



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

April 13, 1981

The Honorable Milton J. Socolar
Acting Comptroller General of the United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Socolar:

Enclosed, in accordance with Section 236 of the Legislative Reorganization Act of 1970, is the U.S. Nuclear Regulatory Commission's statement of actions being taken on recommendations in the General Accounting Office's January 23, 1980, report entitled "Disappointing Progress In Improving Systems for Resolving Billions In Audit Findings."

Sincerely,

Joseph M. Hendrie

Enclosure:
Response to GAO Report

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NRC'S GENERAL RESPONSE
TO THE REPORT

The auditing of NRC's programs and contracts is the responsibility of the Office of Inspector and Auditor (OIA). OIA has entered into an agreement with NRC's Division of Contracts whereby pre-award and close-out audits of contracts are carried out by the Defense Contract Audit Agency (DCAA) and the Department of Health, Education and Welfare -- now the Department of Health and Human Services (HHS) and the Department of Education -- audit staffs.

In January 1979 in response to GAO's report entitled, "More Effective Action is Needed on Auditors' Findings--Millions Can Be Collected Or Saved," NRC developed more specific and formalized procedures for following up on audit recommendations. These procedures generally provided that:

1. OIA will provide the agency official responsible for the program being audited, generally the Executive Director for Operations (EDO), an opportunity to comment on draft reports before they are sent to the Commission.
2. In commenting on draft audit reports, the EDO will provide OIA with a statement of what actions will be taken and by whom and a date by which each action will be completed. These commitments are included in the final report sent to the Commission.
3. The EDO is responsible for advising OIA no later than the dates specified either that (1) the action is completed, or (2) the status of the action underway and a revised target date for completing the action.
4. After the EDO has advised OIA that all recommendations agreed to have been implemented, OIA performs sufficient checks to assure itself that all recommendations have been satisfactorily implemented. OIA then issues a follow up report to the Commission.
5. When OIA and the EDO cannot agree on the need for corrective actions identified in audit reports the issue is immediately elevated to the Commission in the final audit report. Similarly, any disagreements between OIA and the EDO on the adequacy of corrective actions taken are immediately elevated to the Commission in OIA's follow-up report.
6. Findings resulting from DCAA, HHS and Department of Education audits of NRC contracts are generally of two types: those requiring a change by the contractor and those requiring an action by NRC. It is DCAA's, HHS's and Education's responsibility to follow up on findings at contractor facilities while recommendations addressed to NRC fall within the established NRC follow-up procedures.

Appendix II of the GAO report identifies \$195,000 of unresolved monetary findings at NRC, of which \$10,000 was over one year old. These findings resulted from two DCAA audits of NRC contracts. NRC's Division of Contracts resolved \$185,000 of these findings on August 18, 1980. The remaining \$10,000 is still unresolved because the contractor, a private consultant, died. NRC is currently reviewing the audit report and contract closeout and contemplates resolving this issue with the executor of the contractor's estate.

Appendix III identifies five areas in which GAO believes NRC's follow-up procedures are deficient. While we recognize that some improvements may be necessary in our written follow-up procedures so that they perfectly parallel Circular A-73 as revised, we disagree that our existing system is not in compliance with A-73 in the five ways stated by GAO.

After OMB Circular A-73 was revised, NRC's existing reporting and follow-up procedures were reviewed to determine what changes were necessary. We believed at that time the only change necessary was preparation of semiannual reports to the Commission on audit reports over six months old. Our existing reporting and follow-up procedures already provided for written determinations on audit findings before final reports are issued to the Commission and for elevating auditor/agency official disagreements to the Commission in final audit reports. Furthermore, our existing system had adequately dealt with findings regarding recovery of money and coordination with other agencies even though the system had not been fully documented. As a result, we believe four of GAO's five findings relating to NRC are the result of not fully documenting our system rather than not having a workable system in place.

In regard to the issuance of semiannual reports to the Commission, OIA's first semiannual report on audit reports over six months old was sent to the Commission on February 10, 1981. This report covered all audit reports issued before July 1980. Semiannual reports will be prepared as of June 30 and December 31 each year, and will be consistent with OMB Circular A-73. In regard to the other four areas identified in Appendix III, NRC's written follow-up procedures are being revised at the present time to fully document our compliance with OMB Circular A-73.

Our responses to the specific GAO recommendations follow:

Recommendations to Heads of Federal Agencies

1. Recommendation

Further improve audit resolution policies, procedures and practices to comply with the intent and spirit of OMB guidelines, designating a top level manager to coordinate these efforts and prepare progress reports for OMB.

NRC Response

NRC's follow-up procedures for audit recommendations are currently being reduced to writing to fully document our compliance with OMB Circular A-73. The Director, Office of Inspector and Auditor, is

responsible for coordinating and overseeing these efforts. OIA will provide OMB with progress reports, as necessary, and a copy of NRC's revised procedures.

2. Recommendation

Take legal or administrative actions against the parties involved whenever audit findings concern fraud, waste, or abuse of Federal funds.

NRC Response

In addition to performing internal audits, OIA is responsible for carrying out NRC's investigative function and interfacing with the Department of Justice. As a result, the investigative staff is immediately notified of any audit findings which could result in legal action against the parties involved. Findings which are violations of criminal statutes are in all cases referred to the Department of Justice. The EDO is responsible for taking administrative actions against NRC employees or contractors. The EDO has and will continue to take administrative actions, as he deems appropriate, as a result of any audit findings concerning waste, fraud or abuse of Federal funds.

3. Recommendation

Make the timeliness and quality of audit resolution a written performance standard and a factor in determining bonuses for Senior Executive Service members and merit pay for supervisors.

NRC Response

We believe the timeliness and quality of audit resolution is already covered in our SES system through the evaluation of a manager's overall management competence. A problem we foresee in specifically including standards such as this in SES contracts is that it opens up SES contracts to every special interest group that wants to make sure its program is adequately provided for. NRC will, however, consider including a specific performance standard for the next evaluation period by which to evaluate how effectively and responsibly program officials involved in audit resolution have carried out those duties.

NRC is not covered by the merit pay provisions of the Civil Service Reform Act.

Recommendation to Inspectors General and
Directors of Audit Organizations

Recommendation

We recommend that the inspectors general and directors of audit agencies develop internal organizational procedures and controls for efficient and effective planning, coordinating, reviewing, and

reporting of audit work and audit follow-up activities in accordance with GAO and other professional standards.

NRC Response

As was pointed out above, NRC has written procedures for following up on audit recommendations which are currently being revised. In addition, OIA is currently developing an audit and inspection manual covering all phases of its operations. All of the audit and follow-up procedures developed by OIA will continue to utilize GAO, OMB and other professional audit standards, as appropriate.

BY THE U.S. GENERAL ACCOUNTING OFFICE
**Chairman, Subcommittee On Legislation
And National Security, House Committee
On Government Operations**

Disappointing Progress In Improving Systems For Resolving Billions In Audit Findings

Although Government agencies spend hundreds of millions annually to audit Federal programs and operations, most of them still lack effective systems for resolving audit findings. In 1978, GAO reported \$4.3 billion in unresolved findings at 34 agencies. This report shows the problem is worsening.

Following GAO's 1978 report, the Office of Management and Budget revised its policy guidelines emphasizing prompt and proper resolution of audit findings. Most agencies' systems, however, are not yet in compliance. GAO turned up numerous examples of agency failures to correct problems or improve operations as recommended by audit.

OMB needs to clarify its policy guidance on audit resolution and extend its oversight to make sure agencies comply with it. Agency management must be made accountable for taking appropriate actions to resolve audit findings.

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