

The Chairman's Semiannual Report to the Congress

MANAGEMENT DECISIONS AND
FINAL ACTIONS ON
OFFICE OF THE INSPECTOR GENERAL
AUDIT RECOMMENDATIONS

October 1, 1992 - March 31, 1993



U.S. Nuclear Regulatory Commission
Washington, DC 20555

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FOREWORD

I am forwarding the U.S. Nuclear Regulatory Commission's semiannual report, "Management Decisions and Final Actions on Office of the Inspector General [OIG] Audit Recommendations." The report covers the 6 months from October 1, 1992, to March 31, 1993, and is required by Section 106(b) of the Inspector General Act Amendments (P.L. 100-504). It complements the report prepared by the OIG on audit reports issued during the same 6 months and provides information on actions taken in response to audit reports.

There were 14 OIG audit reports and 5 internal control review reports issued during the reporting period. This is the greatest number of reports and recommendations issued by the OIG in any reporting period since their office was established within the NRC. Management has devoted significant attention to responding to the 56 recommendations identified in the reports and reviews. During this period, 25 recommendations have been implemented, including those that resulted in over \$6 million being put to better use within the agency.

The NRC will submit its first audited financial statement in August 1993. As part of the conduct of the audit, five internal control reviews have been conducted. Some shortcomings in our financial systems have been identified during the reviews; these have been corrected or are currently in the process of being corrected.

NRC management works closely with the OIG during the conduct of audits and continues to place emphasis on resolution of the problems identified by the OIG.



Ivan Selin, Chairman
U.S. Nuclear Regulatory Commission

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INTRODUCTION

This is the eighth semiannual report to the Congress on management and final actions taken by the U.S. Nuclear Regulatory Commission (NRC) in response to the recommendations resulting from the audits performed by the Office of the Inspector General (OIG). This report provides the status of open recommendations existing at the beginning of the reporting period, recommendations made during the reporting period, and recommendations remaining open for more than a year. Management disagreed with four audit recommendations during the reporting period. A disagreement from the previous reporting period also remains unresolved. These unresolved recommendations are discussed in the sections titled "Status on Recommendations Remaining From the Previous Period" and "Management Decisions Issued During This Period."

The staff also conducted six followup reviews of previously closed audits. The reviews substantiated the adequacy of previous actions to resolve recommendations. In a few instances, the staff made additional recommendations to further enhance management's actions in correcting the initial OIG recommendations.

BACKGROUND

Section 5a of the Inspector General Act of 1978, as amended, requires each agency inspector general to submit to the agency head a semiannual report on the audits conducted by the inspector general during the reporting period. Section 5b of the act requires the agency head to transmit the report to the Congress with the agency head's comments and other information such as management decisions and final actions taken pursuant to audit recommendations.

STATUS ON RECOMMENDATIONS REMAINING FROM THE PREVIOUS PERIOD

Progress has been made on closing open recommendations during the reporting period. Final action was completed for six recommendations, and three audit reports were closed. Of the six reports remaining open from the previous reporting period, two are discussed below and four have recommendations open for more than a year and are discussed in the last section of the report, "Management Decisions Not Implemented Within One Year."

REVIEW OF NRC'S CONTRACT CLOSEOUT PROCESS

During the first half of fiscal year 1992, the OIG conducted an audit of the process used by the Division of Contracts and Property Management (DCPM) to close out commercial contracts. The audit shows that, on the basis of a sampling of 55 contracts, approximately \$8.1 million was available for deobligation from 800 expired contracts. The OIG recommended that the agency (1) develop a plan to reduce the backlog and increase the use of incentives for follow-on contracts charged with assisting DCPM in its closeout activity; (2) review the validity of the 5-percent reserve and revise the amount held in reserve, as appropriate; and (3) deobligate available balances on the 800 expired contracts. DCPM has completed actions on all items. DCPM has closed 343 contracts and deobligated \$7,215,697 since April 1, 1992. DCPM continues to deobligate available balances on all expired contracts

within 90 days after a contract becomes eligible for closeout. A backlog of no more than 300 contracts will be maintained after July 1994.

IMPROVEMENTS NEEDED IN NRC'S PROCESS FOR APPROVING PAYMENTS TO THE DEPARTMENT OF ENERGY (DOE)

During this audit, the OIG staff reviewed the project management practices in the Office of Nuclear Regulatory Research (RES) related to the acquisition of goods and services at DOE national laboratories. The audit report contained three recommendations that centered on the review and approval of cost vouchers and subsequent verification of RES work performed. Two of the three recommendations remain open. The audit report also addressed the need for an internal quality control process to ensure that DOE vouchers are reviewed and approved in accordance with agency policy and procedures. RES implemented a quality control process, and the NRC Controller implemented a followup procedure to ensure that approved vouchers are on file to support DOE payments. This requirement is being placed in a management directive that is planned to be issued September 30, 1993. NRC management disagreed with a recommendation in this audit report concerning the timing of recording expenses in the NRC accounting system and requested a decision from the Comptroller General to resolve this issue. The Comptroller General has recently responded to this request for clarification. It is anticipated this disagreement will be resolved by July 1993.

MANAGEMENT DECISIONS ON REPORTS ISSUED DURING THIS PERIOD

There were 14 new audit reports containing 28 recommendations and 5 internal control reviews also containing 28 recommendations issued during this period. NRC management agreed with all recommendations with the exception of four recommendations appearing in the internal control reviews. Of the 14 audit reports issued, 7 did not contain any recommendations. Management completed action on 22 of the 56 recommendations made during the reporting period. Most of the audit recommendations centered on the establishment of plans or development of policies. Internal program audits did not reflect any indications of fraud, waste, or abuse. However, the agency has reported four material weaknesses in the area of management controls largely based on the recommendations contained in the OIG reports.

FREQUENT FLYER BENEFITS

The OIG audited the NRC program to manage and administer frequent-flyer benefits as a result of allegations that certain agency personnel had used frequent-flyer benefits acquired from official travel for personal use. The OIG made four recommendations to strengthen NRC policy and procedures for using frequent-flyer benefits. In response to two of the recommendations, the NRC distributed guidance to all employees and strengthened administrative procedures to ensure that travelers and travel management officials clearly understand their responsibilities with respect to frequent-flyer benefits.

The two remaining recommendations addressed strengthening NRC policy to (1) clearly reflect expectations for using benefits to reduce overall travel costs to the agency, and (2) to

clearly state that personal use of frequent-flyer benefits earned through official travel is a criminal violation subject to the penalties of the law. The General Accounting Office (GAO) is currently reconsidering its position that frequent-flyer benefits earned through official travel are the property of the government. Consequently, the NRC has deferred implementing any policy changes until GAO renders its decision; however, the associated NRC management directive will be revised to clearly define the use of frequent-flyer benefits for official travel in accordance with our current policy.

IRM'S MANAGEMENT OF ITS CONTRACTS

The OIG staff completed a review of contracts managed by the Office of Information Resources Management (IRM). IRM relies heavily on commercial contracting to meet its mission and in Fiscal Year (FY) 1992 spent about \$36.6 million on more than 50 contracts. The review found that IRM had taken steps to improve its oversight of individual contracts but needed to (1) establish office-wide policies and procedures to govern its management of contracts and to ensure adherence to applicable laws and regulations and (2) issue a management bulletin to IRM project officers outlining unauthorized procurement actions and reminding them that violations will not be tolerated. The office-wide policies and procedures were completed on March 31, 1993, and the management bulletin is planned to be issued by July 30, 1993.

IRM'S COMPUTER SECURITY PROGRAM

The OIG staff examined the results of an independent compliance review of the IRM computer security program and IRM actions to implement the recommendations stemming from that review. The compliance review conducted by the Los Alamos National Laboratory (LANL) identified 30 recommendations that would strengthen the computer security program. At the time of the OIG review, NRC had already implemented 15 of the 30 recommendations. The OIG determined that the uncorrected deficiencies warranted immediate agency attention and recommended (1) a detailed action plan be developed to address the remaining weaknesses identified in the LANL report and (2) that the agency report the weakness in the computer security program as a material weakness in the annual Federal Managers' Financial Integrity Act report. Both recommendations have been completed. The computer security program will continue to be reported as a material weakness until all items have been completed on the detailed action plan.

REVIEW OF NRC'S IMPLEMENTATION OF THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) 1992

In response to recommendations in the OIG annual audit of the management control program, the NRC agreed to revise its management directive on management controls to add quality assurance provisions that include (1) annual FMFIA activities and (2) the guidance that currently is provided to the staff for reporting and documenting management control reviews. Additionally, the due date for completion of management control reviews will be escalated to allow time for NRC managers to perform any additional work needed to satisfy the intent of the FMFIA management control reviews when the OIG or the NRC Internal Control Committee determines that insufficient work was performed.

PERFORMANCE CRITERIA AND BETTER MANAGEMENT OVERSIGHT NEEDED TO ENHANCE NRC'S RESEARCH PROGRAM CONTRIBUTIONS

During 1992 and 1993, the OIG conducted a review of the NRC process for managing research. The review found that (1) neither RES nor any other NRC office had established criteria to measure the performance and contributions of the research program and supporting projects and (2) there was a lack of strong internal management controls to guide NRC research. In addressing these recommendations, RES has reviewed its criteria for evaluating research projects as defined in the "Nuclear Regulatory Research Philosophy." Also, procedures are now in place that require these criteria be used to evaluate each RES project before it is initiated, to validate annually the project's continuance, and to evaluate each project's usefulness upon completion. Further, these criteria will be used annually at mid-year and when RES senior management submits its budget.

NRC'S POLICIES AND PROCEDURES FOR DEFERRING MATERIALS INSPECTIONS AND VERIFYING LICENSEE ASSERTIONS

During this audit, the OIG staff reviewed the NRC policy and guidance for deferral of scheduled materials inspections and for relying on and verifying licensee assertions. OIG recommended that Nuclear Materials Safety and Safeguards (NMSS) develop (1) policies and procedures for ensuring that initial materials license inspections are performed within a specified period following license issuance and (2) a uniform policy for deferring materials inspections. NMSS is currently finalizing these policies and procedures and is anticipating completion during June 1993. The OIG also recommended that NRC training programs for inspectors emphasize verification of licensee assertions and the proper handling of suspect licensee data and misinformation. Regional offices have been directed to include these topics as part of their inspector qualification program to be implemented by June 1993. The associated management directive will be changed to incorporate these changes by August 1993.

IMPROVEMENTS NEEDED IN FINANCIAL AND ADMINISTRATIVE ACCOUNTABILITY FOR RES FUNDED WORK AT DOE LABS

During late 1992 and early 1993, the OIG conducted an audit of project management practices in RES related to the acquisition of goods and services from DOE national laboratories. The audit found that: projects were not being closed upon completion; managers could not account for NRC-funded property and equipment at DOE laboratories; project files were missing, incomplete and disorganized; key personnel and managers were not adequately trained in financial and administrative accountability; DOE laboratory performance on projects was not being evaluated; RES was not making use of available management tools to track project status; and project managers did not review costs. On the basis of these audit findings, RES quickly developed and implemented an action plan for completing corrective actions, some of which are already completed. Specifically, RES managers have certified that DOE project files under their cognizance are complete for FY 1992 and FY 1993; closeout procedures for RES have been implemented; action to deobligate all funds from all prior year projects is underway; system requirements are defined for a new integrated information system to track project status, funding, and key project data; additional RES project management training has been scheduled; and almost all vouchers

for the FY 1989-1992 timeframe have been reviewed and approved/disapproved for payment. Other actions under way include a pilot project in RES to test the implementation of a new management directive for doing business with DOE. Implementation of this new directive should raise awareness of cost issues related to projects placed with DOE.

OVERVIEW REPORT ON INTERNAL MANAGEMENT CONTROL BREAKDOWNS

The OIG conducted a special study of its own significant OIG reports to determine if there were any trends warranting NRC management attention. While the report was commendatory of management actions overall, it did find that there were improvements needed in management controls and offered three suggestions: (1) develop a training program for senior-level managers focused on management controls, (2) require the NRC Internal Control Committee report directly to the Chief Financial Officer, and (3) develop an automated tracking system to track financial improvements. The Executive Director for Operations (EDO) accepted the suggestions and is taking steps to strengthen management controls throughout the agency.

INTERNAL CONTROL REVIEWS OF THE NRC'S ACCOUNTING SYSTEMS

In advance of the audit of the FY 1992 financial statement required by the Chief Financial Officers Act of 1990, the OIG reviewed the internal control structure of the general ledger, including the payroll, travel, commercial payments, property, and license fee billing subsidiary systems. The OIG rated the general ledger as a high-risk environment and concluded that the internal control structure surrounding the system was not adequate.

The major findings focused on the problems with subsidiary systems combining manual operations with automated ones to provide monthly summary accounting data to the general ledger. Because these systems are not integrated with the general ledger, labor intensive reconciliations are required.

Management disagreed with 4 of 17 recommendations offered. The OIG determined that no further action was required on these recommendations pending the completion of the agency's FY 1992 financial statement audit.

In accordance with the agency's plan for financial management improvement, NRC changed its accounting system to the Federal Financial System (FFS) through a cross-servicing agreement with the U.S. Department of Treasury beginning in FY 1993. When fully implemented, subsidiary systems, exclusive of payroll, are totally integrated, eliminating the risk inherent in manual reconciliations as cited by the OIG. Incorporation of the subsidiary systems into FFS is proceeding as scheduled. Commercial payments and travel accounting were implemented initially. As recommended by the OIG report, policies and procedures for reconciling property management records to the general ledger control account for capitalized property will be phased in with completion in FY 1994. All NRC billings and collections will be fully integrated into FFS during FY 1994.

In addition, the NRC is in the process of negotiating an interagency agreement with the Department of Health and Human Services (HHS) for cross-servicing on the HHS integrated payroll/personnel system. Implementation of this system is scheduled for pay year 1995. As part of this effort, an electronic link will be established with FFS to reduce manual reconciliations.

During 1992 the OIG also conducted a review of the "M" account. The OIG concluded that the agency needs to strengthen its financial management oversight to ensure that unexpended obligations on inactive accounts are deobligated in a timely manner and made available for other purposes. In addition, the OIG recommended strengthening the quality assurance procedures within the Office of the Controller to ensure that errors are caught and corrected. NRC has initiated action to correct the weaknesses noted.

STATISTICAL TABLE REVIEW

The following tables reflect dollar values of recommendations contained in the reports issued by the OIG. Table I presents the dollar value of disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency (DCAA). These costs are also contained in reports subsequently issued by the OIG. Table II presents the dollar value of recommendations for funds to be put to better use. These figures result from pre-award contract audits conducted by DCAA and the OIG, as well as internal program audits performed by the OIG. The OIG was responsible for conducting the audits in Table II, other than four contract audits that account for \$62,840 in Category A of the table, two contract audits and \$424,152 in Categories B and C, and one contract audit and \$9,580 in Category D. These contract audits were conducted by DCAA. It should be noted that the Department of Defense also takes credit for cost savings resulting from all DCAA audits in its semiannual report.

Table II, Category C reflects the completion of the recommendation to deobligate the balance of funds on expired contracts.

Table II, Category D mainly consists of \$1.4 million of RES funds associated with DOE lab projects that are in the process of being deobligated.

STATISTICAL TABLE I

MANAGEMENT REPORT ON OFFICE OF INSPECTOR GENERAL AUDITS WITH DISALLOWED COSTS

For the Period October 1, 1992, through March 31, 1993

Category	Number of audit reports	Disallowed costs
A Audit reports with management decisions on which final action had not been taken at the beginning of this reporting period	0	0
B Audit reports on which management decisions were made during this reporting period	2	\$73,109
C Audit reports on which final action was taken during this reporting period	0	0
(i) disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise	0	0
(ii) disallowed costs that were written off by management	0	0
D Reports on which no final action had been taken by the end of this reporting period	2	\$73,109

* This table only includes reports containing direct questioned costs.

STATISTICAL TABLE II

MANAGEMENT REPORT ON OFFICE OF INSPECTOR GENERAL AUDITS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the Period October 1, 1992, through March 31, 1993

Category	Number of audit reports	Recommendations that funds be put to better use by management agreed to in a management decision
A Audit reports on which final action has not been taken by the commencement of this reporting period	6	\$ 9,562,840
B Audit reports on which management decisions were made during this reporting period	3	424,152
C Audit reports on which final action was taken during this reporting period	4	8,524,152
(i) Recommendations that were actually completed	4	8,524,152
(ii) Recommendations that management has subsequently concluded should not or could not be implemented or completed	0	0
D Audit reports on which no final action has been taken by the end of this reporting period	2	1,409,580

MANAGEMENT DECISIONS NOT IMPLEMENTED WITHIN ONE YEAR

Management decisions were made before March 1992 for the four OIG audit reports discussed below, but as of March 31, 1993, final actions had not been taken. The title of each report is given below with the date it was issued and a description of related activities. These reports do not contain any disallowed costs or recommendations that funds be put to better use.

REVIEW OF NRC MANAGEMENT OF REPORTING REQUIREMENTS UNDER 10 CFR PART 21

November 30, 1990

This OIG report contained five recommendations concerning NRC management of reporting requirements under 10 CFR Part 21. Final action has been taken on all but one of these recommendations. The outstanding item required clarification of 10 CFR Part 21 compliance by non-reactor licensees and vendors. To address this issue, management is developing a proposed rule to clarify that Part 21 requirements apply to all non-reactor licensees. However, it is proposed that other non-reactor licensees only need to develop and implement procedures to notify their suppliers, who in turn would be responsible for evaluating equipment defects. The proposed amendments will clarify the evaluation and reporting requirements. Under the proposed rule, major non-reactor licensees (fuel cycle, waste disposal, spent fuel storage, and certificate holders) will have to comply with all the current requirements of 10 CFR Part 21, including the development and implementation of specific procedures for evaluating equipment defects. During the current reporting period, the language of the proposed rule has had extensive internal coordination and management review. The proposed rule was discussed with the Agreement States on October 28, 1992. The Agreement State representatives raised possible jurisdictional and compatibility issues and requested that they be consulted early in the development of the rule. Consequently, a draft of the proposed rule was sent to the Agreement States for a 30-day comment period. All submitted comments will be considered when they are submitted to management in May 1993. The draft rule is scheduled to be published in August 1993 and the final rule is scheduled for August 1994.

REVIEW OF NRC'S EMERGENCY PLANNING REGULATIONS AND IMPLEMENTING GUIDANCE

January 16, 1991

This OIG report contained eight recommendations, five of which have been closed. The three recommendations remaining open concern changes to the 1985 Federal Emergency Management Agency (FEMA)-NRC memorandum of understanding (MOU) on radiological emergency planning and preparedness. On February 16, 1993, the Commission unanimously approved a revised MOU. On March 1, 1993, the EDO signed the revised MOU and forwarded it to FEMA for signing by the appropriate FEMA official. FEMA responded with additional changes which are currently being staffed.

REVIEW OF THE PROCUREMENT PRACTICES OF THE ADVISORY COMMITTEE ON REACTOR SAFEGUARDS (ACRS)

September 17, 1991

The OIG reviewed the procurement practices of the ACRS in dealing with the DOE laboratories. Two of four recommendations remain open. The open recommendations require

oversight by DCPM for goods and services procured from the DOE laboratories and recommend legal evaluation of NRC policies concerning ACRS members employed by DOE laboratories. In November 1992, the EDO delegated oversight responsibility for contract management at the DOE laboratories to the Office of Administration and directed the DCPM to establish a temporary satellite office in the Office of Nuclear Regulatory Research for the purpose of assisting in implementation of the draft management directive on a pilot basis. The pilot program began in January 1993 and will continue until June 30, 1993. The results of the pilot program, along with comments received from other offices, will be incorporated into a final directive to be issued by September 30, 1993. A letter was written to the Comptroller General requesting his opinion on the legality of the Commission's arrangements for obtaining the services of an individual from the laboratories. Although the Comptroller General responded to another aspect of our letter, we are still awaiting a response concerning the requested opinion.

REVIEW OF CONTRACTING FOR CONSULTING SERVICES

January 29, 1992

The OIG made one recommendation in its annual audit of the agency's compliance with OMB Circular No. A-120 regarding guidance on consulting services. This recommendation remains open. The recommendation requires the DCPM review and approve all project management guidance and procedures developed by NRC program offices in order to strengthen NRC oversight of the procurement process and administration of work orders placed with DOE national laboratories. DCPM developed a comprehensive draft management directive as outlined above for placing work with the DOE laboratories. DCPM expects to issue the management directive by the end of September 1993 following completion of the pilot project.