

AUDIT REPORT

Audit of NRC's Accounting and Control
Over Time and Labor Reporting

OIG-08-A-11 June 17, 2008



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OFFICE OF THE
INSPECTOR GENERAL

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

June 17, 2008

MEMORANDUM TO: R. William Borchardt
Executive Director for Operations

James E. Dyer
Chief Financial Officer

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

SUBJECT: AUDIT OF NRC'S ACCOUNTING AND CONTROL OVER
TIME AND LABOR REPORTING (OIG-08-A-11)

Attached is the Office of the Inspector General's (OIG) audit report, *Audit of NRC's Accounting and Control Over Time and Labor Reporting*.

This report presents the results of the subject audit performed by Leonard G. Birnbaum and Company, under contract to the NRC Office of the Inspector General. Agency comments provided at the exit conference on April 28, 2008, have been incorporated, as appropriate, into this report.

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, Team Leader, Financial and Administrative Audit Team, at 415-5912.

Attachment: As stated

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**Nuclear Regulatory Commission
Office of the Inspector General
Office of Audits**

**Independent Accountant's Report
On the Application of Agreed-Upon Procedures
On the Nuclear Regulatory Commission's
Time and Labor System**

**Contract No.: SAQMPD040033
Order No. : DR-36-07-346**

Report Date: May 8, 2008

TABLE OF CONTENTS

<u>DESCRIPTION</u>	<u>PAGE</u>
Executive Summary	1
Abbreviations and Acronyms	3
Independent Accountant's Report	4
• Background	4
• Purpose & Scope	4
• Findings	5
• Consolidated List of Recommendations	11
• Methodology	12
• Agency Comments	14

EXECUTIVE SUMMARY

Under contract to the Nuclear Regulatory Commission (NRC), Office of the Inspector General (OIG), Leonard G. Birnbaum and Company (LGB), LLP, performed certain agreed-upon procedures on NRC's Time and Labor (T&L) system. The objectives of this audit were to determine whether:

- NRC has established and implemented internal controls over time and labor reporting to provide reasonable assurance that hours worked in pay status and hours absent are properly reported, and
- The time and labor system can be easier and more efficient to use.

The effort required testing internal controls at three offices: NRC Headquarters in Rockville, Maryland; Region III in Lisle, Illinois; and Region IV in Arlington, Texas.

The review also encompassed (1) the form and structure of agency bills to licensees including obtaining industry views regarding the level of detail needed for billing, and (2) the usefulness of agency management reports considering the significant number of existing Technical Assignment Control (TAC) codes in the T&L system.

The results of the audit were as follows:

Basic Internal Controls:

Identified internal controls were adequate for security, recordation and reporting purposes.

Number of T&L Assignments:

Despite recent management initiatives that resulted in reducing the number of open assignments, the total universe of open T&L assignments (TACs and Inspection Report [IRs] assignments) is now greater than the number at the start of this review. At the outset of the audit engagement it was estimated that there were approximately 10,000 open T&L assignments. As of January 28, 2008, there were 19,712 open assignments identified in the system database. By March 21, 2008, there were 20,041 open assignments in the system database. The primary driver for the increased number of TACs is related to project management and has nothing to do with T&L or licensee billing.

Parallel Automated and Paper Documentation in the T&L System:

We found that despite the controls embodied in the automated T&L recording process, redundant hard copies of T&L documents are retained to support and document employee time charges.

Retention Requirements for T&L Forms:

T&L supporting paper documentation, which is rarely examined after the first year (12 months) of its creation, is retained for an unnecessarily long (six years and three months) period of time.

Form and Structure of Agency Bills to Licensees and Industry Views:

We found that the interface of the T&L system with the Fee Billing System is operating in accordance with prescribed policies and procedures. Assessments by industry representatives as to the appropriateness and usefulness of the structure and level of detail currently included in invoices from NRC were generally mixed. While some comments were positive and complimentary, others expressed discontent and requests for improvements.

Management Reporting:

We found that there is ample reporting on the status of interim and final processing of employee time charges, and on the status of payroll processing. Further, there are a variety of project management reports on the status of work assignments and performance indicators on specific NRC programs.

What is lacking, however, is feedback to upper management on a regular basis as to the level of on-going open assignment activity (TACs and IRs) in the T&L System itself at regular reporting intervals.

Recommendations

This report makes six recommendations. A Consolidated List of Recommendations appears on page 11 of this report.

Agency Comments

At an exit conference held on April 28, 2008, agency managers provided comments concerning the draft report. We modified this report in response to their comments, as we deemed appropriate.

Abbreviations and Acronyms

AUP	Agreed-Upon Procedures
EPM	Enterprise Project Management (subsystem)
IP	Inspection Procedures
IR	Inspection Report
LFT	License Fee Team
LGB	Leonard G. Birnbaum and Company, LLP
NARA	National Archives and Records Administration
NEI	Nuclear Energy Institute
NRC	Nuclear Regulatory Commission
NRO	Office of New Reactors
NRR	Office of Nuclear Reactor Regulation
OIG	Office of the Inspector General
RITS	Regulatory Information Tracking System
RPS	Reactor Program System
SAR	Summary Approval Report
T&L	Time and Labor
TAC	Technical Assignment Control
TRIM	Time, Resource and Inventory Management (subsystem)

Independent Accountant's Report
on the Application of Agreed-Upon Procedures
on the Nuclear Regulatory Commission's
Time and Labor System

Background

Salaries and benefits for the U.S. Nuclear Regulatory Commission's (NRC's) approximately 3,500 employees account for about 60 percent of NRC's annual obligations. Approximately 90 percent of the salaries and benefits are recovered through billings to NRC licensees.

NRC's Time and Labor (T&L) system is intended to adequately support employees' pay and show the number of hours employees are either working or are in leave status. The system provides data in support of entitlements to overtime pay, premium pay, and compensatory time earned and used. An accurate and reliable system of collecting T&L data is necessary to provide a basis for (1) allocating employees' time to the agency's program and performance objectives, (2) assessing NRC fees, and (3) financial reporting.

Purpose and Scope

Under contract to NRC, Office of the Inspector General (OIG), Leonard G. Birnbaum and Company (LGB), LLP, performed agreed-upon procedures to review NRC's T&L System. The objectives of this audit are to determine whether:

- NRC has established and implemented internal controls over time and labor reporting to provide reasonable assurance that hours worked in pay status and hours absent are properly reported, and
- The time and labor system can be easier and more efficient to use.

These objectives included performing an analysis of the number of and process for establishing Technical Assignment Control (TAC) codes. This agreed-upon procedures engagement was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. These 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The sufficiency of these procedures is solely the responsibility of NRC OIG. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Findings

A. Basic Controls

We found that appropriate T&L system internal controls have been established for each of the basic functions related to labor recording: recording, approving, and processing time and attendance data and preparing management reports. Tests at NRC operating units determined that the identified established controls were, in fact, in place and implemented at operating levels. We consider the identified controls to be adequate for security, recordation and reporting purposes. Analysis of the risk of error in routine processing of time and attendance data elicited the conclusion that such risk is low.

While we consider the existing controls to be effective, greater consistency in time reporting could be achieved by issuing guidance covering activities for which there is no articulated policy, such as time charging while in a travel status.

B. Number of Assignments (TACs and Inspection Reports [IRs])

At the start of this engagement, it was estimated that there were over 10,000 open TAC/IR assignments in the T&L system. The determination of the cause(s) of this volume, together with suggestions for process improvements, was cited as one of the primary goals for this engagement. Recently, NRC management initiatives, including guidance issued on January 14, 2008, made a concerted effort to address these imbalances, with some apparent success. For example, a recent Office of the Chief Financial Officer report showed that the number of TACs and IRs with less than 8 recorded hours had been reduced by 3,681 assignments between June and October 2007. Currently, however, the total number of TACs and IRs is greater than the number at the beginning of the engagement. At the outset of the audit engagement it was estimated that there were approximately 10,000 open T&L assignments. As of January 28, 2008, there were 19,712 open assignments identified in the system database. By March 21, 2008, there were 20,041 open assignments in the system database.

The current array of assignments by NRC organization shows a large concentration of assignments in two organizations, (1) Office of New Reactors (NRO) and (2) Office of Nuclear Reactor Regulation (NRR).

The principal drivers for the establishment of new assignments are the detail tracking requirements of Project Management subsystems used in the “Regulatory Information Tracking System” (RITS) and the “Reactor Program System” (RPS). Subsystems used in NRC offices regarded as “RITS Offices” include the “RITS Technical Assignment Control” (TAC); RPS Inspection Planning (IP), “Time, Resource and Inventory Management” (TRIM); and “Enterprise Project Management” (EPM). Such subsystems tend to initially input assignments into the T&L system on the basis of Project Management, Budgeting, Performance Measurement, Billing and other management objectives for subsequent

tracking purposes. The prescribed categories of time charge collection tend to be at a “Task” or “Procedure” assignment identification. Quite often, these are at relatively low incremental levels of effort.

There have been numerous prior reports, reviews and studies made which included assessments of the T&A System. Among these were:

- ✓ Financial Statement Audit Reports (R. Navarro & Associates)
- ✓ NRC Performance and Accountability Reports¹
- ✓ OMB Circular A-123 Assessments²
- ✓ OIG Reports³
- ✓ Business Improvement Project Studies
- ✓ Various NRC management reviews and related directives

All of these expressed concern over the significant number of assignments established, the number of assignments with no activity for long periods, the number of assignments with low hourly postings (8 hours or less), etc.

Recommendations:

We recommend that the Chief Financial Officer:

1. Establish high topical level assignment codes in the T&L system.

We recommend that the Chief Financial Officer and the Executive Director for Operations:

2. Develop and implement other types of recordation vehicles, outside of the T&L system, to track specific Project Management and Performance objectives, as warranted.

C. Redundant Automated and Hard Copy Controls

There is a significant paper trail in place in the T&L operating procedures, in addition to the requirements of the automated T&L system, to support and document time charges. It was generally felt by all interviewees during our review that the paper flow should be curtailed if electronic means are otherwise available.

¹ The auditor’s report contained in the 2006 Performance and Accountability Report identified material weaknesses in the fee billing process, noting that quality assurance procedures do not address the completeness of TAC controls as compared with TACs available to be billed or simply those that were billable in the previous billing cycle. The auditor’s report also cited significant underbillings (approximately \$750,000).

² The FY 2006 OMB Circular A-123 assessment observed “...large number of prior period time and labor adjustments indicate that bi-weekly time sheet certification may not be effective...”, and “...errors in T&L reporting have the potential to impact the Fee Revenue Financial Statement.”

³ OIG report OIG-05-A-11, April 13, 2005, noted, “While the implementation of RPS has allowed for a single system for entering inspection information, the information is not well protected, is not complete, and is not fully accurate.”

In the review of the T&L system design and processes, we found that the automated portions of the system incorporate the following types of controls:

- Employee Approved Access
- Personal Identification Codes
- Personal Passwords
- Designations of Officials' Positions
- Establishment of Work Schedules
- Review of Time Charges for Proper Leave and Administrative Codes
- Summary Approval Processing
- Edit/Error Runs and Routines

Similarly, the paper portions of the T&L system require the following documentation:

- Hours of Work Request
- Credit Hour Plans and Certification
- Requests for Leave or Approved Absence
- Requests for Authorization for Irregular or Occasional Overtime or Compensatory Time
- Review of documentation (e.g., jury notice, doctor's letter), as required, supporting leave charges
- Original Signatures of Employee and Approving Official on Summary Approval Report (SAR)

Several NRC staff interviewed during our review made the following point: If an employee is cleared for security access into the T&L System, has a Personal Identification Code, and has been issued a system password for data entry and review, then many of the required paper forms to support time charges that have been otherwise entered into an automated system seem duplicative.

Further, in many cases it is very difficult to get hardcopy employee signatures and other required documentation on a timely basis under the current system requirements. This is especially true in the case of employees working at sites remote from the timekeeper and approving officials (e.g., Resident Inspectors). These individuals have to send timesheet and other supporting documents by facsimile to the Unit timekeeper in advance in order to meet the pay period due date requirements. Use of electronic signature capabilities may be sufficient for certification and approval.

The cause of this condition seems to be a perpetuation of the use of "NRC Forms," which may have been practical at one time, but could have been superseded with the introduction of specific automated controls in the system. There likely has not been a recent evaluation of the need for such paper requirements. We were advised that the Office of the Chief Financial Officer is currently evaluating the use of electronic signatures.

Timekeepers, in general, spend an inordinate amount of time copying, mailing, filing, storing, shredding, etc., for a T&L system that is supposed to be fully automated, with built-in internal controls.

The operational effect on unit staff employees and approving officials is similarly burdensome. Frequently, facsimile copies and mailings of paper support documents consumes the time of employees who could otherwise be productively engaged in performing billable work projects. We did not attempt to quantify the monetary impact of such efforts. However, with NRC employee population of about 3,500, some of whom are in remote locations, the dollar impact could be significant.

Recommendations:

We recommend that the Chief Financial Officer:

3. Conduct a detailed system analysis and eliminate redundant paper forms that are not needed.
4. Use electronic signatures for time reporting and approval.

D. Document Retention Requirements

With respect to retention requirements, the amount of required paper (e.g., several pages), per employee, per unit, per pay period (26 pay periods/year), for 6 years and 3 months becomes very burdensome at the operating level. Beyond the first year of retention, it is doubtful that such paper support is ever examined further.

As with the case of the basic requirements for the paper forms themselves, we believe that the retention requirements are simply a perpetuation of the initial time frames established by NRC when the requirements were first imposed. Most of the required forms reviewed in the system are self-imposed, internal NRC forms.

Based on published budgetary data, NRC employs in excess of 3,500 employees. All employees' time charges are incorporated into the T&L system for processing. Conservatively, if only 3 to 5 pages of NRC forms are required to be retained per employee, this means that 10,500 to 17,500 pieces of paper are being saved and filed each pay period. Extending that by 26 pay periods in a year, the annual total is between 273,000 to 455,000 pieces of paper per year. While the full retention period for forms is 6 years and 3 months, most organizations keep files for 7 years. If those amounts are extrapolated to the full retention period, it would indicate that there could be as much as 1,911,000 to 3,185,000 pieces of paper being stored or otherwise warehoused by NRC on a continuing basis.

While the General Records Schedules issued by the National Archives and Records Administration (NARA) require retention of records until the earlier of six years or audit by the Government Accountability Office, NARA, under the authority of 44U.S.C. §3303(2),

may permit disposal of records not needed in the transaction of current business and that do not appear to have sufficient administrative, legal, research, or other value to warrant their further preservation by the Government.

Recommendation:

We recommend that the Chief Financial Officer:

5. Coordinate with the National Archives and Records Administration to shorten record retention requirements for T&L records.

E. *Billing Detail and Industry Views*

Generally, billings to clients are made on a quarterly basis. A quarterly billing run is made and reports run for final certification. Data files are downloaded (same as reports). Invoices are processed to clients as indicated from the runs. The T&L data by this point have been consolidated to accommodate line item billing in some summary fashion, by client. The minute detail of incremental time recording ($\frac{1}{4}$ hour, $\frac{1}{2}$ hour, $\frac{3}{4}$ hour, etc., increments) tends to be hidden in the summaries. Billing detail, however, will reflect the line items of established TACs.

The principal drivers for the detail billing elements (by TAC) in invoices to customers are the previously discussed tracking requirements of project management subsystems used in the *Regulatory Information Tracking System (RITS)* and the *Reactor Program System (RPS)*, and their related management subsystems.

LGB asked the License Fee Team (LFT) group if the level of detail being captured at these incremental levels was critical for billing purposes. We were informed that in some cases, the level of detail being billed may require an invoice of 10 or more pages. The overall response of the group was that they need the total of the effort charged to be reflected in the billings, but that it was not necessary for them to have minute details if they are summarized accurately and in their entirety.

LGB also solicited industry views regarding the general form and structure of NRC bills, with particular interest in the level of detail needed for payment review and approvals. The industry responses were somewhat mixed.

Summary results from materials licensees indicated general satisfaction with the (1) level of detail provided in NRC bills and (2) additional support provided by the License Fee Team, when needed. Further improvement was desired by the Materials Licensees in the areas of (1) timing of the billings – i.e., reducing the lag time between the date the service is performed and the date the bill issued, and (2) consistency in the charging of apparently similar services.

Responses from individual reactor licensees tended to fall generally in the middle of the identified satisfaction ranges, by category. Narrative comments received from these reactor licensee representatives indicated various areas where NRC could address possible improvement revisions.

Our review in this area was necessarily limited in scope. As indicated, the results of our review in this area showed that the preliminary impact on customer satisfaction is mixed. The respondents were generally complimentary on the support given by the License Fee Team to assist them in resolving billing questions or open issues.

F. Management Reporting

We found that there is ample reporting on the interim and final processing of the status of employee time charging, and on the status of payroll processing. Further, there are a variety of project management type reports on the status of work assignments and performance indicators on specific NRC programs.

What is lacking, however, is feedback to upper management on a regular basis as to the level of on-going assignment activity in the T&L system itself at regular reporting intervals. In other words, we found no recurring reporting that would advise management on the total number of TACs and IRs open in the system at specific points in time (e.g., monthly, quarterly, semi-annually, etc.). Based on interviews held during the engagement, there has never been a formal, recurring, status report provided to upper management on the number of open work assignments as part of the normal T&L system outputs. Such information appears to be available to upper management by specific request only. Since the number of open assignments has been the focus of a good deal of management attention in the past, it is our opinion that such information should be a normal part of the management reporting structure.

We believe the basic cause of this condition is that such reporting requirements on the status of open assignments has never been mandated, formalized and incorporated into the T&L system outputs. Inquiries on the status of open assignments at points in time have previously been made largely on an ad hoc basis.

The obvious effect, as has been discussed in other sections of this report, is that numerous prior reports, reviews and studies had to be made on an ad hoc basis to address the possibility that the quantity of open work assignments in the T&L System has become excessive.

Recommendation:

We recommend that the Chief Financial Officer:

6. Develop a formal report on the number of open work assignments incorporated in the T&L System and issue the report at regular intervals.

Consolidated List of Recommendations

We recommend that the Chief Financial Officer:

1. Establish high topical level assignment codes in the T&L system.

We recommend that the Chief Financial Officer and the Executive Director for Operations:

2. Develop and implement other types of recordation vehicles, outside of the T&L system, to track specific Project Management and Performance objectives, as warranted.

We recommend that the Chief Financial Officer:

3. Conduct a detailed system analysis and eliminate redundant paper forms that are not needed.
4. Use electronic signatures for time reporting and approval.
5. Coordinate with the National Archives and Records Administration to shorten retention requirements for T&L records.
6. Develop a formal report on the number of open work assignments incorporated in the T&L System and issue the report at regular intervals.

Methodology

The procedures we performed are as follows:

- Reviewed the internal controls over NRC's T&L system to identify any cost effective opportunities for process improvements (including any opportunities to prevent/detect fraud or abuse). All aspects of the T&L system were reviewed, including:
 - Recording time
 - Approving
 - Processing
 - Preparing management reports
- Reviewed and tested the application of internal controls at the following NRC offices: the Office of New Reactors and the Office of Nuclear Reactor Regulation in Rockville, Maryland; NRC Region III in Lisle, Illinois; and NRC Region IV in Arlington, Texas. This review and testing included determining that (a) hours charged to overtime and the various types of compensatory time are recorded and approved in a consistent manner and in accordance with agency policy, and (b) controls over various types of work schedules (e.g. telecommuting) are sound and operating effectively.
- Determined whether (and where) opportunities exist to make the T&L system easier and more efficient to use, particularly in light of the number of open Technical Assignment Control (TACs) codes. This aspect included review of the process for establishing TACs.
- Examined the operating policies and procedures of the T&L System as they relate to automated versus hard copy controls.
- Assessed the appropriateness of T&L record retention policies.
- Reviewed the form and structure of NRC bills to licensees to determine the extent and level of depth of labor reporting that is considered required for program and performance reporting and related billings to licensees.

In the performance of this procedure, we conducted the following activities:

- Held meetings with the members of NRC License Fee Team in Rockville, Maryland.
- Obtained explanations on the interface of the T&L system with the Fee Billing System.

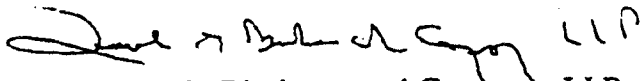
- Obtained an overview of the process via walk-through illustrations of the billing procedures, including the ultimate capturing of the labor effort into the billing system and final processing of invoices.
 - Solicited industry views on their satisfaction with the form and structure of agency bills, including the level of reporting detail provided.
- Reviewed the usefulness of agency management reports as currently structured taking into consideration the number of existing TACs.

In the performance of this procedure, we traced the process steps made for recording, approving, and processing time in the T&L system. We also identified and reviewed the management reporting vehicles at each phase of the process.

Agency Comments

At an exit conference held on April 28, 2008, agency managers provided comments concerning the draft report. We modified this report in response to their comments, as we deemed appropriate.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on NRC's financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.



Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
May 8, 2008