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Stephen D. Dingbaum, OIG

TO:

Borchardt, EDO

FOR SIGNATURE OF : ** GRN ** CRC NO:

Ash, DEDCM

DESC:

Audit of NRC's Warehouse Operations (OIG-09-A-09)
(EDATS: OEDO-2009-0173)

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

OFFICE OF THE
INSPECTOR GENERAL

March 31, 2009

MEMORANDUM TO: R. William Borchardt
Executive Director for Operations

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

SUBJECT: AUDIT OF NRC'S WAREHOUSE OPERATIONS (OIG-09-A-09)

Attached is the Office of the Inspector General's (OIG) audit report titled, *Audit of NRC's Warehouse Operations.* The purpose of this audit was to determine whether NRC has established and implemented an effective system of internal controls for maintaining accountability and control of agency property stored in the warehouses.

This report notes that NRC's warehouse operations support the agency's mission by ensuring that property is received, stored and delivered to NRC staff as needed. However, opportunities exist to:

- Enhance safety and security.
- Increase inventory accuracy and operational efficiency.
- Improve contract administration.

The report contains recommendations intended to improve controls over warehouse operations. Instructions for responding to OIG recommendations are attached.

If you have any questions, please call me at 415-5915 or Steven Zane, Team Leader, Financial and Administrative Audit Team, at 415-5912.

Attachments: As stated

cc: V. Ordaz, OEDO
J. Arildsen, OEDO
P. Shea, OEDO

EDO --G20090186

Instructions for Responding to OIG Report Recommendations

Instructions for Action Offices

Action offices should provide a written response on each recommendation within 30 days of the date of the transmittal memorandum or letter accompanying the report. The concurrence or clearance of appropriate offices should be shown on the response. After the initial response, responses to subsequent OIG correspondence should be sent on a schedule agreed to with OIG.

Please ensure the response includes:

1. The report number and title, followed by each recommendation. List the recommendations by number, repeating its text verbatim.

2. A management decision for each recommendation indicating agreement or disagreement with the recommended action.

    a. For agreement, include corrective actions taken or planned, and actual or target dates for completion.

    b. For disagreement, include reasons for disagreement, and any alternative proposals for corrective action.

    c. If questioned or unsupported costs are identified, state the amount that is determined to be disallowed and the plan to collect the disallowed funds.

    d. If funds put to better use are identified, then state the amount that can be put to better use (if these amounts differ from OIG's, state the reasons).

OIG Evaluation of Responses

If OIG concurs with a response to a recommendation, it will (1) note that a management decision has been made, (2) identify the recommendation as resolved, and (3) track the action office's implementation measures until final action is accomplished and the recommendation is closed.

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In accordance with the Inspector General Act of 1978, as amended, OIG is required to report to Congress semiannually on April 1 and October 1 of each year, a summary of each OIG report issued for which no management decision was made during the previous 6-month period. Heads of agencies are required to report to Congress on significant recommendations from previous OIG reports where final action has not been taken for more than one year from the date of management decision, together with an explanation of delays.

AUDIT REPORT

Audit of the NRC's Warehouse Operations

OIG-09-A-09 March 31, 2009

All publicly available OIG reports (including this report) are accessible through NRC's Web site at:
http:/www.nrc.gov/reading-rm/doc-collections/insp-gen/

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

OFFICE OF THE
INSPECTOR GENERAL

March 31, 2009

MEMORANDUM TO: R. William Borchardt
Executive Director for Operations

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

SUBJECT: AUDIT OF NRC'S WAREHOUSE OPERATIONS
(OIG-09-A-09)

Attached is the Office of the Inspector General's (OIG) audit report titled, *Audit of NRC's Warehouse Operations.*

The report presents the results of the subject audit. Agency comments provided at the March 19, 2009, exit conference 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 followup 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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EXECUTIVE SUMMARY

BACKGROUND

The Nuclear Regulatory Commission (NRC) maintains two warehouses, referred to as the main warehouse and the annex, located about a mile away from the agency's main headquarters buildings. These warehouses are used to receive, store, and deliver property, equipment, and supplies needed for NRC operations. The main warehouse also contains a security lockup cage used to store sensitive property. As of February 2009, the two warehouses contained almost 16,000 pieces of property and equipment with an initial acquisition cost of approximately $5.1 million.

The NRC Office of Administration (ADM), Directorate for Space Planning and Consolidation, Property and Labor Services Branch, is responsible for managing warehouse operations. The Office of the Inspector General estimates that the total resources ADM dedicated to operating the warehouse amounts to approximately $1.1 million annually. These resources include NRC employee salaries, labor services contract costs, leases for each warehouse, leases for delivery vehicles, and security costs.

ADM uses two information management systems to account for the agency's property. The Space and Property Management System (SPMS) is NRC's official property management information system. Warehouse staff use a separate dBase III application system that does not interface with SPMS to track the specific locations of warehouse property.

PURPOSE

The purpose of this audit was to determine whether NRC has established and implemented an effective system of internal controls for maintaining accountability and control of agency property stored in the warehouses.

RESULTS IN BRIEF

NRC's warehouse operations support the agency's mission by ensuring that property is received, stored, and delivered to NRC staff as needed. The warehouse also provides logistical support for office moves and assistance with special events. However, opportunities exist to:

- Enhance safety and security.
- Increase inventory accuracy and operational efficiency.
- Improve contract administration.

Safety and Security Evaluations Not Conducted and Segregation of Duties Not Implemented

Federal law and guidance require that NRC evaluate the safety and security of its facilities and use sound physical security practices to protect agency property. However, NRC has not conducted the required periodic safety inspections of the NRC main warehouse and annex or a required security assessment of the NRC annex. Additionally, despite internal control standards that require segregation of duties, warehouse staff, responsible for the day-to-day operation of the agency's warehouses, also control and monitor the video surveillance system located at the main warehouse. Management inattention to the required safety inspections and security assessment as well as the failure to implement segregation of duties, leaves NRC staff potentially vulnerable to workplace hazards, while exposing NRC to a heightened risk of property loss.

Space and Property Management System Contains Incomplete and Inaccurate Location Information

Property management system guidance and internal control standards require agency personnel to record information accurately and timely to maintain accountability and control over Government property. Despite these requirements, NRC's official property management system, SPMS, contains incomplete and inaccurate location information. This condition exists because:

- SPMS' full capability is not being used.
- Property locations are changed in SPMS prior to actual property movement.
- Periodic SPMS monitoring measures have not been implemented.

Incomplete and inaccurate location information results in inefficient, duplicative work efforts, heightens the risk for lost property and information, and may result in unnecessary expense.

Contract Administration Deficiencies

NRC is required to administer the contract for warehouse support services in accordance with agency policy and the contract provisions. However, the following contract administration deficiencies exist:

- Incomplete contractor security packages are submitted to the Division of Facilities and Security.
- Registration procedures are not followed for unbadged contractor representatives.
- Contractor performance is not measured.

These contract administration deficiencies exist because warehouse employees responsible for managing the contract have not completed the agency required project manager training. Without adhering to the required policy and contract provisions, NRC lacks assurance that contractors working at NRC facilities do not pose a security risk. In addition, NRC may be paying excess contract costs by failing to consider disincentive provisions contained in the contract.

RECOMMENDATIONS

This report makes recommendations to improve the agency's warehouse operations. A consolidated list of these recommendations appears in Section V of this report.

AGENCY COMMENTS

At an exit conference on March 19, 2009, agency management stated their agreement with the findings and recommendations in this report. Management also provided information that has been incorporated into this report as appropriate.

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ABBREVIATIONS AND ACRONYMS

ADM	Office of Administration
DFS	Division of Facilities and Security
HR	Office of Human Resources
GAO	Government Accountability Office
MD	Management Directive
NRC	Nuclear Regulatory Commission
OIG	Office of the Inspector General
OSHA	Occupational Safety and Health Act
PM	Project Manager
SPMS	Space and Property Management System

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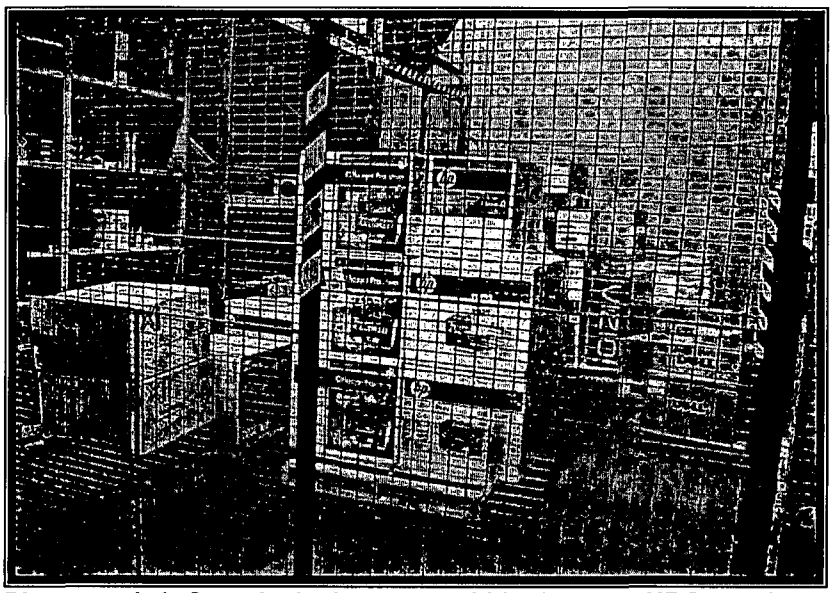
I. BACKGROUND

The Nuclear Regulatory Commission (NRC) maintains two warehouses, located about a mile away from the agency's main headquarters buildings, that receive, store, and deliver property, equipment, and supplies needed for NRC operations. Along with performing these day-to-day activities, warehouse staff provide support for office relocations and special projects. In addition, the warehouse staff facilitate the donation, destruction, and abandonment of excess property. Excess property is stored in an NRC warehouse while awaiting final disposition.

NRC Main and Annex Warehouses

The agency refers to its two warehouses as the main warehouse and the annex. NRC's main warehouse, the larger facility, is approximately 22,000 square feet and contains equipment,[1] office furnishings, supplies, and systems furniture used to construct office workstations. This main warehouse also contains a security lockup cage with an open top (see the photograph below and on page 6) used to store sensitive property.[2]



Photograph 1: Security lockup cage within the main NRC warehouse

[1] NRC Management Directive (MD) 13.1, *Property Management*, defines accountable property as any equipment, excluding furniture and supplies, that is complete in itself, is of a durable nature with an expected life of 2 years or more, does not ordinarily lose its identity or becomes a component of another article, and is not consumed in its useful life. Accountable property is classified either as "sensitive" or as "non-sensitive" (e.g., microfiche reader, slide projector).

[2] MD 13.1 defines sensitive property as property that is desirable for personal use and can be easily removed from the premises (e.g., laptop computers, cell phones, etc.).

NRC obtained the annex in 2008 to house equipment and furniture for relocations to newly acquired office space. The annex, the smaller of the two warehouses, is approximately 7,000 square feet. The annex is not staffed on a daily basis, although warehouse employees work at the annex about twice a week.

As of February 2009, the two warehouses contained almost 16,000 pieces of property and equipment with an initial acquisition cost of approximately $5.1 million.

Resources Allocated

OIG estimates that the total Office of Administration (ADM) resources dedicated to operating the warehouses amounts to approximately $1.1 million annually. These resources include NRC employee salaries, labor services contract costs, leases for each warehouse, leases for delivery vehicles, and security costs. ADM, Directorate for Space Planning and Consolidation, Property and Labor Services Branch, designates three full-time NRC employees to operate the warehouses. Furthermore, the Property and Labor Services Branch managed a warehouse labor services contract with Alutiiq International Solutions, LLC, to perform daily labor services, for the period March 1, 2008, through February 28, 2009. This contract provided three full-time contract personnel and allowed for obtaining additional support, as needed.

Information Management Systems Used

ADM uses two information management systems to account for the agency's property. The Space and Property Management System (SPMS) is NRC's official property management information system. Warehouse staff use a separate dBase III application system that does not interface with SPMS to track the specific locations of warehouse property.

II. PURPOSE

The purpose of this audit was to determine whether NRC has established and implemented an effective system of internal controls for maintaining accountability and control of agency property stored in the warehouses.

See Appendix A for a description of the audit scope and methodology.

III. FINDINGS

NRC's warehouse operations support the agency's mission by ensuring that property is received, stored, and delivered to NRC staff as needed. The warehouse also provides logistical support for office moves and assistance with special events. However, opportunities exist to:

- Enhance safety and security.
- Increase inventory accuracy and operational efficiency.
- Improve contract administration.

A. Safety and Security Evaluations Not Conducted and Segregation of Duties Not Implemented

Federal law and guidance require that NRC evaluate the safety and security of its facilities and use sound physical security practices to protect agency property. However, NRC has not conducted the required periodic safety inspections of the NRC main warehouse and annex or a required security assessment of the NRC annex. Additionally, despite internal control standards that require segregation of duties, warehouse staff responsible for the day-to-day operation of the agency's warehouses also control and monitor the video surveillance system located at the main warehouse. Management inattention to the required safety inspections and security assessment as well as the failure to implement segregation of duties, leaves NRC staff potentially vulnerable to workplace hazards, while exposing NRC to a heightened risk of property loss.

Safety, Security, and Segregation of Duties Requirements

NRC is required to evaluate the safety and security of its facilities and use sound physical security practices to protect agency property. A brief explanation of each of the relevant safety, security, and segregation of duties requirements follows:

Safety Requirements

Federal law[3] and Executive Order 12196, *Occupational safety and health programs for Federal employees,* require periodic inspections of all agency workplaces by personnel with equipment and competence to recognize hazards.

MD 10.130, *Safety and Health Program Under the Occupational Safety and Health Act,* establishes the standards and procedures for NRC's safety programs. This MD provides that the Director, Office of Human Resources (HR), appoint an Agency Safety and Health Program Manager, who is required, to conduct periodic safety inspections of NRC facilities in accordance with the Occupational Safety and Health Act (OSHA).

Security Requirements

The Interagency Security Committee provides Federal guidance in its *Security Standards for Leased Space,* which states that security assessments must be performed prior to entering into a new lease. Furthermore, *Facility Level Determinations for Federal Facilities* states that agencies should make facility security level determinations early in the space acquisition process to (1) implement countermeasures, if required and (2) reconsider the acquisition if minimum physical security requirements cannot be met.

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* explains the importance of segregation of duties. This is a critical control because key duties and responsibilities for authorizing, processing, recording, and reviewing transactions and handling any related assets need to be divided or segregated to reduce the risk of error or fraud.

Evaluations Not Conducted and Segregation of Duties Not Implemented

NRC has not conducted the required periodic safety inspections of the main warehouse and annex or a required security assessment of the annex. Additionally, the agency has not implemented internal control standards that require segregation of duties as related to the video surveillance system located in the main warehouse.

[3] 29 US Code of Federal Regulations 1960.8(c), *Agency responsibilities.*

Safety and Security Evaluations Not Conducted

Safety Inspections

The Office of the Inspector General (OIG) interviewed and requested documentation from warehouse staff and HR representatives to determine if the required safety inspections of the warehouses have occurred. Warehouse staff recalled that safety inspections had been conducted in the past, but not recently. HR management confirmed that safety inspections of the warehouses had not been conducted recently.[4]

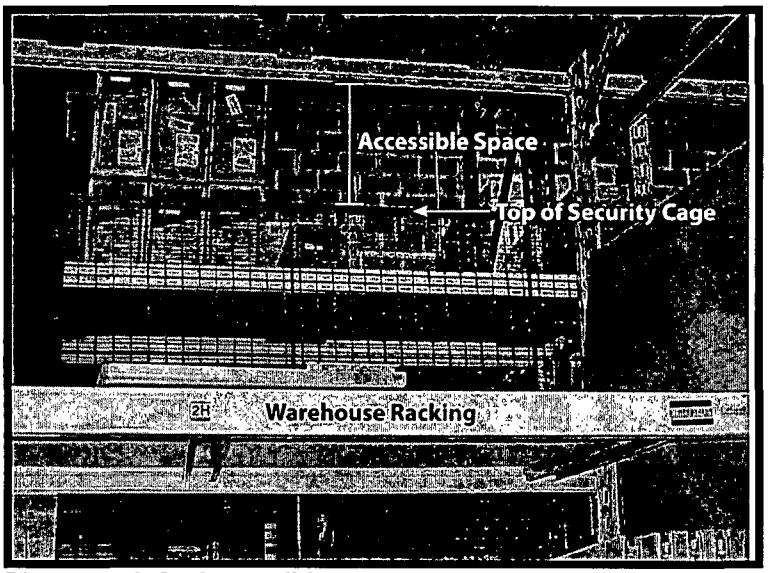
Security Assessment

OIG interviewed ADM staff to determine if the required security assessments of the warehouses have occurred. Staff from ADM, Division of Facilities and Security (DFS), provided OIG with the *Building Security Assessment* of the main NRC warehouse, completed by a Federal Protective Service inspector on May 2, 2007. A previous security assessment had been completed on May 13, 2003. DFS managers explained that a security assessment for the NRC annex had not been completed and could not recall arranging for a security assessment when NRC leased the space in 2008.

During a visit to the NRC warehouses, OIG identified opportunities to strengthen security within each warehouse. A brief description of each follows:

- The low height of the open top of the security lockup cage in the main warehouse, coupled with the placement of storage racking against the outside of the cage, increases the risk of theft for sensitive items (ADM staff noted that this risk is mitigated, to a degree, by the warehouse access controls.) The warehouse racking labeled in the photograph that follows is approximately 6 feet above ground.

[4] The lease document for the main warehouse contained the Fire Protection Prelease Survey that was last completed by General Services Administration on July 1, 2005.



Photograph 2: Accessible space at the open top of the security lockup cage located within the main NRC warehouse

- The annex does not have an intrusion detection system and a video surveillance system.

Segregation of Duties Not Implemented

Despite internal control standards that require segregation of duties, warehouse staff responsible for the day-to-day operation of the agency's warehouses also control and monitor the video surveillance system located at the main warehouse. Installed about 10 to 15 years ago, the video surveillance system at the main warehouse consists of a time lapse video recorder, a monitor, tapes, and video cameras located throughout the warehouse. Warehouse personnel periodically change the tapes and record over previously used tapes. A better security control would be for the headquarters security guard staff to remotely control and monitor the warehouse video surveillance system.

Management Inattention Results in Vulnerability to Hazards and Risk of Loss

Management inattention to the required safety inspections and security assessment as well as the failure to implement segregation of duties, leaves NRC staff potentially vulnerable to workplace hazards (such as stacked items that may fall) while exposing NRC to a heightened risk of property loss by its own employees.

Office of Human Resources Management

HR management has not taken necessary actions to complete warehouse safety inspections although during this audit they readily acknowledged their responsibility to do so. HR officials stated that the agency currently lacks the in-house expertise to conduct the inspections because NRC's OSHA trained staff member left NRC several years ago and has yet to be replaced. HR is looking to recruit someone to fill the vacated position. HR management committed to expedite the warehouse safety inspections through an existing contract with an environmental testing company that has the expertise to do the required safety inspections.

Office of Administration Management

ADM management did not take actions necessary to complete the annex security assessment because they have not implemented a process to identify this need when entering into a lease. ADM management conveyed awareness of their responsibility to complete the security assessment. They stated that the agency's immediate need to store newly acquired systems furniture caused NRC to occupy the annex without first completing a security assessment. Additionally, ADM stated that since NRC staff do not work in the space every day, a completed security assessment was not a priority. During the course of this audit, ADM initiated the process for completing the security assessment at the annex and anticipates that Federal Protective Service can expedite its completion.

ADM management stated that the warehouse staff controls its own video surveillance system because the warehouse surveillance video system is not integrated with the NRC headquarters video system. The main warehouse has an intrusion detection alarm system that is monitored remotely by security staff who respond if alerted to a warehouse alarm. In addition, the headquarters security guard staff makes daily rounds to the warehouses. ADM staff stated that an upgrade, allowing for remote security guard monitoring of the main warehouse video surveillance system, is part of federally mandated physical protection updates and should be completed in October 2009.

Safety Hazards and Security Risk of Loss

Management inattention to warehouse safety and security matters leaves NRC staff potentially vulnerable to workplace hazards, while exposing NRC to a heightened risk of property loss. Without a current safety inspection performed by personnel with the proper equipment and competence to recognize hazards, staff, property, and the warehouse facilities may not be adequately protected from workplace hazards. Without a security assessment, staff and the annex may not be adequately protected from threats. Additionally, an increased risk of property loss exists by allowing warehouse staff to monitor and operate the video security surveillance system installed at NRC's main warehouse.

Recommendations

OIG recommends that the Executive Director for Operations:

1. Conduct the required safety inspections for the NRC main warehouse and annex.

2. Conduct the required security survey of the NRC annex.

3. Designate the headquarters security guard staff to monitor and operate the warehouse video surveillance system.

B. Space and Property Management System Contains Incomplete and Inaccurate Location Information

Property management system guidance and internal control standards require agency personnel to record information accurately and timely to maintain accountability and control over Government property. Despite these requirements, NRC's official property management system, SPMS, contains incomplete and inaccurate location information. This condition exists because:

- SPMS' full capability is not being used.
- Property locations are changed in SPMS prior to actual property movement.
- Periodic SPMS monitoring measures have not been implemented.

Incomplete and inaccurate location information results in inefficient, duplicative work efforts, heightens the risk for lost property and information, and may result in unnecessary expense.

Requirements for Complete and Accurate Information

The Financial Systems Integration Office,[5] *Property Management Systems Requirement*, stipulates that a property management system must be able to collect accurate, timely, complete, reliable, and consistent information to establish and maintain accountability and control over Government property. Additionally, GAO *Standards for Internal Control* requires that transactions be recorded accurately and timely.

SPMS Location Information Is Incomplete and Inaccurate

OIG used judgmental sampling to test the accuracy of SPMS location information of NRC property stored in the warehouses. The following property areas were tested:

- Equipment stored in the main NRC warehouse (including security lockup cage items).

[5] The Financial Systems Integration Office, formerly known as the Joint Financial Management Improvement Program, is a joint undertaking of the Office of Management and Budget, GAO, the Department of the Treasury, and the Office of Personnel Management, to work in cooperation with each other and with other agencies to improve financial management practices throughout the Government.

- Furniture and supplies stored in both NRC warehouses.

The results of these tests show that NRC's official property management system, SPMS, contains incomplete and inaccurate location information.

Incomplete Location Information in SPMS

In conducting tests of the equipment inventories, OIG found that SPMS lacks complete warehouse location information. Specifically, SPMS identifies equipment stored in either the main warehouse or the annex with one location name, "WHSE" (meaning warehouse). SPMS does not differentiate between the two warehouses with separate names for location designations. Additionally, specific warehouse location designations such as aisle, bay, shelf, or bin are not maintained in SPMS even though the system has the capability to store this information.

Currently, NRC warehouse staff use a dBase III application that is separate from SPMS to track and locate agency equipment within the warehouse aisles, shelves and bins. This dBase III application is an unofficial and antiquated, "stovepipe" system that has deficiencies. First, technical support for the dBase III application software is difficult to obtain because the application was created such a long time ago. Second, data from the system will not print out on laser printers; a dot matrix printer with 14-inch wide "green bar" paper must be used for any printed reports.

Inaccurate Location Information in SPMS

OIG judgmentally sampled 64 equipment items out of a universe of 320 pieces of equipment stored in the main NRC warehouse. Our test disclosed that 8 of 64 items (12.5 percent) shown in SPMS as being located in the warehouse could not be located.[6] Warehouse staff explained that even though paperwork requesting transfer of these items had already been processed, the items had not yet been physically relocated to the warehouse. Property history documentation verified that the eight items were all in the process of being transferred and warehouse staff subsequently located the eight items for OIG verification.

[6] Since this is not a statistical sample, the results of this test were not projected to the universe.

Another test revealed additional inaccurate location information in SPMS. Specifically, SPMS identified 58 standalone system units as being stored in the main warehouse since September 2006. These items had a total acquisition cost of approximately $35,000. However, further investigation determined that the 58 standalone system units were not physically located in the main warehouse as SPMS indicated. The corresponding paperwork indicated that the 58 standalone system units had been transferred to a headquarters building after being stored in the warehouse for approximately 3 months. OIG verified the existence of 56 of these 58 system units and notified agency representatives of the 2 missing system units so that they could take appropriate action.

Reasons for Incomplete and Inaccurate Location Information

Location information is incomplete and inaccurate in SPMS because:

- Full capability of SPMS is not being used.
- Property locations are changed in SPMS prior to actual property movement.
- Periodic monitoring of the accuracy of SPMS warehouse information has not been fully implemented.

Full Capability of Property System Not Used

Location information is incomplete in SPMS because staff do not fully use the system capabilities to differentiate between the main warehouse and the annex or to record specific property location information for equipment stored in the warehouses. The SPMS "Sub location" field does not adequately describe property locations. The SPMS "Sub location" field could be populated with aisle, bay, shelf, or bin location data, allowing for specific location information to be recorded in SPMS. However, OIG review indicated that the "Sub location" field is not used in this manner.

Property Locations Changed Prior to Actual Movement

Property location information is inaccurate in SPMS because staff change property locations and accounts in SPMS prior to physically relocating the property into the warehouse. For example, when staff at headquarters receive a request to

transfer equipment to the warehouse, they immediately begin to process the request by changing the location and account in SPMS. The request is later sent to the warehouse. The process to transfer equipment to the warehouse may take a few days based on availability of resources. Upon delivery, warehouse staff then verify receipt of the equipment and mail the completed request back to headquarters. ADM staff noted that the delay would have to occur on the front end or the tail end of the property movement since transfers cannot be made instantaneously.

SPMS Monitoring Not Fully Implemented

Another reason that property location information is inaccurate in SPMS is that warehouse staff have not developed and implemented monitoring procedures to periodically produce reports to facilitate accountability and control of warehouse property (i.e., all property stored in the warehouse for more than 1 year). OIG concludes that such periodic monitoring would serve to help identify property location errors.

Adverse Consequences of Faulty Location Information

Incomplete and inaccurate location information results in inefficient, duplicative work efforts; heightens the risk for lost property and information; and may result in unnecessary expense. Accurate and reliable information on the location of property is essential for NRC to assure the optimum use of property and the efficient use of staff time.

Recommendations

OIG recommends that the Executive Director for Operations:

4. Maintain the agency's dBase III system application until location information for all agency property stored in the warehouses is reflected in SPMS.

5. Use only SPMS to identify property locations in the warehouses.

6. Develop and implement a procedure for timely and accurate recording of property movements.

7. Produce periodic reports to facilitate accountability and control of warehouse property.

C. Contract Administration Deficiencies

NRC is required to administer the contract for warehouse support services in accordance with agency policy and the contract provisions. However, the following contract administration deficiencies exist:

- Incomplete contractor security packages are submitted to DFS.
- Registration procedures are not followed for unbadged contractor representatives.
- Contractor performance is not measured.

These contract administration deficiencies exist because warehouse employees responsible for managing the contract have not completed the agency required project manager (PM) training. Without adhering to the required policy and contract provisions, NRC lacks assurance that contractors working at NRC facilities do not pose a security risk. In addition, NRC may be paying excess contract costs by failing to consider disincentive provisions contained in the contract.

Contract Administration Requirements

NRC is required to administer the contract for warehouse labor services in accordance with agency policy and the contract provisions. NRC policies and the agency's contract with Alutiiq International Solutions, LLC (Alutiiq), contain specific requirements pertaining to:

- Submittal of preliminary background checks.
- Contractor entry into NRC facilities.
- Contract performance measurement.

According to MD 11.1, *NRC Acquisition of Supplies and Services*, it is the responsibility of the NRC PM to ensure that these contract administration requirements are met. The contract with Alutiiq names the PM and two alternates responsible for contract administration.

Submittal of Preliminary Background Checks

NRC's warehouse labor services contract requires Alutiiq to perform preliminary background checks of contractor employees proposed to work under the contract. It is the PM's responsibility to make sure that two copies of each of the contractor's pre-screening results are provided to DFS, along with the NRC badge access application package.

Contractor Entry into NRC Facilities

NRC policy contains registration requirements for contractor representatives who are awaiting badge access approval. The agency policy includes guidance for entry into NRC facilities and for presenting identification. MD 12.1, *NRC Facility Security Program,* requires that unscreened contractors[7] enter facilities by reporting to the appropriate guard or receptionist desk to complete the required registration process, which includes presenting valid picture identification. Unscreened contractors who enter NRC facilities must be issued a badge that is displayed in plain view at all times.

Contract Performance Measurement

In accordance with NRC's contract with Alutiiq, the PM is required to measure contractor performance against established standards for property documentation, work prioritization, security package completion, and warehouse duty completion. The PM may apply disincentives, such as payment deduction, if the standards are not met.

Contract Administration Deficiencies

NRC has not administered the contract for warehouse support services in accordance with agency policy and the contract provisions. The following contract administration deficiencies exist:

- Incomplete contractor security packages are submitted to DFS.

[7] For purposes of this report, OIG uses the term "unscreened contractors" to refer to contractor representatives who are awaiting badge access approval. This differs from MD 12.1, *NRC Facility Security Program,* which uses the term "uncleared contractors" to refer to contractor representatives awaiting badge access approval.

- Registration procedures are not followed for unbadged contractor representatives.

- Contractor performance is not measured.

Incomplete Security Packages Submitted

The NRC PM routinely does not submit complete badge access application packages to DFS when seeking access approval for warehouse contractor employees. Although packages have been submitted for a number of individuals to receive building access, none of the packages included the contractor's preliminary background check as required by the contract. The PM was not familiar with the requirement to obtain preliminary background checks.

The purpose of the preliminary background check is to preclude individuals with a criminal history from working at NRC facilities. The preliminary background check identifies the following information related to an individual's history: felony and alcohol related arrests, record of any military court-martial convictions, illegal use of narcotics or other controlled substances, and delinquency on any Federal debts or bankruptcy. This screening provides a reasonable indication of whether contractor representatives will eventually receive NRC unescorted access approval.

During this audit, OIG learned of two cases where preliminary background checks were not submitted for individuals who were later denied access to work at NRC. Prior to NRC's access denial, these individuals worked in NRC headquarters facilities on at least 36 occasions.

Registration Procedures Not Followed

The PM and warehouse staff do not routinely follow agency registration procedures for unbadged contractors. When unscreened contractors are called to work only at the NRC warehouse, they report directly to the warehouse without first registering with a guard or receptionist to show their identification. The PM and warehouse staff said they were not concerned about the risk posed by unscreened contractor employees who work only at the NRC warehouse because contractor representatives are escorted while working in the warehouse.

Contractor Performance Not Measured

NRC's PM does not measure contractor performance in accordance with standards identified in the contract provisions pertaining to property documentation, work prioritization, security package provisions, and accuracy of warehouse duties. The PM and an alternate PM stated that they do not measure contractor performance and that they were not aware of the potential for disincentive deductions.

For example, the contract contains a standard that requires the contractor to provide the PM with documentation containing signatures for all property picked-up or delivered. This provision calls for the PM to review the number of occurrences that the standard is not met, and take payment deductions accordingly. This contract also allows the PM to reduce payments to Alutiiq when the contractor is not timely in submitting security packages. The PM and one of the alternate PMs are now aware of the disincentive provisions and have expressed an interest in using them.

The PM did not measure performance; therefore records do not exist for the agency to disallow any contract costs related to contractor poor performance.

Project Manager Training Not Completed

Contract administration deficiencies exist because the PM and alternate PMs have not completed the agency required project manager training. NRC requires that prospective project managers complete a minimum of five acquisition training courses to obtain Project Manager Certification. One of these courses addresses security requirements and the monitoring of contractor work performance. In addition, project managers are required to complete recertification training every 3 years. Although the PM was grandfathered in as a certified PM in 2002, he was due to complete the recertification training in August 2005. However it did not occur. It is noted that one alternate PM became a certified project manager in February 2009, after OIG brought this matter to the agency's attention.

Security Risks and Potential for Excess Contract Costs

Without following the required policy and contract provisions, NRC lacks assurance that contractors working at NRC facilities do not pose a security risk. In addition, NRC is potentially paying excess contract costs by failing to consider disincentive provisions contained in the contract.

OIG concludes that having unscreened contractor representatives working in the warehouse, coupled with the low height of the security cage and the placement of racking (as mentioned in Finding A), results in an increased risk of theft of items contained in the security cage. ADM management has completed a request to purchase and install wire mesh panels or fencing to enclose the security cage.

Recommendations

OIG recommends that the Executive Director for Operations:

8. Require the Project Manager and alternates to fulfill NRC's initial and recertification mandatory training requirements for Project Managers.

9. Modify the security cage and/or the placement of storage racks in the main NRC warehouse to prevent easy access to sensitive property stored inside the security cage.

IV. AGENCY COMMENTS

At an exit conference on March 19, 2009, agency management stated their agreement with the findings and recommendations in this report. Management also provided information that has been incorporated into this report as appropriate.

V. CONSOLIDATED LIST OF RECOMMENDATIONS

OIG recommends that the Executive Director for Operations:

1. Conduct the required safety inspections for the NRC main warehouse and annex.

2. Conduct the required security survey of the NRC annex.

3. Designate the headquarters security guard staff to monitor and operate the warehouse video surveillance system.

4. Maintain the agency's dBase III system application until location information for all agency property stored in the warehouses is reflected in SPMS.

5. Use only SPMS to identify property locations in the warehouses.

6. Develop and implement a procedure for timely and accurate recording of property movements.

7. Produce periodic reports to facilitate accountability and control of warehouse property.

8. Require the Project Manager and alternates to fulfill NRC's initial and recertification mandatory training requirements for Project Managers.

9. Modify the security cage and/or the placement of storage racks in the main NRC warehouse to prevent easy access to sensitive property stored inside the security cage.

Appendix A

SCOPE AND METHODOLOGY

OIG obtained and analyzed pertinent laws, regulations, authoritative guidance, NRC policies and procedures, and prior relevant NRC OIG reports to identify Federal and agency requirements and best practices relevant to warehouse operations.

OIG used judgmental sampling to test the accuracy of SPMS location information of NRC property stored in the warehouses. Additionally, OIG reviewed the Office of Administration's property program metrics and performed various tests of internal controls associated with property recorded in SPMS.

OIG conducted interviews with warehouse staff and selected headquarters officials to:

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

OIG interviewed staff from other Federal agencies to learn of their best practices related to warehouse operations. These best practices are described in Appendix B for the agency's consideration.

Internal controls related to the audit objective were reviewed and analyzed. Throughout the audit, auditors were aware of the possibility or existence of fraud, waste, or misuse in the program.

The work was conducted from September 2008 to January 2009 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The work was conducted by Steven Zane, Team Leader; Vicki Foster, Audit Manager; Yvette Mabry, Senior Auditor; Michael Steinberg, Senior Auditor; and Robert Woodward, Senior Auditor. We performed the audit work at NRC Headquarters and both warehouses located in Rockville, Maryland.

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Appendix B

BEST PRACTICES

	National Aeronautics and Space Administration	Federal Aviation Administration	Department of Commerce	General Services Administration

Training	• Property Management Training Video: *NASA Property, Everyone's Business.*
	• Recommended Courses:
	  • Warehousing, Operations and Disposal – USDA.
	  • Personal Property Management, Utilization and Disposal – GSA.
		• Training Video for civilian and contract employees on use of the property system.	• Required training for Property Management Officer, Accountability Officer, and Custodian.
			• Government Ethics, Applications in Personal Property Accountability – USDA.
			• Property Official Certification Program.
			• E-learning course in development soon, Employee Property Training.
				• Initial logistics training courses.
				• Professional property management certifications.

Procedures	NASA Procedural Requirements: NASA Materials Inventory Management Manual.	Policy and Procedures Guide: FAA uses a policy guide as they update and revise training for various process functions.	• Department Personal Property Management Manual. • Personal Property Procedures Manual, Office of the Secretary.	• Policy and procedures ensures development, control, and dissemination of property management instructions, policies and guidance. • GSA suggests review of internal operations to identify areas in which policy guidance is needed.

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

MEMORANDUM FOR: [Name]
Assistant Inspector General for Audits

FROM: [Name]
Title of appropriate Deputy Executive Director

SUBJECT: REVIEW OF THE COST EFFECTIVENESS OF NRC'S ITS TRAINING LABORATORY

This responds to the February 2, 1989 memorandum transmitting the subject audit report. I am pleased to note your conclusion that the NRC's ADP Training Program has been successful in providing in-house training to NRC employees on how to use NRC-supported micro-computer software at a cost comparable to that of outside vendors in the Washington, D.C., Metropolitan area. With respect to your specific recommendations, I submit the following:

Recommendation 1

Establish a policy whereby the training budget for offices will be charged for employees failing to attend or failing to cancel a course in a timely manner.

Response

Agree. I intend to send a memorandum to all Offices and Regions to inform them that providing for employee training is a function essential to improved job performance and career development; and that I am seriously concerned about the effect of "no-shows" and last minute cancellations when registered for NRC courses. Completion date: March 31, 1989.

Recommendation 2

Advise agency supervisors of the need to ensure that employees attend ADP training courses once their attendance has been approved.

Response

Agree. Training programs where problems in attendance and cancellations are of greatest concern will be indicated in the memorandum to all Office Directors and Regional Administrators described in Response to Recommendation Number 1. Completion date: March 31, 1989.

Recommendation 3

Assure that the ITS Training Laboratory contractor's monthly business reports and detailed financial status reports include, at a minimum, segregation of design costs between the original contract and each work scope modification, identification of the course under design/revision, and the status of any revisions.

Response

Agree. This has been accomplished. The contractor has been informed of this requirement and reports are being modified to include identification by course of design/revision and status of revisions in the contractor's business reports and detailed financial status reports.