
**OFFICE OF
THE INSPECTOR GENERAL**

**U.S. NUCLEAR
REGULATORY COMMISSION**

Review of NRC's Simplified
Acquisition Procedures

OIG-02-A-10 May 3, 2002

AUDIT REPORT



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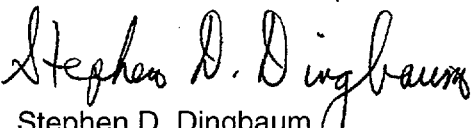


UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

May 3, 2002

OFFICE OF THE
INSPECTOR GENERAL

MEMORANDUM TO: William D. Travers
Executive Director for Operations

FROM: 
Stephen D. Dingbaum
Assistant Inspector General for Audits

SUBJECT: REVIEW OF NRC'S SIMPLIFIED ACQUISITION PROCEDURES
(OIG-02-A-10)

Attached is the Office of the Inspector General's audit report titled, *Review of NRC's Simplified Acquisition Procedures*.

This report reflects the results of our review to determine whether NRC's policies governing simplified acquisitions are in accordance with applicable laws and regulations, and whether management controls for purchase card use provide reasonable assurance to deter and prevent loss through fraud, waste, or misuse. This audit focused on NRC headquarters purchase card usage and oversight. Regional purchase card usage will be assessed separately. The review determined that NRC's simplified acquisition policies are in accordance with applicable laws and regulations and the agency satisfied the Federal Acquisition Regulation requirement that the purchase card be used as the preferred method for making micro-purchases (which resulted in approximately \$395,000 in cost avoidance). However, NRC's purchase card policies need to be incorporated into the agency's formal policy system and opportunities exist to strengthen management controls. Specifically, the purchase card program would benefit from more comprehensive agency guidance, improvements to NRC quality control reviews, and a strengthened separation clearance process.

At an exit conference held on April 17, 2002, 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
J. Dunn Lee, OIP
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, STP
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
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OPA-RIV

I. BACKGROUND

Simplified acquisition procedures are the methods prescribed in Federal Acquisition Regulation (FAR) Part 13 for making purchases of supplies or services that do not exceed \$100,000, with certain exceptions. These procedures aim to reduce administrative costs, improve opportunities for small businesses, promote efficiency and economy in contracting, and avoid unnecessary burdens for agencies and contractors. Simplified acquisition methods include the government-wide commercial purchase card,⁴ purchase orders, and blanket purchase agreements.

United States General Accounting Office (GAO) audits of other agencies found that lack of training and insufficient management controls resulted in fraudulent, improper and abusive transactions using the purchase card. Accordingly, our audit focused on the United States Nuclear Regulatory Commission's (NRC) use of the purchase card.

FAR 13.201(b) explains that the purchase card is the preferred method to pay for micro-purchases, which are defined as "an acquisition of supplies or services (except construction), the aggregate amount of which does not exceed \$2,500, except that in the case of construction, the limit is \$2,000."

In addition, the Chief Financial Officers Council goal for purchase card use is more than 90 percent of purchases under \$2,500. The Office of Management and Budget (OMB) and the Chief Financial Officers Council reported that the number of micro-purchases made with a purchase card increased from under 4 million in 1995 to over 18 million in 1999.

As of January 2002, NRC had 121 purchase card holders and 52 approving officials. During FY 2001, NRC purchase card holders made 5,810 micro-purchase transactions totaling approximately \$2.4 million. Throughout this report, the terms "bankcard" and "purchase card" are used interchangeably. "Purchase card" is the more currently used term.

NRC's policies and guidance for purchase cards are included in: (1) Management Directive 11.1, *NRC Acquisition of Supplies and Services*; (2) NRC's purchase card pamphlet, *The Nuclear Regulatory Commission's Procedures for the Use of the U.S. Government BankCard*, October 1998,⁵ and (3) an agency instruction issued by the Division of Contracts and Property Management (DCPM).⁶

⁴ The FAR defines a "Governmentwide commercial purchase card" as "a purchase card, similar in nature to a commercial credit card, issued to authorized agency personnel to use to acquire and to pay for supplies and services."

⁵ This pamphlet serves as a 19 page guide for purchase card holders and approving officials.

⁶ DCPM Instruction 96-06 Revision 2, *Simplified Acquisitions: Agency Procedures for Award of Orders Under GSA Federal Supply Schedule Contracts*, July 30, 2001.

The Program Coordinator is responsible for management of the agency's Purchase Card Program and serves as the purchase card holders' point-of-contact for issues including: (1) the propriety of proposed purchases; (2) changes in name, address, or telephone number; and (3) changes in spending limits.

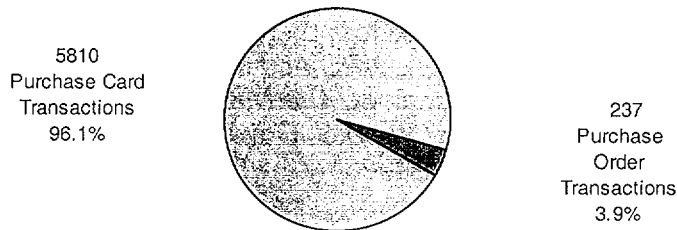
II. PURPOSE

The objectives of this audit were to determine whether NRC's (1) policies governing simplified acquisitions are in accordance with applicable laws, executive orders, and regulations; and (2) management controls for purchase card use provide reasonable assurance to deter and prevent loss through fraud, waste, or misuse. The audit focused on NRC headquarters purchase card usage and oversight. Regional purchase card usage will be assessed separately. Appendix A contains the audit's detailed scope and methodology.

III. FINDINGS

NRC's simplified acquisition policies are in accordance with applicable laws, executive orders, and regulations such as the FAR. The agency's broad policies recognize the need for oversight and the proper authorization and execution of transactions. The following chart, based on NRC provided data, shows that NRC made 96.1 percent of its 6,047 micro-purchase transactions during FY 2001 using purchase cards. Thus, NRC satisfied the FAR requirement that the purchase card be used as the preferred method for making micro-purchases.

FY 2001 Micro-Purchase Transactions



The Procurement Executives Council⁷ determined that using a purchase card rather than a purchase order saved the Federal government \$66 per transaction during FY 2000.⁸ For FY 2001, the Office of the Inspector General (OIG) calculated the savings per transaction to be \$68.⁹ Thus, NRC's 5,810 micro-purchases made by purchase card during FY 2001 resulted in savings of approximately \$395,000.

While NRC's simplified acquisition policies are in accordance with applicable laws and regulations, the agency's purchase card policies are not incorporated into its formal policy system. As a result, the agency may not be able to hold employees legally accountable if they misuse purchase cards.

Most management controls for micro-purchases are working as intended; however, opportunities exist to strengthen other relevant management controls. OIG compliance testing of 155 purchase card transactions made during FY 2001 disclosed one recurring questionable transaction,¹⁰ which was referred to DCPM officials for appropriate action.

A. PURCHASE CARD POLICIES SHOULD BE INCORPORATED INTO NRC's FORMAL POLICY SYSTEM

NRC's acquisition regulations are codified in the Code of Federal Regulations, Title 48, *Federal Acquisition Regulations System*. Subpart 2001.3 states that "Policy, procedures, and guidance of an internal nature will be promulgated through internal NRC issuances such as Management Directives or Division of Contracts and Property Management Instructions." However, the agency's management directives and DCPM instructions do not contain a reference to the pamphlet by title. As a result, violations of the purchase card requirements may not be legally enforceable.

The detailed instructions for employees holding a purchase card and for approving officials are contained in *The Nuclear Regulatory Commission's Procedures for the Use of the U.S. Government BankCard*. This pamphlet serves as a guide for purchase card holders and approving officials. However, the requirements of the pamphlet are neither included nor incorporated by reference in NRC's management directives or DCPM instructions. To be legally

⁷ An interagency council comprised of procurement executives in the Executive Branch established to provide a senior level forum for monitoring and improving the Federal Acquisition System.

⁸ The Procurement Executives Council's *Government-wide Acquisition Performance Measurement Program*, April 2000.

⁹ OIG escalated the FY 2000 savings per transaction figure of \$66 by a 3 percent annual inflation factor, used by the Procurement Executives Council, to compute a FY 2001 savings per transaction of \$68.

¹⁰ The recurring questionable transaction is a monthly charge that represents 11 of the 155 transactions sampled (2 transactions at \$75 each and 9 transactions at \$80 each).

enforceable, NRC's requirements for purchase card use and approval must be incorporated or referenced in the agency formal system for promulgating its policies.

RECOMMENDATION

OIG recommends that the Executive Director for Operations:

1. Incorporate the purchase card pamphlet into NRC's management directives or Division of Contracts and Property Management instructions.

B. OPPORTUNITIES EXIST TO STRENGTHEN MANAGEMENT CONTROLS

The Purchase Card Program would benefit from improvements to management controls. Controls, as defined by the OMB, are developed to ensure that programs achieve intended results and maintain their integrity. The Purchase Card Program would benefit from (1) more comprehensive agency guidance, (2) improvements to NRC quality control reviews, and (3) a strengthened separation clearance process. These conditions were not identified because DCPM management believed that existing controls were sufficient. Strengthening existing controls will lessen agency vulnerabilities to fraud, waste, or misuse.

Guidance promulgated by both OMB and GAO provides criteria for effective management controls. 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.

Additionally, GAO's internal control standards¹¹ explain that internal controls are a key factor in helping program managers to accomplish agencies' missions, achieve program results, and minimize operational problems. GAO's internal control standards particularly relevant to this review address information and communications, monitoring, and appropriate documentation of transactions and internal control. GAO's guidance states that "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination."

¹¹ Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, November 1999.

Agency Guidance Needs to be More Comprehensive

NRC's pamphlet and Management Directive 11.1 lack policies and/or guidance in the following key areas: (1) timely notification to the Assistant Inspector General for Investigations regarding the fraudulent use, loss, or theft of a purchase card; (2) need for purchase card holders and approving officials to receive periodic refresher training; and (3) a requirement for the Program Coordinator to clearly document approvals for exceptions to purchase card policy and have the documentation readily available for examination. In addition, the NRC internal website does not contain current purchase card guidance.

Office of the Inspector General Notification

In accordance with the Inspector General Act, the Assistant Inspector General for Investigations supervises the performance of investigative activities and inquiries relating to NRC programs and operations. The OIG refers criminal matters to the Department of Justice for prosecution and refers administrative offenses to agency managers for action.

The pamphlet and other agency policy does not require that the Assistant Inspector General for Investigations be informed of the fraudulent use, loss, or theft of a purchase card. Such notification must occur before the Assistant Inspector General for Investigations can initiate an investigation. Assistant Inspector General for Investigations representatives emphasized a direct correlation between the timeliness of notification and the likelihood of identifying the wrongdoer.

Refresher Training

The pamphlet explains that prospective purchase card holders and approving officials are required to complete the agency's training course, "NRC's Procedures for Use of the U.S. Government BankCard;" however, there is no mention of refresher training. The Program Coordinator explained that in her 5 years as coordinator, DCPM provided only five one-half day refresher training sessions during the period December 19, 2000 - January 24, 2001. To date, NRC has not prescribed a frequency or time interval within which refresher training is to be given.

Some of the purchase card holders/approving officials interviewed expressed the desire for refresher training. Without periodic refresher training, purchase card holders and approving officials may not properly perform the full scope of their responsibilities.

Documentation of Exception Approvals

While the pamphlet identifies and describes prohibited purchases, it also explains that the prohibitions are not absolute. When special circumstances warrant exception to the policy, purchase card holders are advised to obtain the

necessary approval prior to making the purchase. The Program Coordinator receives and approves most exception requests verbally via the telephone. Such approvals are not consistently documented, nor are they readily available for examination, as required by GAO internal control standards.

OIG examined many transactions that initially appeared to be exceptions to the guidance for purchase card use. Because the Program Coordinator often approved exceptions verbally, written documentation to support such approvals was generally not available.

Internal Website Needs Updating

Purchase card guidance on the internal website is not current and consistent with other agency guidance. For example, the pamphlet contains significant responsibilities and guidance for purchase card holders and approving officials. Under a heading that is identical to the pamphlet title, the agency's internal website also contained purchase card responsibilities and guidance. A comparison of the material in the pamphlet with the electronic version found on the internal website revealed that the following responsibilities and guidance are included in the pamphlet but were not found on the website as of November 29, 2001: (1) "How do I handle Fiscal Year end actions?" (2) "Thirty-Day Approving Official Limit," (3) "Approving Official review of the statement of account," and (4) "REBATES."

Upon notification of these and other differences, DCPM representatives promptly removed the electronic guidance from the website and explained that the pamphlet contains the current official guidance. The internal website currently states, "The Bankcard Procedures are in the process of being updated. We will notify you when the new Bankcard procedures are complete and reposted."

RECOMMENDATIONS

OIG recommends that the Executive Director for Operations:

2. Revise the purchase card pamphlet to require timely notification to the Assistant Inspector General for Investigations regarding the fraudulent use, loss, or theft of a purchase card.
3. Revise the purchase card pamphlet to require periodic refresher training every two years.
4. Revise the purchase card pamphlet to require the Program Coordinator to document approved exceptions to purchase card use.
5. Eliminate or update the section of the internal website concerning purchase cards.

Agency Quality Control Reviews Need Improvement

DCPM performs quality control reviews of the purchase card program to monitor the appropriateness of card usage. These reviews could be strengthened by enhancing the scope and frequency of these reviews and by clarifying the results reported to NRC management.

Review Scope and Frequency

The Program Coordinator uses a limited checklist to facilitate her annual review of headquarters purchase card transactions. The checklist aids in testing compliance with various purchase card requirements. It also promotes uniformity and consistency in testing the headquarters purchase card transactions that are selected for review. However, the checklist does not include some key attributes listed in the FAR. For example, the checklist does not include: (1) does the price appear fair and reasonable? (2) is the purchase authorized by law or regulation? and (3) is the purchase improperly split into more than one purchase (commonly known as a split purchase)?¹² Expanding the checklist to include these steps would result in a more comprehensive analysis. Absent these critical compliance tests, NRC managers have inadequate information to evaluate program performance.

DCPM's oversight of regional purchase card transactions is inconsistent with its headquarters oversight. Regional reviews do not use the same evaluation criteria used at headquarters and the reviews are not conducted with the same frequency. For example, the Program Coordinator performs compliance tests of headquarters purchase card transactions annually. In contrast, the last review of regional purchase card transactions was completed in 1999, using different criteria from that used at headquarters. Furthermore, DCPM has not established a frequency or time interval for regional reviews.

Reporting Results

The memoranda used to report the annual results of the FY 2000 purchase card reviews at headquarters are inaccurate and can be misleading. Each memorandum sent to headquarters Office Directors incorrectly reported that all purchase card transactions were reviewed. However, the Program Coordinator reviewed only three months of the annual purchase card transactions. Furthermore, the number of issues identified by the Program Coordinator were not always reported. For example, one memorandum states in part, "We also found several deficiencies with respect to one cardholder's BankCard log sheets...." As a result of this example, which does not report the precise number of exceptions, agency managers are unable to determine the error rate (an important aspect of program performance.)

¹² Split purchases are intended to avoid any requirement that applies to purchases that exceed the micro-purchase threshold of \$2,500.

Office Directors must have reliable and timely reports that communicate the universe, sample, errors, and error rate in order to obtain a true picture of their offices' purchase card performance. The reporting of limited and/or inaccurate information to management can lead to incorrect conclusions, which in turn, can lead to improper decision making.

RECOMMENDATIONS

OIG recommends that the Executive Director for Operations:

6. Enhance the checklist for quality control reviews to include the following key Federal Acquisition Regulation requirements: pricing, authorization, and whether a transaction is a split purchase.
7. Strengthen reports on quality control reviews of purchase card transactions by including information on the universe, sample, errors, and error rate to assist in program evaluation and decision making.
8. Require annual review of purchase card transactions in the regions and in headquarters using the same or similar evaluation criteria.

Separation Clearance Process Requires Revision

Current procedures do not ensure that a purchase card holder returns the purchase card prior to separation from NRC. The pamphlet merely states that if a purchase card holder leaves the agency, the individual must notify the Director of the Office of Administration in writing (with a copy to his/her Office Director), as well as return the purchase card cut in half. This control relies solely on an individual rather than the agency's system or process to ensure a purchase card is returned.

DCPM officials agreed that NRC Form 270, "Separation Clearance," should be enhanced to require that the Program Coordinator serve as a clearing official to ensure that employees return their purchase cards prior to separation. Such action will reduce NRC's vulnerability to loss, misuse, or theft that could result from a purchase card holder's failure to return a purchase card prior to leaving the agency.

RECOMMENDATION

OIG recommends that the Executive Director for Operations:

9. Revise NRC Form 270, "Separation Clearance," to require that the Program Coordinator serve as a clearing official to ensure that employees return their purchase cards prior to separating from the agency.

Summary

To hold employees legally accountable, the agency purchase card policies should be incorporated into NRC's formal policy system, which includes management directives and DCPM instructions. Furthermore, NRC's purchase card program would benefit from improved management controls that will better ensure the program's integrity. Management controls require strengthening in three areas: (1) agency guidance, (2) agency quality control reviews, and (3) the separation clearance process. The effort needed to improve these controls is minimal and the improved controls should lessen NRC's vulnerability to fraud, waste, or misuse of purchase cards.

IV. CONSOLIDATED LIST OF RECOMMENDATIONS

OIG recommends that the Executive Director for Operations:

1. Incorporate the purchase card pamphlet into NRC's management directives or Division of Contracts and Property Management instructions.
2. Revise the purchase card pamphlet to require timely notification to the Assistant Inspector General for Investigations regarding the fraudulent use, loss, or theft of a purchase card.
3. Revise the purchase card pamphlet to require periodic refresher training every two years;
4. Revise the purchase card pamphlet to require the Program Coordinator to document approved exceptions to purchase card use.
5. Eliminate or update the section of the internal website concerning purchase cards.
6. Enhance the checklist for quality control reviews to include the following key Federal Acquisition Regulation requirements: pricing, authorization, and whether a transaction is a split purchase.
7. Strengthen reports on quality control reviews of purchase card transactions by including information on the universe, sample, errors, and error rate to assist in program evaluation and decision making.
8. Require annual review of purchase card transactions in the regions and in headquarters using the same or similar evaluation criteria.
9. Revise NRC Form 270, "Separation Clearance," to require that the Program Coordinator serve as a clearing official to ensure that employees return their purchase cards prior to separating from the agency.

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SCOPE AND METHODOLOGY

To accomplish the audit objectives, OIG reviewed and analyzed pertinent laws, executive orders, regulations, and prior GAO reports. In addition, OIG identified, analyzed and compared NRC's guidance with the aforementioned criteria. OIG conducted interviews with selected NRC officials to gain an understanding of the agency's simplified acquisition process, with an emphasis on various aspects of the Purchase Card Program. Interviews were conducted to determine current issues, problems, known deficiencies and to assess management controls. OIG interviewed personnel in the Offices of Administration, Chief Financial Officer, Human Resources, Chief Information Officer, General Counsel, Nuclear Reactor Regulation, Investigations, International Programs, Nuclear Regulatory Research, Nuclear Material Safety and Safeguards, and Small Business and Civil Rights. In addition, OIG met with personnel in Incident Response Operations, the Advisory Committee on Reactor Safeguards, and the Atomic Safety and Licensing Board Panel. OIG also interviewed personnel from all four Regions.

OIG conducted various compliance tests of headquarters FY 2001 purchase card transactions. Purchase card transactions were selected for testing based on (1) a statistical sample and (2) a judgmental sample based on possible prohibited transactions.

OIG reviewed and analyzed management controls related to the audit objectives. Throughout the review, auditors were aware of the possibility or existence of fraud, waste, or misuse in the program. OIG conducted this audit in accordance with Generally Accepted Government Auditing Standards from November 2001 through January 2002.

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