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OFFICE OF THE INSPECTOR GENERAL

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US NUCLEAR

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REGULATORY COMMISSION

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IMPROVEMENTS NEEDED IN  
FINANCIAL AND ADMINISTRATIVE  
ACCOUNTABILITY FOR OFFICE OF  
NUCLEAR REGULATORY RESEARCH  
FUNDED WORK AT DEPARTMENT  
OF ENERGY LABORATORIES

OIG/92A-20

March 5, 1993

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# AUDIT REPORT

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250058

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## INTRODUCTION

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The Nuclear Regulatory Commission (NRC) acquires goods and services from commercial sources and through agreements with other Government agencies. In December 1991, the Office of the Inspector General (OIG) initiated a review of project management by NRC's Office of Nuclear Regulatory Research (RES) for the acquisition of goods and services obtained from the Department of Energy (DOE).

This is the second recent OIG report dealing with RES's project management for work placed with DOE laboratories. The report addresses the financial and administrative accountability for NRC-funded work placed at DOE laboratories by RES management officials and Project Managers. (Appendix I contains additional details on objectives, scope, and methodology.)

## BACKGROUND

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In 1978, NRC and DOE approved a Memorandum of Understanding (MOU) regarding NRC work placed at DOE laboratories. The MOU established an overall management policy that included guidelines for program planning, implementation, control, and funding of the interagency research programs and related activities.

From fiscal year (FY) 1989 through FY 1991, NRC payments to DOE totaled \$187 million for laboratory work on approximately 500 projects managed by RES each year. Of the total estimated FY 1992 RES budget of \$120 million, \$67 million (56 percent) was budgeted to pay for research projects conducted at the laboratories.

Twenty-five senior managers are responsible for overseeing RES work performed at DOE laboratories. These include: the Office Director and his two Deputy Directors; four technical Division Directors, each with a Deputy Director; and fourteen Branch Chiefs. Reporting to those senior managers are 26 Section Leaders, who supervise 124 Project Managers. The Project Managers are responsible for control of the work placed at the DOE laboratories.



One critical performance element for senior managers in RES is management effectiveness. As part of that element, each senior manager is evaluated as to whether he/she "uses available resources (FTE and dollars) with effective results.... Follows sound procurement/contracting practices.... Establishes controls to ensure that manpower (FTE) and dollars are accounted for."

NRC Manual Chapters<sup>1</sup> provide the policy and guidance for work performed at DOE laboratories, including the responsibilities of the Office Director, other senior staff, and Project Managers for financial and administrative accountability. According to the guidance, the RES Office Director has "ultimate responsibility for the management and appropriate expenditure of agency funds allocated to the Office for DOE work." Senior management is required to "review the performance of the Project Manager and provide necessary guidance to ensure that the financial, administrative and technical aspects of the project are being adequately controlled and the objectives are met."

## FINDINGS

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Our work shows a serious breakdown in RES management's financial and administrative accountability for work performed at DOE laboratories. More specifically, we found that:

- o Projects were not being closed upon completion. Funds remaining from completed projects were unnecessarily tied up. At least \$1.4 million in such funds were identified as being potentially available for other agency uses as a result of this review.
- o Managers could not adequately account for NRC-funded property and equipment at DOE laboratories. Currently, the

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<sup>1</sup>NRC is currently revising its Manual Chapters into Management Directives. One Manual Chapter Bulletin used during our review became a Management Directive on September 17, 1992. However, for purposes of our report, we will use the term "Manual Chapter" in referring to agency policy or guidance.

acquisition value of all NRC-funded property and equipment at DOE laboratories is \$76 million, of which RES has funded a significant portion. Required procedures for the reallocation or disposal of these items were not followed.

- o Funds from prior fiscal years were improperly transferred from project to project without the required approval of the Office of the Controller (OC).
- o Final DOE laboratory performance on projects was not evaluated by Project Managers as required.
- o RES does not use available management tools for tracking project status. As of October 15, 1992, the agency could not account for the completion status of 1,400 projects begun since 1975.
- o Project Managers did not review project costs and could not determine the financial status of their projects.
- o Files were missing, incomplete, or disorganized.
- o Key personnel were not adequately trained in financial and administrative accountability. Project Managers did not follow procedures for which they were trained.

#### **UNTIMELY PROJECT CLOSURES RESULT IN FUNDS UNNECESSARILY TIED UP**

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One purpose of our review was to assess the effectiveness of RES' closeout process for DOE projects. According to Manual Chapter guidance, the closeout process entails: 1) closing projects promptly after completion; 2) determining that all deliverables have been received and accepted; 3) reconciling and deobligating all uncosted funds; 4) ensuring proper accounting and disposal of NRC funded property; 5) disseminating project results to various users; 6) evaluating and documenting DOE laboratory performances; and 7) disposing of data and records in accordance with applicable guidance.

We found that RES was not performing most steps necessary for closing out the DOE projects.

Early in our review, we compiled a list of 46 DOE laboratory projects that were completed, but not closed. Of these, 36 had unpaid obligations totaling about \$700,000, as of the end of February 1992. Due to the significant amount of money which could be put to better use, we reported these findings in a memorandum to the Executive Director for Operations (EDO) on April 2, 1992. Through additional audit efforts, we were able to identify another 142 DOE laboratory projects that were completed, but not closed. As of April 30, 1992, of the 188 (46 + 142) projects, all but 15 had been completed for over 6 months, with the average time since completion being 2.9 years. Because RES did not maintain an ongoing status of its DOE laboratory projects, we could not readily determine whether the 188 projects we identified addressed all DOE projects completed but not closed.

Subsequently, on April 22, 1992, the Director, Program Management, Policy Development, & Analysis Staff (PMPDAS), directed the four RES divisions to close out completed projects. As of July 10, 1992, RES had targeted approximately 300 projects for potential closeout, with remaining balances totaling over \$1.4 million that could be potentially deobligated and made available for other uses.

RES staff gave several different explanations as to why projects had not been closed. Some said that closing projects was a low priority and that management exerted no pressure to complete this process. However, we believe a lack of adequate procedures is the primary cause.

We found that Manual Chapter guidance for the closeout process is general in nature and that RES lacked detailed procedures for implementing this process. When we began our review, the only internal RES instruction regarding project closeout was an RES office letter dated November 26, 1991, which states that a key responsibility of a Project Manager is to "close out the project when (1) workscope has been completed, or (2) when the knowledge gained from research is sufficient to satisfy the needs of the NRC user, or (3) when the value of incremental knowledge from further research is no longer cost effective. Work should be closed out at the earliest possible time consistent with regulatory needs and planned objectives."

While RES guidance provides identification for when the closeout process should occur, we believe that additional and more specific instructions are necessary to ensure the proper deobligation and transfer of unpaid obligations, identification and disposal of NRC funded property and equipment, final evaluation of laboratory performance, and preparation of project files for final records retention and storage. Specific roles and responsibilities must also be delineated for RES personnel involved in the closeout process.

#### **NRC FUNDED PROPERTY AND EQUIPMENT IS NOT PROPERLY TRACKED OR DISPOSED**

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As of April 1992, DOE's annual inventory of NRC-funded property and equipment had a total acquisition value of over \$76 million. RES had funded a significant portion of the items. NRC Manual Chapter guidance provides specific requirements regarding the responsibilities of NRC, DOE, and the laboratories for the proposal, authorization and purchase, receipt, inventory control, and disposal of NRC-funded property and equipment. We found that RES was not following NRC procedures for tracking and disposing of property and equipment. Additionally, DOE was not following NRC Manual Chapter guidance regarding its responsibilities for NRC-funded property and equipment.

From our sample of 15 projects, 6 had NRC-funded property and equipment. Four of the six Project Managers could not independently determine what property or equipment had been acquired for their project. For example, one project valued at \$252,000 was established to support equipment purchases for another project. Neither the Branch Chief, who managed the \$252,000 project, nor his Project Manager, who managed the supported project, could provide an accounting of what had been purchased. Based on our request to the Project Manager, laboratory personnel ultimately provided a list of 40 items purchased. This list accounted for about 73% of the expended funds and was based on general descriptions of what was purchased through the laboratory's financial management system. For the balance of the equipment expenditures, the laboratory said that information about the final disposition of specific equipment would require searching historical property files and such a search would be time consuming. In order to ultimately close this

project, the laboratory will have to provide the Project Manager with a detailed listing of available equipment and material purchased in accordance with NRC procedures.

In the other three cases, we also found that Project Managers were not tracking property purchased for their projects. Until we furnished a copy of DOE's annual inventory, one Project Manager was unaware that nine personal computers and related ADP equipment, valued at more than \$52,000, had been purchased by the laboratory for his project. In another case, a Project Manager was not aware that the laboratory had acquired a personal computer and related ADP equipment valued at \$4,280 for her project. In the third case, the Project Manager was unaware that the laboratory had acquired three personal computers and related ADP equipment worth \$12,323 for his project. These conditions existed because the Division of Contracts and Property Management (DCPM), Office of Administration, did not circulate the annual DOE inventory lists to RES as required, and DOE had not supplied the requisite receiving reports at the time the items were purchased. Although all three projects were completed, the Project Managers did not ensure that final property reports were submitted by the laboratory in accordance with NRC procedures.

We believe the control and disposal of NRC-funded property and equipment at DOE laboratories has agency-wide implications. For example, we learned that other NRC program offices also are not receiving DOE receiving reports and DCPM has failed to circulate the annual DOE inventory NRC-wide.

#### **FUNDS IMPROPERLY TRANSFERRED BETWEEN PROJECTS**

During our work, we reviewed financial activity records related to RES projects from FY 1989 to June 1992. We found 32 instances where obligated funds from one project were improperly reallocated to another project. These transfers, totalling \$2.3 million, were approved by the cognizant Division Directors and did not obtain required approval from the NRC Controller.

Manual Chapter guidance on authorizing financial flexibility allows the reallocation of funds between projects. However, such reallocations must be authorized by NRC and recognized by the DOE performing organization prior

to October 1 of the next fiscal year. The guidance further states that "Issuing offices shall not authorize funds to be transferred between FINs<sup>2</sup> after the end of the fiscal year without the prior approval of the Controller."

According to the Director, Division of Budget and Analysis, OC, these controls were established to ensure that prior year funds are used for purposes similar to those originally designated. As a result of our work, the Controller issued a memorandum on July 10, 1992, citing that "This practice represents improper financial management and violates the requirement in NRC Manual Chapter 1102..."

#### **FINAL LABORATORY PERFORMANCE EVALUATIONS GENERALLY NOT MADE**

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As part of closing out a project, Project Managers are to "evaluate and document the performing organization's performance to include the technical, schedule and cost aspects" of the DOE Statement of Work. However, since RES has not performed close-outs, the Project Managers from our sample of 15 projects had not conducted final laboratory performance evaluations.

From our discussions with some of these Project Managers, it was clear that they were not aware of any NRC requirement to evaluate final laboratory performance. RES staff indicated that some evaluations were performed, but only when requested by the laboratory and not necessarily as final evaluations. For instance, we were advised that DOE's Pacific Northwest Laboratory was the only group to have requested such an evaluation. RES Division Directors or their Deputies said that they believed final evaluations would be beneficial.

We believe that final laboratory evaluations are necessary to identify unfavorable trends and to ensure that corrective actions to resolve such trends are taken before new work is placed at any laboratory that receives an unfavorable evaluation.

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<sup>2</sup>FIN means Financial Identification Number. FINs, as used in this sentence, represents RES funded projects at DOE laboratories.



## **RES MANAGEMENT DOES NOT USE AVAILABLE SYSTEMS FOR TRACKING PROJECT STATUS**

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We found that RES generally does not utilize existing management tools to track the status of projects from their inception. Early in our review, we requested the current status for 167 projects. (See Appendix 1, OBJECTIVES, SCOPE, AND METHODOLOGY, for an explanation for the process used to select the 167 projects.) RES provided us with data that indicated 128 projects were completed and 24 were active. We subsequently found that 11 of these 24 projects were actually completed. At the time of our review, these projects were completed from 7 months to 3 1/2 years, which averages to over 2 years without closeout occurring. Moreover, as of April 30, 1992, 7 of those 11 completed projects had unspent balances totaling approximately \$140,000. Due to inconsistencies between accounting and internal RES records relating to laboratory designations, we did not pursue the status of the remaining 15 projects.

During additional follow-up, PMPDAS staff advised us that, for projects initiated since 1975, they could not readily identify which have been completed or closed. Based on a "Regulatory Research List Of DOE Projects By FIN NO.," dated October 15, 1992, we determined that RES has not provided the completion status for over 1,400 projects.

We found that two systems are available to RES for tracking project status. One system, the Research Project Management Information System (RPMIS), provides a detailed summary of individual project status. RES also maintains a computerized budget system at the National Institutes of Health (NIH) that can be used to overview the status for all RES projects.

Although RES developed RPMIS several years ago to provide cost, schedule, and performance information on individual projects, it was not routinely used. In a 1990 memorandum to his Division Directors, the RES Office Director stated that RPMIS "...needs to be maintained so as to provide up-to-date information. Therefore, the RPMIS system must be updated for each project before a DOE work order (NRC Form 173) or Request for Procurement Action (RPPA) is executed and sent out from RES."



In reviewing our sample of RES projects, we found that RES staff had not adhered to this directive and had not recently used RPMIS. We were later told that the system was not used because it was not user friendly.

The information in the RES budget system maintained at NIH can be retrieved and sorted for all projects by RES Divisions, Branches, and Sections. We believe this budget system provides RES management with the capability to overview the status of projects for closeout purposes. By using this system, RES management could easily determine if projects were active, completed but not closed, or closed. At the time of our review, RES staff did not use the information in this system.

We believe the information contained in both the RPMIS and the RES budget system can be jointly used by both Project Managers and their supervisors to track the status and determine closeout capabilities for DOE laboratory projects. We were told by the Director, PMPDAS, that a prototype system to replace RPMIS was currently being developed. Additionally, he indicated that the feasibility of merging this prototype system with the RES budget information system was being considered.

#### **PROJECT MANAGERS DID NOT REVIEW DOE LABORATORY COSTS**

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In our recent audit report entitled "Improvements Needed In NRC's Process For Approving Payments To The Department Of Energy," we reported that NRC had paid about one-half billion dollars to DOE since 1986 without required RES review and approval and OC verification of those bills. We recommended that this be reported as a material weakness in internal controls, as required by the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123.

Since the required review and approval process for DOE payments had not taken place, we asked the RES Project Managers controlling our 15 sample projects to provide actual fiscal year costs for those projects. For five projects, the Project Managers were able to independently determine these costs based on information contained in the project files; however, the Project Managers were unable to independently determine actual costs for the other

10 projects due to inadequate financial information in the project files. The Project Managers relied on DOE laboratory representatives for assistance.

For 1 of the 10 projects, laboratory personnel could not furnish the actual costs for the first 6 fiscal years because laboratory records for the project, which began in 1975, were not readily available. This project had obligations totalling over \$15 million. In another case, a Project Manager determined from laboratory personnel that an unrelated task costing approximately \$63,000 had been charged to his project. The Project Manager could not provide an adequate explanation for this error.

For the remaining eight projects, Project Managers relied exclusively, or in part, on input from laboratory representatives to determine costs by fiscal year. According to laboratory representatives, the total cost associated with four of the eight projects was almost \$5 million. In these cases, laboratory representatives did not supply sufficiently documented support for the costs, so we were unable to draw any conclusions regarding the cost information. For the remaining four projects, the Project Managers only needed partial information, which was documented by and received from the laboratories. We were ultimately satisfied with the actual cost information provided by the laboratories for these four projects.

#### **MISSING, INCOMPLETE, AND DISORGANIZED PROJECT FILES COMPLICATE RES PROJECT MANAGEMENT RESPONSIBILITY**

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We initially asked RES for the status of 167 projects. RES identified 128 of the 167 projects as complete; however, files for 36 (28 percent) of those 128 projects could not be initially located and were considered missing. RES officials, however, subsequently found 16 of the 36 files; 20 were never located.

We reviewed those 16 files for completeness, but found only 5 to be complete. For the remaining 11 files, significant portions of the required contents were missing. For example, one project file did not contain the DOE source selection justification, NRC or DOE project proposal information, NRC Standard Orders For DOE Work, or DOE laboratory monthly status letter reports. However, annual or quarterly reports were available covering the

period from July 1982 through March 1984. This \$2.2 million project was active from FY 1976 to approximately FY 1987.

For another project, the Project Manager initially told us that the project was never initiated and that no activity had occurred. Subsequently, we determined that since FY 1981, \$3.9 million was obligated for this project and no funds remained. Later discussions with the Project Manager revealed that the project had been initiated in FY 1981 and ended sometime in FY 1990, but he had discarded the files. These actions clearly disregarded guidance on records retention which was applicable at that time. (Appendix II provides agency guidance for maintaining DOE project files.)

We also found that many project files were in a state of disorganization. Of our 15 sampled project files, 13 did not adhere to agency guidelines. One file consisted of a 1-foot high stack of loose papers. Monthly status letter reports were the only documents in any semblance of order. However, we were told that over 1 year's worth of these reports were discarded as the "file became too large." RES obligated over \$2 million dollars of NRC funds on this project, which was initiated in FY 1985 and completed in FY 1990. Of the two sample files that were properly organized, one was initially established by the Office of Nuclear Reactor Regulation and later transferred to RES.

RES staff associated with the inadequate project files said causes for the files' problems included inadequate procedures to ensure maintenance of files when branches reorganized or Project Managers left the office, lack of knowledge about record retention requirements by some staff members, and a void of document accountability procedures. However, we found these reasons to be inconsistent with recent RES memoranda, which clearly detailed file maintenance requirements. (Appendix III contains a discussion of RES memoranda regarding DOE project files.) We believe the condition of RES project files was the result of RES management not following up to ensure that directives regarding the project files were properly implemented.

### **LACK OF TRAINING FOR KEY PERSONNEL CONTRIBUTES TO BREAKDOWNS IN FOLLOWING AGENCY POLICY AND PROCEDURES**

According to Manual Chapter guidance, the Office Director is responsible for ensuring that Project Managers are properly trained. In a memorandum dated July 15, 1988, the RES Director instructed that "All RES Project Managers must complete the NRC Project Manager's Acquisition Training course by the end of FY 1989. Those project managers who took the course prior to 1984 must take it again." In a memorandum dated August 29, 1990, the RES Director reiterated that Project Managers should complete this course by the end of FY 1991 and "all Supervisors and Managers should take the 'Acquisition for Supervisors of Project Managers' course if they had not taken the 'Project Manager's Acquisition Training' course since 1985."

We found that 20 of 124, or 16 percent, of RES Project Managers had not taken the Project Manager's Acquisition Course as directed. We also found that 4 of the 26 Section Leaders and 3 of the 14 Branch Chiefs had not taken either course. Furthermore, only one Division Director and two Deputy Division Directors had taken either course. The RES Office Director and his two Deputy Directors had not taken either course.

Based on the number of RES Project Managers who have been trained, coupled with the previous findings in this report, we conclude that many Project Managers are not following the policies and procedures for which they were trained. Furthermore, we believe that senior RES managers should minimally take the "Acquisition for Supervisors of Project Managers" course. Unless senior managers are fully aware of the current agency project management methods, we question whether they can adequately evaluate the performance of their mid-level supervisors and Project Managers.

### **MANY CORRECTIVE ACTIONS UNDERWAY TO ADDRESS OUR FINDINGS**

During the review, we regularly advised the RES Director of significant findings and concerns. On September 14, 1992, we conducted an exit conference with senior RES management officials. As a result, prior to the completion of our report, RES officials notified us of proposed or directed corrective actions to improve both the financial and administrative

accountability of DOE laboratory projects. The identified actions are as follows:

- o RES developed an "RES Action Plan For Reducing Unpaid Obligations Balance" that identifies how RES and OC plan to reduce unpaid obligation balances in DOE and commercial contracts. The plan specifies the responsibility for each office, provides steps to ensure timely deobligation of funds, and establishes a system to monitor unpaid obligations. (Appendix IV contains this RES action plan.)
- o RES developed a draft procedure for Project Manager review and approval of DOE vouchers. The procedure provides detailed instructions for carrying out this process and addresses issues raised in our audit report entitled, "Improvements Needed In NRC's Process For Approving Payments To The Department Of Energy," dated August 31, 1992.
- o The RES Director identified that an annual quality assurance program for the review and approval process for DOE vouchers will be implemented in cooperation with DCPM or through an independent effort.
- o On April 22, 1992, RES initiated an extensive review of project files aimed at closing completed projects, with initial emphasis on identifying and deobligating large, unclosed balances associated with the projects.
- o The RES Director initiated actions to enhance project management through development of a suitable replacement for the RPMIS. A

prototype of this new system has been developed and will be circulated to RES divisions for review and comments.

- o On July 10, 1992, the Controller issued a memorandum notifying all Offices and Regions of the Manual Chapter guidance regarding Controller approval for transfer of funds.
- o On September 22, 1992, the RES Director issued a memorandum directing that project file maintenance be included in performance appraisals for managers. Additionally, in a memorandum dated October 5, 1992, the RES Director notified all RES employees of corrective actions to bring RES project files into conformance with NRC regulations. (Appendix V contains a copy of this memorandum.)
- o On July 21, 1992, the RES Director notified his Division Directors that employees who had not taken the required acquisition training courses should do so. As of August 1992, 14 of 26 Project Managers have attended the required training; however, senior managers have not.
- o RES officials developed and are implementing draft procedures detailing the closeout process. RES officials said they intend to formalize these procedures in the near future.

In addition to the corrective actions noted above and to further strengthen financial management, a senior NRC manager has been recently assigned as head of PMPDAS. We believe this is a positive move to further address financial issues within RES.



## CONCLUSIONS

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This review found numerous deficiencies in financial and administrative accountability at RES. Taken together, these discrepancies constitute a serious management breakdown in the oversight of research projects at DOE laboratories and the stewardship of Government funds.

Specifically, we found that funds can be put to better use, equipment can be better accounted for, and evaluation of laboratory performance is needed to ensure that funds are justifiably spent. Furthermore, it is evident that missing, incomplete, or disorganized files delay the closeout process and interfere with daily responsibilities for financial accountability. We believe inadequate RES procedures and insufficient project management training contribute to these irregularities.

We also believe our findings fully support the decision by the EDO to notify the OMB that management of agreements with DOE will be identified as a material weakness in NRC's FY 1992 FMFIA report. We commend the EDO and RES management for taking prompt and decisive actions to address and rectify many of the problems we identified. However, the agency will remain financially vulnerable until corrective actions are completed and adequate internal controls are established. Therefore, we believe NRC should take some additional steps, as well as strengthen the corrective actions already underway. Accordingly, we are making several additional recommendations.

## RECOMMENDATIONS

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In order to ensure that RES corrective actions are fully implemented in a timely manner, we recommend that RES:

1. Develop a formal action plan and schedule for completing corrective actions currently underway;
2. Identify and properly close those projects that have been initiated and completed since FY 1975;



3. Complete development of and establish procedures to ensure the use of the RPMIS replacement system for tracking and updating the status of all DOE projects; and
4. Ensure that senior RES managers attend training required for managers or supervisors of Project Managers.

Because we believe that control of NRC funded property and equipment at the DOE laboratories is an agency-wide issue, we also recommend that:

5. The EDO direct actions to ensure compliance with agency guidance related to the control and accountability of NRC-funded property and equipment at DOE laboratories.

## AGENCY COMMENTS

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On February 19, 1993, the Deputy Executive Director for Nuclear Reactor Regulation, Regional Operations and Research (DEDO) responded to our draft report and stated, "We have carefully reviewed this report and believe the recommendations are appropriate." The DEDO also provided specific comments on individual findings. We carefully reviewed the comments and made changes where deemed appropriate. Appendix VI contains a copy of the DEDO's comments.

We offer the following comments concerning the response to Recommendation 4. In that response, the DEDO said that by the end of FY 1993 all RES managers (Division Directors, Branch Chiefs, and Section Leaders) who have not already done so will attend one or more project management training courses. The DEDO did not identify the Director, RES and the two Deputy Directors as participants in this training. As the senior managers ultimately responsible for all project management activities in RES, we believe it is important that these senior managers also minimally attend the "Acquisition for Supervisors of Project Managers" course. This would ensure their familiarity with project management requirements for RES

employees and signify their commitment and support for effective project management in RES.

Regarding the DEDO's statement that the finding "Project Managers did not review DOE laboratory costs" is not supported by the contents of the draft report, we offer the following. In our draft report we identified an OIG audit report released August 31, 1992, and entitled, "Improvements Needed In NRC's Process For Approving Payments To The Department of Energy." In that report, we identified that RES had not reviewed and approved DOE monthly billing costs since 1986 and recommended that this finding be reported as a material weakness. NRC agreed with our recommendation on this matter. Therefore, we believe this finding is fully supported and we made no change to the report.

## OBJECTIVES, SCOPE, AND METHODOLOGY

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The Office of the Inspector General (OIG) initiated a review of project management in the Office of Nuclear Regulatory Research (RES), Nuclear Regulatory Commission (NRC), covering work performed at Department of Energy (DOE) national laboratories. Over the past several years, the Office of Administration, an NRC contractor, and the former Office of Inspector and Auditor have performed agency-wide reviews in this area that identified significant recurring deficiencies. Additionally, the U.S. General Accounting Office (GAO) recently reported that "DOE lacks assurance that its oversight and control of contract expenditures, through contract auditing, will deter and detect potential fraud, waste, and abuse." Furthermore, a recent DOE/OIG report to Congress indicated that "DOE managers lack adequate OIG assurance that the M&O [Management and Operating] contractors are operating economically, efficiently, and in the federal government's best interest."

The overall objective of our review was to evaluate the effectiveness and efficiency of RES' management of work placed with DOE laboratories. In particular, we focused on the closeout process and determined whether criteria was (1) clearly defined in policies and procedures, (2) adequately understood by those responsible for closing projects, and (3) effectively implemented.

We used information and guidance contained in NRC Manual Chapters, various NRC-DOE Memoranda of Understanding, and RES Office Letters as criteria for our review. We held interviews and discussions with NRC management and administrative staff from RES, the Office of Personnel, the Office of the Controller, the Office of Administration, and the Office of Information Resources Management. We also coordinated our efforts with DOE/OIG regarding cost coverage and project monitoring at the Sandia National Laboratory and the Idaho National Engineering Laboratory. Audit reports issued by the GAO and DOE provided additional background on financial conditions at DOE laboratories. We also reviewed training records for personnel involved with RES' project management activities.

Our review included an examination of 15 selected project files and supporting financial information. In our selection of DOE laboratory projects for detailed review of RES' closeout process, we compiled a list of 167 projects that had a significant likelihood of being closed or at least completed. Those 167 projects were identified as a result of reviewing accounting records of payments made to DOE through fiscal year (FY) 1990 and RES budget listings for projects ending in FY 1990. From this list, we selected a judgmental sample of 15 projects which represented a cross section of all RES branches.

Two scope limitations affected the depth and direction of our review. First, we did not expand the number of RES projects reviewed in detail beyond an initial cross section of RES branches. We had found that numerous project files were missing, and most files were disorganized or incomplete. An expansion of our original sample would have necessitated a large expenditure of time. Secondly, we were unable to rely on NRC's Office of Personnel records to evaluate the extent to which project management training had been provided to Project Managers and their supervisors. The records provided to us had errors that could not be satisfactorily explained or rectified in order for us to use the information they contained. Rather, we relied on training information collected by RES' Program Management, Policy Development, and Analysis Staff.

We conducted our review at NRC Headquarters between March and August 1992 according to generally accepted Government auditing standards.

## MANUAL CHAPTER GUIDANCE REGARDING DOE LABORATORY PROJECT FILES

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NRC Records Management Program  
Part 2 - Records Management  
Handbook 3.53 Part VII

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### Part VII

#### Standard NRC File System for Records of Work Performed Under the DOE/NRC Memorandum of Understanding (MOU)

##### Purpose (A)

This part establishes an Office Project File for maintaining administrative documents and records pertinent to work performed by DOE under the DOE/NRC MOU dated February 24, 1978. The contents of and the procedures for the maintenance of this file are described herein.

##### Scope (B)

This part applies to all NRC offices and to the boards, panels, and committees of NRC. These provisions—(1)

- Ensure that all programmatic endeavors are properly documented under approved Federal Records Schedules and that a complete record is maintained for each project performed under the DOE/NRC MOU. (a)
- Prescribe the minimum information that must be retained in the Office Project File. (b)
- May be supplemented or amplified to meet individual needs and practices. (c)
- Supplement the instructions contained in Management Directives 11.7, "Procedures for Placement of Work With the Department of Energy" (formerly MC 1102), and 3.57, "Correspondence Management" (formerly MC 0240), that require certain documents to be sent to the Division of Accounting and Finance, the Division of Budget and Analysis, Office of the Controller, the Division of Security, Office of Administration, and the Division of Information Support Services, Office of Information Resources Management. (d)

**NRC Records Management Program**  
**Part 2 - Records Management**  
**Handbook 3.53 Part VII**

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**Scope (B) (continued)**

This part does not include provisions for technical documentation (see Management Directive 3.50, "Nuclear Documents Management System" [formerly MC 0232]). Maintenance of technical documents (e.g., formal and interim technical reports) is the responsibility of the NRC Nuclear Documents Management System (see Management Directives 11.7, "Placement of Work With the Department of Energy" [formerly MC 1102], and 3.8, "Unclassified Contractor and Grantee Publications in the NUREG Series" [formerly MC 3202]). (2)

**Definition (C)**

The Office Project File is the group of records maintained by the office that funds the work performed under the DOE/NRC MOU. The file contains the documents, memoranda, and references that are administrative material and pertinent to a project. A project provides for the specific acquisition of goods or services to satisfy one or more objectives. It is assigned a unique financial identification number (FIN).

**Duties (D)**

The project manager is responsible for ensuring that all pertinent administrative information describing the projects for which he or she is responsible, from the point of initiation through final closeout action, is provided to the Office Project File. The office director shall designate in writing the organizational location and the individual responsible for maintaining the Office Project File. These designations must be provided to the NRC Records Officer. The files will be available for review by appropriate individuals at any time.

**Basic Requirements (E)**

The Office Project File includes all administrative documentation generated in the planning, execution, administration, and closeout of a project. The components and sections listed in Exhibit 22 are to be used as a guide in establishing and maintaining the files. The listed components are included in the file if they are generated in support of the project. Each project file contains NRC Form 385, "Project File Identification" form (Exhibit 23), to identify the responsible project manager and the organization of the file components. If all the documentation associated with a particular project is not maintained in one location, the "Project File Identification" form shows the

NRC Records Management Program  
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**Basic Requirements (E) (continued)**

organization responsible for those components maintained elsewhere. A separate file folder for each FIN is maintained in each of the locations where the various elements of the file are stored.

**Retention of Files (F)**

The Office Project File is maintained for the active period of the FIN. Upon closeout, the file is forwarded to the NRC Records Officer for disposition under the provisions of the U.S. General Records Schedule and the "NRC Comprehensive Records Disposition Schedule," NUREG-0910.

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Approved: September 17, 1992

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NRC Records Management Program  
Part 2 - Records Management  
Handbook 3.53 Exhibits

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## Exhibit 22

### Office Project File Sections and Contents

#### Section 1: Project Background

- Project Descriptive Summaries
- Project briefs or other identifying documentation
- User request letters
- Response letters
- Endorsement letters
- NRC Form 367, "DOE [Department of Energy] Source Selection Justification"
- Memorandum recording review group appraisal

#### Section 2: General Correspondence

- Memoranda on meetings, telephone conversations, decisions, and so forth
- Correspondence (interagency or interoffice)
- Miscellaneous pertinent documentation

#### Section 3: Proposal Information

- Statement of Work
- Requests for Proposal
- Proposals (Schedule 189s)
- Proposal evaluation memoranda
- Other appropriate proposal documentation
- Other appropriate documentation regarding Management Directive 10.6, "Utilization of Consultants, Members, and Other Advisory and Assistance Services" (formerly MC 4139)

#### Section 4: Program Execution

- Initial NRC Form 173 and attachments, including any documentation (NRC Form 189 or other forms) that refines or augments the terms and conditions of the Statement of Work for the project
- Concurrence page of transmittal memorandum
- Security/Classification (NRC Form 187)
- Subcontract information
- Program modifications (NRC Form 173 and attachments)
- Program closeout (NRC Form 173 and attachments)
- Property acquisition records
- Disposition of NRC-owned documentation generated at DOE work center
- Disposition/protection of proprietary information

NRC Records Management Program  
Part 2 - Records Management  
Handbook 3.53 Exhibits

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Exhibit 22 (continued)  
Office Project File Sections and Contents  
(continued)

Section 5: Program Monitoring

- Monthly/quarterly letter status reports
- Task and subtask reports
- Review reports
- Performing organization performance evaluation
- NRC Form 426A, "Release to Publish Unclassified NRC Contractor, Consultant, or Conference Proceedings Reports"

Section 6: Funding Information

- Voucher log
- SF 1081 Voucher and Schedule of Withdrawals and Credits
- Project reprogramming documentation
- Ninety percent funding notification
- Final closeout voucher

NRC Records Management Program  
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Exhibit 23

NRC FORM 200 4-80		U.S. NUCLEAR REGULATORY COMMISSION		REV. 10-1989
PROJECT FILE IDENTIFICATION				
PROJECT TITLE (Include Project Number, if any)				
PROJECT NUMBER				TELEPHONE NUMBER
NOTE: DETAIL: Complete sections 1 and 2 only if project is a new project. If project is a continuation of a previous project, complete sections 3 and 4 only.				
1. SECTION	2. CONTENTS	3. RESPONSIBILITY ORIGINATOR	4. TELEPHONE NUMBER	

Approved: September 17, 1992

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## EXCERPTS FROM RES MEMORANDA REGARDING DOE LABORATORY PROJECT FILES

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During our review, we found memoranda from Office of Nuclear Regulatory Research (RES) management officials directing actions to be taken regarding Department of Energy (DOE) laboratory project files.

As early as December 21, 1987, some RES staff were notified of the requirements regarding DOE laboratory project files. In a memorandum to RES Technical Assistants, the Financial Management Branch Chief notified them of a pending audit of RES contracting with the DOE laboratories by an outside consultant. In that memorandum, the Branch Chief said the following:

Attached is a copy of the checklist the contractor will be using when reviewing project files. You may want to have your Project Managers begin looking at their files to ensure that available documentation is in their files.

All project files should be assembled/documentated in accordance with Manual Chapter 1401...

In a RES Office Letter dated June 28, 1991, the RES Director points out that:

All project managers maintain project files for each project in accordance with MC [Manual Chapter] 1401-3. All project documentation is kept together--if project managers change, the project file goes with the project. Branch chiefs and/or section leaders conduct random checks of project files to assure proper documentation is present for new contracts and report on the condition of the file. This review, in turn, is monitored by the division management. Project managers are held responsible for providing proper documentation for their contract files.

In another RES Office Letter dated November 26, 1991, the RES Director points out that a collateral responsibility of RES Project Managers is to "Maintain the official project file for DOE projects and other interagency

agreements. See Appendix A for specific instructions and requirements in this regard." Appendix A to this letter, entitled DOE PROJECT MANAGEMENT FILES, states:

Specific guidance for this subject is found in NRC Bulletins 1401-1, 1401-2, 1401-3, and 1401-4, as appropriate. All RES project managers are to be fully familiar with these bulletins and implement the requirements contained in these bulletins for all DOE laboratory projects.

Since the project manager maintains the official project file for DOE work, these files must be complete and provide an accurate record of the events/actions from initiation through completion of the work. For example, it is very important to keep notes in the files when problems arise and are dealt with telephonically. Anyone reviewing the files should be able to easily see the decisionmaking process concerning each DOE project.

In a memorandum of July 10, 1989, a Division Director notified his Branch Chiefs that:

As a result of contractual irregularities which have arisen over the past year, I am instituting several procedural changes for FY90 which I believe will improve the quality of our project management. The problems encountered were:...

2. No project files or incomplete project files  
- All project managers will maintain project files for each project in accordance with M.C. 1401-3. All project documentation should be kept together not spread all over the office. If project managers change, the project file goes with the project...

As a result of these contractual irregularities which were highlighted above over the past year, I am instituting the following series of checks and balances to assure that...contract management continues to improve:...

3. I would like Branch Chiefs/SLs to conduct random checks of project files to assure proper documentation is present for new contracts and report back to me the condition of the file. A spot check of old contract files will begin with FY90 documentation. Project managers will not be held responsible for providing proper documentation prior to issuance of this memo.

In a subsequent memorandum dated May 25, 1990, this same Division Director told his Branch Chiefs that "As a result of contractual irregularities which have arisen over FY89, I instituted several procedural changes which improved the quality of our project management. The problems encountered below were considerably lesser in nature than those in FY89, but I want you to be alerted that these problems still exist." He then repeated the same statements cited previously. However, in this letter he indicated, "Project managers will be held responsible for providing proper documentation for their contract files."

In a memorandum dated July 25, 1991, this Division Director again identified "problems which existed in prior years and still need improvement" and again repeated the same statements cited previously. However, regarding the random audits of project files by "Branch Chiefs/SLs" he stated, "You should audit at least one and preferably two files a quarter and document your findings."

Finally, in a memorandum dated December 9, 1991, another Division Director advised his Project Managers that OIG had selected RES as the subject of a planned audit in April 1992. In the memorandum, he said the following:

I want to be sure that Project Managers understand that they and they alone are responsible for the official files of projects at national labs. All project files should be complete so that anyone reviewing the file can trace the history of the project from the time a statement of work was written and sent out to the laboratory up through the time of the close-out of the project or currently if the status is ongoing.... The IG audits only our DOE files and interagency agreements files because we have the official files. I expect all project files to be in good order, since this is a mark of a properly managed project.



## RES ACTION PLAN FOR REDUCING UNPAID OBLIGATION BALANCE

Task 1: Analyze the Magnitude and Location of the Problem

Determine where high unpaid obligations exist and identify the actions to eliminate the problem. An active FIN with more than 60-90 days of funding at the end of FY 1992 or an inactive FIN with surplus funds that have not been deobligated are considered to have high unpaid obligations and require remedial action.

OC will assist in the analysis by providing RES with a dbase file that contains official accounting records. Also, OC will generate several reports with the following summary information:

- o Summary of Unpaid Obligations by RES Program
- o Summary of Unpaid Obligations by Contractor
- o Summary of Unpaid Obligations by Funding Ranges
- o List of FINs with Unpaid Obligations in More Than One Fiscal Year
- o List of FINs with No Payment Activity (for current fiscal year)
- o Summary of Unpaid Obligations with No Payment Activity by Funding Ranges (for current fiscal year)

The following screening criteria will be used to determine the FINs that have the greatest potential for contributing to high unpaid obligation balances and require further evaluation in the near term. This screening criteria will be applied to September 1992 accounting reports which are scheduled to be finalized by October 21, 1992.

- o M Year or FY 1991 Unpaid Obligations that exceed \$100K
- o FY 1992 Unpaid Obligations that exceed \$250K
- o Unpaid Obligations in more than one fiscal year
- o No payments have been made in FY 1992

Each FIN identified in the screening process will be categorized as either (1) an inactive contract requiring close out, (2) an active contract with high unpaid obligations (more than 60-90 days of continuity funding), or (3) an active contract without high unpaid obligations. For inactive contracts, the close out process will be initiated. In addition, the contractor and the surplus

Appendix IV  
Improved Accountability Needed for RES Work at DOE Labs

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funds to be deobligated will be identified for each inactive FIN. For active contracts with high unpaid obligations, we will identify the estimate of the surplus funds, the number of months that work can continue with the remaining funds, and the remedial action to be taken. No action is required for active contracts without high unpaid obligations.

The actions that can be taken to show improvement towards achieving the goal of 60-90 days of program continuity funding include:

- o Deobligating surplus funds immediately
- o Reducing the FY 1993 budget and/or the FY 1994 budget request and using unpaid obligations in excess of the 60-90 day continuity funding goal

At minimum, the following information will be prepared for RES and OC management.

Inactive Contracts

- o Identify each FIN with surplus funds to be deobligated
- o Summarize DOE and commercial FINs and total funding
- o Identify each FIN, the unpaid obligation balance, the surplus funds, the average monthly costs, and the remedial action.

After the initial review is completed, any FINs with M Year unpaid obligation balances that were not identified in the screening process will be evaluated.

This task will be completed by November 15, 1992.

Task 2: Long-Term Actions

Under this task, a routine system is planned for continuing to monitor unpaid obligations that strives to meet the agency financial management goal of 60-90 days of program continuity funding and to prevent recurrence of high unpaid obligations balances in RES.

All projects for which funds are to be obligated will be screened to determine whether high unpaid obligation balances exist prior to sending the action out of RES. This will be handled routinely by PMPDAS/FMB and the RES Divisions as paperwork for projects makes its way through the system. All actions that result in exceeding the 60-90 days of program continuity funding into the next fiscal year will be questioned during the screening process.

In addition, all FINs for which remedial action has been identified in the first task will be reviewed to ensure that remedial action has been taken. Over time, these actions will achieve an acceptable level of unpaid obligation carryover.

We will continue to monitor this situation until the RES goal of 60-90 days of program continuity funding is achieved and ensure that this situation does not occur in the future.

## RES MEMORANDUM REGARDING IMPROVEMENTS FOR DOE PROJECT FILES



UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D.C. 20545

OCT 5 1992

MEMORANDUM FOR: All RES Employees

FROM: Eric S. Beckjord, Director  
Office of Nuclear Regulatory Research

SUBJECT: MANAGEMENT OF DOE PROJECT FILES BY RES

Over the past year, this Office has undergone a review of DOE project files by the Division of Contracts and Property Management, and an audit by the Office of the Inspector General (OIG). Both have concluded that the RES files examined were incomplete and inadequate. This situation is not acceptable to me, and it must be promptly corrected.

The purpose of this office letter is to set in motion the necessary corrective actions to bring RES project files into conformance with NRC regulations. This office letter further defines project manager responsibilities and provides a system of accountability for the maintenance of project files. I recognize that it may not be possible to bring old files up to current standards. However, the DOE project files constitute the official agency record for the proper expenditure of public funds and, thus, they must be complete, up to date and properly organized from now on.

The procedure described in the enclosed office letter calls for an annual review and certification (Webster's Dictionary defines "to certify" as "to attest authoritatively") to be completed at the branch level by September 30, and at the division level by the end of October.

For this first year, in 1992, we will undertake review of the files now, in order to determine the extent of file deficiencies, to be ascertained and reported to division directors by the end of October, with recommended corrective actions for deficiencies, and with a schedule for early completion of these actions. The full implementation of the Office Letter, with regard to certification and review of the files, will be effective in FY 1993.

Handwritten signature of Eric S. Beckjord.  
Eric S. Beckjord, Director  
Office of Nuclear Regulatory Research

Enclosure: As stated



UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D.C. 20545

OCT 5 1992

MEMORANDUM FOR: All RES Employees

FROM: Eric S. Beckjord, Director *Eric S. Beckjord*  
Office of Nuclear Regulatory Research

SUBJECT: RES OFFICE LETTER NO. 7 APPENDIX B REQUIREMENT FOR  
CERTIFICATION OF DOE PROJECT FILES, PROJECT FILE AND VOUCHER  
REVIEW PROCEDURES, AND TURNOVER OF PROJECT MANAGER  
RESPONSIBILITIES

The purpose of this office letter appendix is to amplify RES project manager responsibilities for maintaining DOE project files promulgated under Office Letter 7, to establish a requirement for Annual Certification of completeness of DOE project files, to establish a system of reviewing selected DOE project files and vouchers for compliance with pertinent regulations, and to establish requirements for effective turnover of DOE project manager responsibilities when project manager responsibilities are shifted from one project manager to another. The requirements of this Appendix B are in addition to the existing requirements of RES Office Letter No. 7.

A. Annual Certification of DOE Project Files

1. Project Manager Responsibilities

Project managers are responsible for maintaining DOE project files. Before the end of the fiscal year, RES project managers of DOE projects must review each DOE project file for which they have responsibility and certify to their branch chief that the file is complete and up to date consistent with NRC Records Management Program, Part 2, Records Management Handbook 3.53, Exhibits 22 and 23 and RES OL's. Project managers will complete the attached DOE Project File Checklist and sign and date the certification portion, put the original in Section 5 of the file, and submit a copy to their branch chief in September of each year. If applicable documents are missing then the project manager must identify these documents on the "Checklist for DOE Project Files" and complete the file documentation by September 30.

2. Branch Chief Responsibilities

The branch chief is responsible for ensuring the completeness and adequacy of DOE project files in his/her branch. In September of each year, each RES branch chief shall select a representative sample (as directed by the cognizant division director) of DOE project files at random in his/her branch to review for completeness and to insure that

All RES Employees

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they are being properly maintained. The review shall compare the selected project files against the attached checklist. The results of that review shall be documented by a memorandum and provided to the cognizant division/staff director by September 30. The memorandum shall include for each file review, the FIN, project title, project manager, and the findings of the review. If no discrepancies were found, the findings shall so state; discrepancies noted shall be corrected as soon as possible and a plan for corrective actions provided to the respective division/staff director. The review of project files may be redelegated to branch section leaders. However, the branch chief is still responsible for ensuring that project files are complete and properly maintained.

3. Division Director Responsibilities

Division/staff directors are responsible for ensuring the completeness and adequacy of DOE project files in their respective organizations. They shall notify the RES Office Director of the completion of their division/staff review, the results of that review, and any needed corrective action each year by October 15. A monthly status report on corrective actions shall be provided to the office director until all such actions have been completed.

4. Interdivisional Review Team

In October of each year, each division director shall designate one individual to serve on an Interdivisional Review Team. One individual will be appointed Team leader by the office director. This team shall randomly select one file from each branch within RES for review as to conformance with file maintenance requirements. Since file selection will be random, those files may or may not have already undergone a review by the branch chief. The findings of the team review shall be documented and provided directly to the RES Office Director by the end of the calendar year.

B. Review of DOE Vouchers for Compliance with NRC Directives and RES Office Letters

In March of each year, the Director, PMPDAS will request that a representative of the Division of Contracts and Property Management be designated to randomly review a sample of completed RES consolidated DOE vouchers for post payment review. If such assistance is not available then an independent firm or individual will be requested to do this review. The review will consist of checking whether NRC procedures (as approved in NRC Manual Chapter 1102 and promulgated in RES Office Letters) were followed for post payment review and approval in the RES divisions and PMPDAS and reporting discrepancies to the RES Office Director.

All RES Employees

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C. Turnover Requirements

When a DOE project is reassigned from one project manager in RES to another for reason of personnel transfer, retirement, reassignment of functional responsibilities, or any other reason, the following turnover requirements are to be met:

1. Currently Assigned Project Manager

Under normal circumstances the project manager shall be directed by RES management to ensure that the DOE project file in question is up to date. This shall be done by requiring the project manager to certify file completeness as in A. above. Also, physical transfer of project files shall be accomplished through the project manager's branch chief.

2. Newly Assigned Project Manager

The project manager to whom the project is assigned shall verify within one month of assignment that DOE files are complete. If they are not complete the project manager shall report this to their branch chief and take actions necessary to complete the file.

3. Documentation of Project Reassignment

The transfer of project responsibilities shall be accomplished via a memorandum from the cognizant branch chief to the current and newly assigned project manager with a copy to the Financial Management Branch/PMPDAS. The memorandum shall include the project FIN and specify the effective date of transfer. A copy shall be placed in Section 2 of the file.

This office letter applies to all active RES DOE laboratory projects. This includes all projects on which work is ongoing, and projects completed over the past year which have not been formally closed out.

In the case of older or long term projects for which a project manager may have inherited an incomplete file, the actions taken to complete the file should be fully documented if items are missing and the project manager is unable to complete the file.

Enclosure: DOE Checklist



CHECKLIST FOR DOE PROJECT FILES

(From exhibit 22 Records Management Handbook 3.53)

Recognizing that some of the below listed may not  
in all cases be applicable, they should be so marked.

Fin # \_\_\_\_\_

Project Title \_\_\_\_\_

Project Manager \_\_\_\_\_

Name \_\_\_\_\_

Latest Copy Present  
(Yes or No or N/A and Date)

Section 1 - PROJECT BACKGROUND

- Project descriptive summaries (if needed for SCRB)
- Project briefs or other identifying documentation  
(from Program Assumption Letters)
- User request letters
- Response letters
- Endorsement letters
- DOE Source Selection Justification (NRC Form 367)
- Memorandum recording review group appraisal (SCRB,  
CRG (Center Review Group), etc.)

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Section 2 - General Correspondence

- Memos on meetings, telephone conversations, decisions, etc.
- Correspondence (interagency or interoffice)
- Miscellaneous pertinent documentation

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Section 3 - Proposal Information

- Independent Government Cost Estimate\* (if project exceeds \$100K)
- Statement of Work
- Requests for Proposal (Program Assumption Letters)
- Proposals (Form 189s)
- Proposal evaluation memoranda
- Other appropriate proposal documentation
- Other documentation, "Utilization of Consultants and  
Members" appropriate documentation (Mgt. Directive 10.6)

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Section 4 - Program Execution

- Initial NRC Form 173s and attachments, including any  
documentation (Forms 189 or others) that refines or augments  
the terms and conditions of the project Statement of Work
- Concurrence page of transmittal memorandum
- Security/classification (NRC Form 187)
- Subcontract information
- Program modifications (Form 173s and attachments)
- Program closeout (Form 173 and attachments)
- Property Acquisition records
- Disposal of property report (when closed out)
- Disposition of NRC-owned documentation  
generated at DOE work center
- Disposition/protection of proprietary information

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Appendix V  
Improved Accountability Needed for RES Work at DOE Labs

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CHECKLIST FOR DOE PROJECT FILES (Cont'd)

Fin # \_\_\_\_\_  
Project Title \_\_\_\_\_  
Project Manager \_\_\_\_\_  
Name \_\_\_\_\_

Section 5 - Program Monitoring

- Monthly/quarterly letter status reports \_\_\_\_\_
- Task and subtask reports \_\_\_\_\_
- Review reports \_\_\_\_\_
- Performing organization performance evaluation \_\_\_\_\_
- NRC Form 426a "Publication Release for Unclassified NRC Contractor and Consultant Reports" (See Management Directive 3.7 Unclassified Staff Publications in the NUREG Series; Formerly MC 3201) \_\_\_\_\_
- Copy of final report/work product\* \_\_\_\_\_
- Checklist for DOE Project Files\* \_\_\_\_\_

Section 6 - Funding Information

- voucher log \_\_\_\_\_
- voucher approval forms (Formerly SF 1081 vouchers) \_\_\_\_\_
- Project reprogramming documentation (e.g., copy of change control form for redirections or reprogramming) \_\_\_\_\_
- 90% funding notification \_\_\_\_\_
- Final closeout voucher \_\_\_\_\_

\*These items added by RES  
The file for this Project is Complete

Signature \_\_\_\_\_  
Date \_\_\_\_\_

The file for this Project is Incomplete As Noted Above

Signature \_\_\_\_\_  
Date \_\_\_\_\_

If incomplete, describe below or attach page(s), to detail actions to complete the file.

## AGENCY COMMENTS ON DRAFT REPORT



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

February 19, 1993

MEMORANDUM FOR: Thomas J. Barchi  
Assistant Inspector General  
for Audits

FROM: James H. Sniezek  
Deputy Executive Director  
for Nuclear Reactor Regulation,  
Regional Operations and Research

SUBJECT: DRAFT REPORT - IMPROVEMENTS NEEDED IN  
FINANCIAL AND ADMINISTRATIVE ACCOUNTABILITY  
FOR OFFICE OF NUCLEAR REGULATORY RESEARCH  
FUNDED WORK AT DEPARTMENT OF ENERGY LABORATORIES

This is in response to your memorandum of January 14, 1993, which requested our comments on subject report. We have carefully reviewed this report and believe that the recommendations are appropriate.

Our response to the five recommendations is as follows:

### Recommendation 1

Develop a formal action plan and schedule for completing corrective actions currently under way.

### Response

We agree. A formal action plan and a schedule are being developed for completing corrective actions under way in RES. The plan will be reviewed and approved by me and will be in place by February 26, 1993.

### Recommendation 2

Identify and properly close those projects that have been initiated and completed since FY 1975.

### Response

We agree. Action to close out all RES DOE laboratory projects that have been completed is in progress. First priority is being given to deobligating funds for projects with unpaid balances. In pursuing the closeout of projects completed years ago, we plan to use an abbreviated closeout procedure appropriate to the age of the project. We plan to close these projects within the next 12 months.

Thomas J. Barchi

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Recommendation 3

Complete development of and establish procedures to ensure the use of the RPMIS replacement system for tracking and updating the status of all DOE projects.

Response

We agree. The replacement system for RPMIS for the tracking and updating of the status of all projects is under development. A pilot system has been developed and is ready for testing within one RES Division. Action has been initiated with the Office of Information Resources Management to help RES assess the results from this pilot and to also achieve an automated capability for procurement planning, execution, and financial management. Our target schedule is to complete the pilot program and to have a replacement system in place before the end of FY 1993.

Recommendation 4

Ensure that senior RES managers attend training required for managers or supervisors of Project Managers.

Response

We agree. By the end of FY 1993, all RES managers (Division Directors, Branch Chiefs, and Section Leaders) who have not already done so will attend one or more project management training courses, either Acquisition for Project Managers, or Acquisition for Supervisors and Managers of Project Managers, or the Research Project Managers' Course. Additionally, RES will continue to take followup action to ensure that all Project Managers attend both Acquisition for Project Managers and the Research Project Managers' Course.

Recommendation 5

The EDO direct actions to ensure compliance with agency guidance related to the control and accountability of NRC-funded property and equipment at DOE laboratories.

Response

We agree. Consistent with this recommendation and the L...C Financial Management Five Year Plan, the EDO will direct the staff to do the following:

- 5.1. Emphasize to DOE the importance of accurate and timely reporting of property acquisitions and establish procedures to monitor this process.

Completion date: June 30, 1993

Thomas J. Barchi

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- 5.2. Establish controls to ensure that the reconciled final property reports are provided by DOE at project closeout and that these reports are screened by NRC offices for possible property reuse.

Completion date: June 30, 1993

- 5.3. Establish followup procedures to ensure consistent NRC-wide distribution of DOE annual property lists.

Completion date: June 30, 1993

Management Directive 11.7 will be revised to incorporate the above guidance and procedures following completion of the pilot currently under way in RES. DCPM expects to issue this directive by September 30, 1993. In addition, the "Acquisition for Project Managers" and "Acquisition for Supervisors and Managers of Project Managers" training courses will be revised to reflect this updated guidance and to emphasize property management responsibilities. Completion date: September 30, 1993.

Specific comments on individual findings and supporting material are enclosed. The enclosure also describes recent actions that RES has taken, beyond those reflected in the draft report, to further improve both the financial management of and administrative accountability for DOE laboratory projects. Moreover, since the audit was completed, I have given approval to hire two additional staff members in the Financial Management Branch of RES to strengthen its ability to support these improvements in financial management and administrative control. Also project management has been given additional emphasis by requiring each Project Manager to have a separate performance element and standard so that Project Managers will be critically evaluated on their performance each year. Other agency wide initiatives have also been taken that will assist in this regard. For instance, the draft Management Directive 11.7, "NRC Procedures and Management Controls for Placement and Monitoring of Work with the Department of Energy," is now being implemented within RES on a trial basis to confirm its practicality and adequacy and work out any problems.

Finally, we believe that certain statements and findings in the draft report are too general and are not supported by the report. As a result, such statements can mislead readers. Thus, we request that these be revised. For example, the finding "DOE laboratory performance on projects was not evaluated by Project Managers as required" (on page 4 of the draft report) would seem to indicate that RES projects received no oversight by RES Project Managers after being placed. In fact, projects are continuously evaluated by the Project Managers, but the final written evaluation required at closeout was generally not completed. Thus, we believe that this finding should be revised to read: "Final Laboratory Performance Evaluations Generally Not Made."

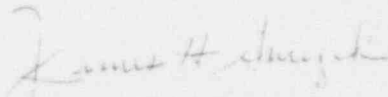
Further, we believe the finding "Project Managers did not review DOE laboratory costs" is not supported by the contents of the draft report. The report documents that Project Managers could not find sufficient cost

Thomas J. Barchi

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information in their files to answer the auditor's questions. This reflects the file documentation problems described elsewhere in the report. However, the finding statement itself states they did not review costs. Such a statement implies that Project Managers do not pay attention to the costs reported to them by the DOE laboratories each month, and this is just not the case. Thus we believe the finding statement should be revised to read "Project Managers did not have sufficient documentation in their files to track in detail the historical costs for their projects." There is, however, room for improvement in this area, and RES has taken action to put more emphasis on this aspect of our Project Managers' responsibilities, including appropriate documentation in the files.

We appreciate the opportunity to review this report. If you wish to discuss this matter, please let me know.



James H. Sniezek  
Deputy Executive Director  
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Enclosure: Findings and  
Discussion



ENCLOSURE

FINDINGS AND DISCUSSION OF ACTIONS UNDER WAY  
OR COMPLETED SINCE PERFORMANCE OF THE AUDIT

Findings

- (a) Projects were not being closed upon completion.
- (b) Project Managers could not adequately account for NRC-funded property and equipment at DOE laboratories.

Discussion:

As described in the draft report, RES developed and put in place interim procedures for the closeout of DOE laboratory projects and the disposition of equipment. The requirements contained in the interim procedures were taught to all Project Managers who attended the RES Project Managers' Course. RES is now in a position to finalize those procedures, and an Office Letter on this subject is scheduled for issuance in March 1993. The Office Letter will give specific instructions necessary to ensure the proper deobligation of funds, provide for the identification and disposal of NRC-funded equipment and property, require a final written evaluation of laboratory performance, and provide for final records retention and storage. RES training programs will be appropriately modified based on the Office Letter requirements.

With regard to the status of closing out completed DOE projects, a closeout schedule for DOE projects with unpaid balances has been developed, with the highest priority being given to projects having the largest balances. RES expects to have all funds deobligated for completed prior-year projects in May 1993. Action to initiate closeout for all other completed projects (those with no unpaid obligation balances) is also in progress. As of this writing, of the 291 completed prior-year DOE projects with unpaid obligation balances, 75 have been submitted to DOE for closeout, thereby deobligating \$384K. Letters have also been sent to DOE requesting the required property report or clarification of property problems for another 115 projects. We will soon be issuing similar letters for the remaining 101 projects.

With regard to the \$76M which is attributed by the draft report to the acquisition value of DOE's annual inventory of NRC-funded property and equipment, it should be recognized that much of the equipment listed is old and obsolete with its current depreciated value much lower than \$76M.

Further, this listing continues to include about \$30M of equipment and facilities associated with the LOFT experiment, although this facility and equipment were transferred from NRC to DOE on October 1, 1982, by the "NRC DOE Interagency Agreement on LOFT Program Responsibility."



Appendix V:  
Improved Accountability Needed for RES Work at DOE Labs

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Because of this transfer, the LOFT facilities and equipment do not belong in the DOE annual inventory.

Finding

Funds from prior fiscal years were improperly transferred from project to project without the required approval of the Office of the Controller.

Discussion:

The draft report seems to imply that such improper transfers were occurring while the audit was under way. RES acknowledges there were limited instances in the past where funds were transferred without written approval, but this was not a widespread practice. Further, RES stopped this practice prior to the IG audit and it has not occurred since then.

Finding

Final laboratory performance evaluations generally not made.

Discussion:

We agree. As discussed in the transmittal memorandum, we will soon issue a RES Office Letter containing procedures for the closeout of DOE projects. It will include specific instructions on conducting final written performance evaluations.

Finding

RES does not use available management tools for tracking project status.

Discussion:

As discussed in the transmittal memorandum, the replacement system for RPMIS to track and update the status of all DOE projects in RES is under development. We expect to implement the replacement system by the end of FY 1993.

Finding

Project Managers did not review project costs and could not determine the financial status of these projects.

Discussion:

We agree that there were instances where Project Managers did not have adequate information in their files to determine the financial status of their projects. However, action has been taken by RES management to emphasize the need for proper documentation and review of costs.

Since the audit was completed, the RES Office Director, on November 4, 1992, signed Office Letter No. 21, "Procedures for Project Manager Review and Approval of DOE Vouchers." This Office Letter specifies what costs should be provided on the Monthly Letter Status Reports (DOE laboratory cost reports) and prescribes their monthly review and reconciliation with principal investigators at the DOE laboratories. This Office Letter also prescribes the process for review and reconciliation of DOE vouchers (payment information) with reported costs.

In addition, the review of costs and their relationship to work products has been emphasized by training and by RES management. Upon receipt of the vouchers from the Office of the Controller, voucher reviews are now promptly undertaken by Project Managers to reconcile any differences that may exist between the reported costs and the actual payments.

The improvements to RES automated systems described elsewhere in this response will also help Project Managers track and assess costs associated with their projects.

#### Finding

Files were missing, incomplete or disorganized.

#### Discussion:

On October 5, 1992, the RES Office Director signed Office Letter 7, Appendix B, "Requirement for Certification of DOE Project Files, Project File and Voucher Review Procedures, and Turnover of Project Manager Responsibilities." The appendix to this Office Letter requires, among other things, that Project Managers certify annually that DOE project files are complete and that RES management verify these certifications. As a result, all active files for FY 1992 and FY 1993 will be certified as complete by the end of April 1993.

With regard to the project mentioned on page 17, wherein the Project Manager told the IG audit team that the project was "never initiated and that no activity had occurred," yet \$3.9M was obligated and the files had been discarded, RES believes there was a misunderstanding that led to this apparently uninformed response by the Project Manager. The project in question had existed for a number of years, as part of the NRC's Severe Accident Sequence Analysis (SASA) program. The NRC Project Manager who was interviewed by the IG inherited this project in FY 1985, at which time no project files were transferred. Prior to this change in Project Managers, the project was funded at between \$500K and \$800K/year. Under the new Project Manager work in support of SASA continued, and \$335K was spent in FY 1986. In parallel, a plan was established to modify this project's scope to start work in a program called "Mechanistic Evaluation of Severe Accident Phenomena" (MESAP).

Due to Gramm-Rudman budget cuts, MESAP was cancelled in April 1988, with only \$308K having been expended on MESAP work. We understand the IG auditor only referred to the project by its identification number and not by its title when questioning the Project Manager some 4 years after the project had been cancelled. Therefore, the Project Manager assumed the IG was asking about MESAP and his response, i.e., that the activity was never initiated, was his characterization of the then defunct MESAP program. The above explanation is not intended to condone the Project Manager's actions of (a) disposing of the files and (b) not readily knowing about the work that was performed under his direction, but it does indicate there was some confusion and miscommunication involved. The Project Manager has been counseled on this situation.

Finding

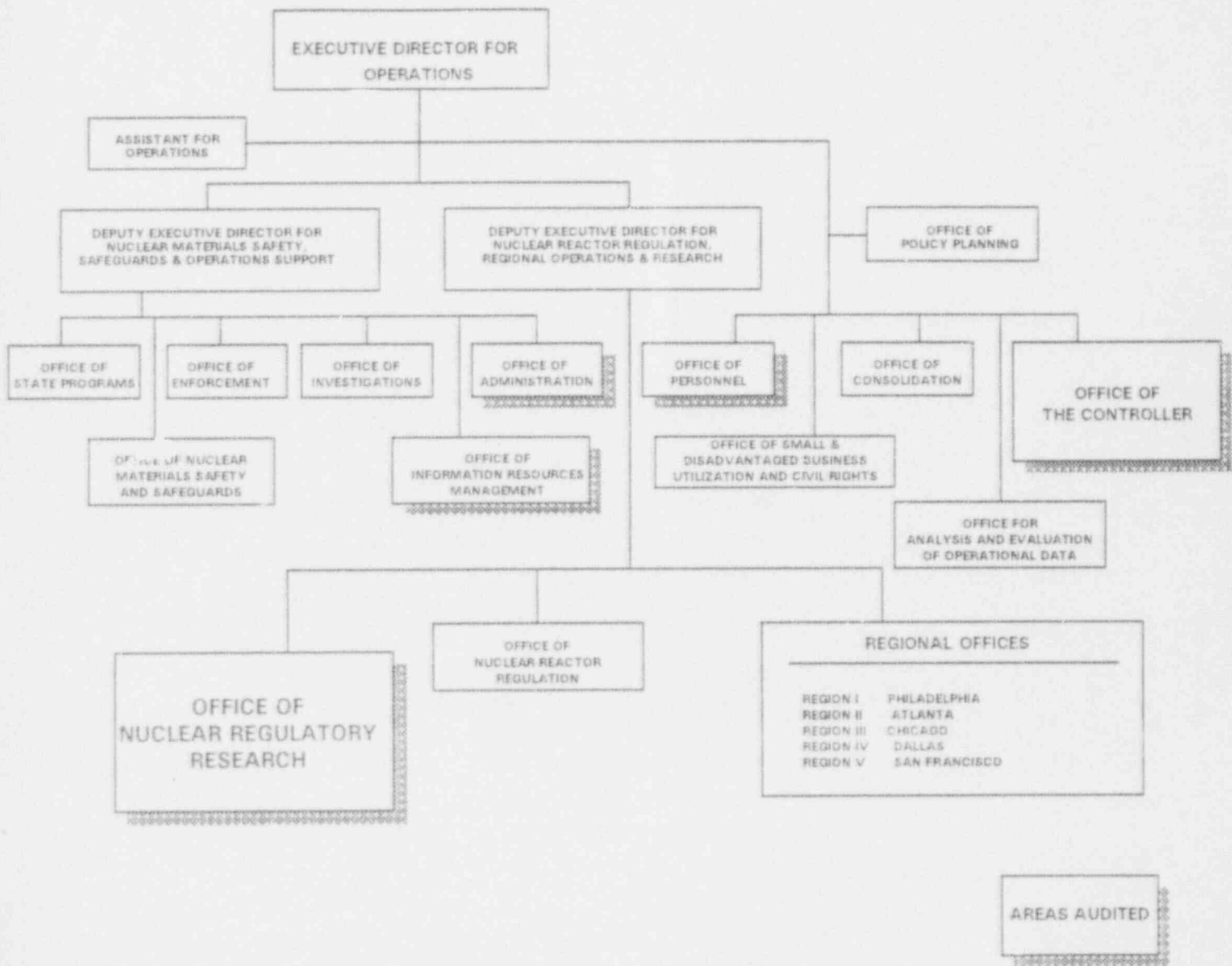
Key personnel were not adequately trained in financial and administrative accountability.

Discussion:

As of this writing, only six of the 129 Project Managers in RES have not attended one or more formal courses in Acquisition for Project Management. All but four Project Managers have attended the practical one-day in-house Research Project Managers' Course. These Project Managers will be scheduled for the next available course.

Of the 51 Division Directors, Branch Chiefs, and Section Leaders currently in RES, 45 have now attended one or more of the above courses. By the end of FY 1993, all managers at these levels will have taken a project management course.

## U.S. NRC FUNCTIONAL ORGANIZATIONAL CHART



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