting of this type of information would provide a routine means by which OIP management could monitor the progress of individual projects that comprise the program. Moreover, periodic reporting facilitates comparisons of data that can lead to early identification of adverse trends or other unsatisfactory conditions. This, in turn, fosters prompt risk assessments, which can lead to necessary and timely actions to prevent small problems from becoming large problems. Clearly, to be optimally effective, OIP staff and management must have a routine means of tracking the status of the program's ongoing projects.

OIP officials indicated that annual memoranda of meetings between NRC representatives and certain foreign officials provide some control over ongoing work. Since these memoranda are prepared only annually, they alone are insufficient for keeping OIP management timely informed of developments concerning the ongoing projects throughout the year.

A Formal Approval Process for Implementing Agreements Is Necessary

Although the agency uses "implementing agreements" as a means to facilitate assistance to the FSU countries, NRC lacks formal written guidance for the content, scope, and approval process for these agreements. Although not defined in any agency policy or guidance, implementing agreements serve as mechanisms to render assistance to foreign countries.

Implementing agreements are not consistently reviewed or approved by NRC's offices that have the most contractual knowledge: the Office of General Counsel (OGC) and the Office of Administration/Division of Contracts and Property Management (DCPM). An OGC official expressed concern that OGC may not routinely be provided all necessary documents/agreements that require OGC review and approval. The official was unable to assert whether OGC had reviewed all implementing agreements. This condition heightens the vulnerability that NRC may sign an inadequately or improperly worded agreement.

DCPM was involved in the review of only one of several implementing agreements. DCPM's role in implementing agreements has not been defined for consistent prospective application. Neither OIP nor DCPM could explain why DCPM had not reviewed the other agreements. Representatives from OGC and DCPM agree that NRC needs formal guidance on the process for reviewing and approving implementing agreements.

The FSU Program Needs Improved Internal Coordination and Communication

While OIP has overall program oversight, individual projects under this program are managed by project managers who work in OIP or in various NRC offices

(such as Incident Response Operations, and the Office of Nuclear Regulatory Research). However, these project managers do not routinely meet to exchange information or discuss common problems. Accordingly, project managers expressed the need for and desire to establish and participate in project manager counterpart meetings. Upon learning of this from OIG, the Director, OIP, immediately recognized the merits associated with the idea and agreed to arrange for such meetings. As an added benefit, implementing the counterpart meetings will facilitate OIP's oversight of the work done by the program offices.

FSU Program Lacks Formal Policies and Procedures

The FSU program lacks adequate management controls because no detailed policies and procedures exist to establish such controls. OIP recognizes and agrees with the need for policies and procedures. However, OIP explained that because of competing workload priorities and resource constraints, a low priority is accorded to developing and implementing policies and procedures specifically related to program oversight and the implementing agreement approval process. Sound management controls should be an integral part of any program, and as such, according them a low priority is not appropriate. The agency has recognized the importance of internal controls by making them a critical rating subelement in senior officials' performance plans.

Inadequate Controls Threaten Program Success

Inadequate management controls threaten OIP's ability to accomplish the goals of the FSU program. With enhanced oversight, OIP can more effectively manage or coordinate all projects under the FSU program. Routine monitoring through a comprehensive program guide, such as a list and status of all projects, would enable OIP to evaluate progress and take prompt action should a project begin to stray from its initial guidelines. The absence of a formal policy for approving implementing agreements fosters an environment where organizational responsibilities are unclear, and implementing agreements may not contain the requisite legal and technical requirements. Enhanced coordination and communication among project managers working in OIP and other offices would create an environment where each office pursues common goals. Formal policies would provide more structure and discipline to ongoing, but undefined processes.

Inadequate controls increase the potential for fraud, waste, and mismanagement and could jeopardize business continuity. Business continuity is threatened because a change in OIP program managers, combined with the absence of periodic status reports on active work, could result in serious delays or other harm to the continued operation of the program.

Summary

The management controls for the FSU program need priority attention. OMB and GAO have promulgated authoritative guidance on the need for and objectives of sound management controls. A control environment that places a high priority on building fundamental management controls into day-to-day processes lessens opportunities for operational problems and helps to ensure programmatic success. Assigning management controls a low priority because of other work or resource constraints runs counter to the basic objectives of effective program management. Management controls are intended to be an integral part of, not an adjunct to, sound program management. Furthermore, the agency has recognized the importance of internal controls by making them a critical rating subelement in senior officials' performance plans.

RECOMMENDATIONS

OIG recommends that the Director, OIP, in coordination with the Executive Director for Operations (EDO):

1. Develop a process for tracking the status of the program's ongoing projects.
2. Issue formal guidance in a Management Directive or other appropriate vehicle that clearly sets forth NRC policy, procedures, and guidance on implementing agreements.
3. Pending issuance of the formal guidance on implementing agreements, issue timely interim guidance.
4. Convene quarterly project manager counterpart meetings.

C. GAO RECOMMENDATIONS ARE NOT FULLY IMPLEMENTED

NRC closed three of the four recommendations included in GAO's April 2000 report, *Nuclear Safety -- Concerns With the Continuing Operation of Soviet-Designed Nuclear Power Reactors*, GAO/RCED-00-97. The closed recommendations deal with integrating assistance activities, monitoring to ensure the timely obligation of funds, and the hiring of in-country interpreters. However, action is overdue to develop a strategic plan as GAO recommended. OIP management attributes the delay to limited resources. GAO explains that without a long-term strategic plan, NRC cannot effectively manage the program.

GAO recommended that the NRC Chairman “ . . . *develop a strategic plan for the Commission’s nuclear safety assistance activities that, at a minimum, establishes program priorities and goals, ways to measure how well the goals are being met, and time frames for meeting the goals.*”

In November 2000, the Director, OIP, advised the Commission that it was developing the strategic plan and planned to incorporate it into OIP’s FY 2001 Operating Plan by June 30, 2001. The Director, OIP, recently informed OIG that implementing action was delayed due to limited resources and that action will be completed by November 30, 2001.

Because AID provides funding for the NRC’s FSU program, OIG asked an AID official for suggestions to improve the program. The official believes that NRC should have a framework for measuring the program’s progress. AID would like to assess the need for continued resources based on the competence or institutional viability in each country receiving assistance. AID could then determine the point at which assistance can be reduced, discontinued, or met by other donors. Completing action on GAO’s recommendation for a strategic plan would not only address AID’s concern, it would also provide formal program guidance and direction and result in a more effectively managed program.

RECOMMENDATION

OIG recommends that the Director, OIP, in coordination with the EDO:

5. Complete final action on the outstanding GAO recommendation regarding strategic planning by November 30, 2001.

IV. CONSOLIDATED LIST OF RECOMMENDATIONS

OIG recommends that the Director, OIP, in coordination with the EDO:

1. Develop a process for tracking the status of the program's ongoing projects.
2. Issue formal guidance in a Management Directive or other appropriate vehicle that clearly sets forth NRC policy, procedures, and guidance on implementing agreements.
3. Pending issuance of the formal guidance on implementing agreements, issue timely interim guidance.
4. Convene quarterly project manager counterpart meetings.
5. Complete final action on the outstanding GAO recommendation regarding strategic planning by November 30, 2001.

SCOPE AND METHODOLOGY

To assess whether the U. S. Nuclear Regulatory Commission (NRC) has adequate management controls in place to manage the U. S. Agency for International Development - funded assistance programs for the countries of the former Soviet Union, the Office of the Inspector General (OIG) reviewed and analyzed pertinent program data, authoritative guidance, and prior OIG and U. S. General Accounting Office reports which focused on the management of nuclear safety assistance. OIG conducted interviews with selected NRC representatives and officials from the U. S. Department of State and the U. S. Agency for International Development to gain an understanding of the program and to determine current issues, problems, or known deficiencies. At NRC headquarters, OIG spoke with personnel in the Offices of the Chairman, General Counsel, International Programs, Chief Financial Officer, Executive Director for Operations, Administration, Nuclear Material Safety and Safeguards, Nuclear Regulatory Research, Nuclear Reactor Regulation, and Incident Response Operations.

Management controls related to the audit objective were reviewed and analyzed. Throughout the review, auditors were aware of the possibility or existence of fraud, waste, or misuse in the program. OIG conducted the audit in accordance with Generally Accepted Government Auditing Standards from June through September 2001.

The major contributors to this report were Anthony Lipuma, Team Leader; and Steven Zane, Audit Manager.