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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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INDEPENDENT REVIEW  
OF FINANCIAL AND ADMINISTRATIVE  
CONTROLS FOR WORK PERFORMED BY  
DEPARTMENT OF ENERGY LABORATORIES

OIG/93A-26 December 14, 1993

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# AUDIT REPORT

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300037

## REPORT SYNOPSIS

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The Office of the Inspector General (OIG) recently issued two audit reports addressing financial and administrative accountability for the U.S. Nuclear Regulatory Commission's (NRC) Office of Nuclear Regulatory Research (RES) work placed with the Department of Energy's (DOE) laboratories. These reports identified serious management breakdowns in RES' oversight of projects placed with the DOE laboratories and identified eight areas for improvement.

In the 1994 Energy and Water Development Appropriations Bill, the Committee on Appropriations expressed concerns about the RES financial management problems identified by OIG. The Committee requested that NRC perform an independent review to ensure that necessary corrective actions were taken by RES and to determine whether similar problems exist in other NRC offices. The Chairman, NRC, asked OIG to conduct this review.

Our review focused on NRC work placed with the laboratories by RES, the Office of Nuclear Reactor Regulation (NRR), the Office for Analysis and Evaluation of Operational Data (AEOD), and the Office of Nuclear Material Safety and Safeguards. These four offices accounted for the bulk of FY 1992 active projects and payments made to DOE.

We found that RES has taken necessary corrective actions to address the deficiencies cited in our previous audit reports. Our review also disclosed that other NRC offices had conditions similar to those identified in RES. However, they have addressed the conditions and implemented appropriate corrective actions in most areas. As a result of our follow-up efforts, we made three recommendations to strengthen project management in NRR and AEOD.

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## INTRODUCTION

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The Office of the Inspector General (OIG) recently issued two audit reports<sup>1</sup> addressing the financial and administrative accountability by the U.S. Nuclear Regulatory Commission's (NRC) Office of Nuclear Regulatory Research (RES) for work placed with the Department of Energy's (DOE) laboratories. These reports identified serious management breakdowns in RES' financial management oversight and identified eight areas for improvement: (1) project closing and deobligation of funds, (2) accounting for NRC-funded property, (3) transfers of prior-year funds, (4) final laboratory performance evaluations, (5) tracking of project status, (6) review of project costs, (7) organization and retention of project files, and (8) training of key personnel. These reviews also found that the Office of the Controller (OC) did not have adequate controls over the review, approval, and verification of payments to DOE.

In the 1994 Energy and Water Development Appropriations Bill, the Committee on Appropriations expressed concerns about the RES financial management problems identified by OIG. The Committee requested that NRC perform an independent review to ensure that RES implemented necessary corrective actions and to determine whether similar problems exist in other NRC offices. As a result, the Chairman, NRC, requested that OIG undertake this review to address the Committee's concerns.

Appendix I details our audit objectives, scope, and methodology. Appendix II notes the eight problem areas that OIG identified in prior reports and addressed in this report.

## BACKGROUND

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Since 1978, NRC has placed work with DOE's laboratories under a Memorandum of Understanding that includes guidelines for program

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<sup>1</sup>OIG/92A-08, August 31, 1992, Improvements Needed in NRC's Process for Approving Payments to the Department of Energy; and OIG/92A-20, March 5, 1993, Improvements Needed in Financial and Administrative Accountability for Office of Nuclear Regulatory Research Funded Work at Department of Energy Laboratories

planning, implementation, control, and funding of interagency research programs and related activities. NRC's Management Directives (MDs) 11.7 and 11.8 provide specific procedures regarding work placed with the laboratories.

On December 5, 1992, following criticism of NRC's project management practices by OIG and NRC's own review groups, the Executive Director for Operations (EDO) delegated oversight authority to the Office of Administration (ADM) for the contract management of NRC projects at DOE laboratories. The EDO also released the draft of a new management directive, which consolidated and updated MDs 11.7 and 11.8, and directed ADM to initiate a 6-month pilot study at RES that would serve as a practical basis for using the draft management directive. The EDO's goal was to develop and implement an agency-wide standard for DOE work.

ADM completed its pilot study at RES on July 30, 1993. Following its consideration of various NRC offices' comments, ADM plans to forward the revised draft management directive to the EDO for approval.

In fiscal year (FY) 1992, NRC had 666 active projects at DOE laboratories, with payments totaling about \$115 million. Our review focused on NRC work placed with the laboratories by RES, the Office of Nuclear Reactor Regulation (NRR), the Office of Nuclear Material Safety and Safeguards (NMSS), and the Office for Analysis and Evaluation of Operational Data (AEOD). These four NRC offices accounted for 91 percent of the active projects and 97 percent of the payments made to DOE in FY 1992.

Project managers in each NRC office are responsible for controlling work placed with DOE laboratories. Technical monitors assist the project managers in NRR, NMSS, and AEOD. Each office has developed internal procedures for managing DOE projects.



## FINDINGS

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RES has taken corrective actions to address the deficiencies cited in our previous audit reports. Although other NRC offices had conditions similar to those identified in RES, they corrected most problem areas prior to this review.

### THE OFFICE OF NUCLEAR REGULATORY RESEARCH HAS TAKEN NECESSARY CORRECTIVE ACTIONS TO ADDRESS ITS DEFICIENCIES

RES has implemented corrective actions for the eight audit deficiencies identified in our two previous audit reports. Additional effort, however, is needed to complete corrective actions for closing projects and deobligating funds and for developing a system to track project status.

Using a January 1992 project listing, RES identified 1,147 DOE projects that were completed, but not yet closed. RES' goal was to close these projects and deobligate \$1.5 million by February 1994. As of July 1993, RES had closed 101 projects and deobligated over \$380,000.

RES is currently developing the Research Information Management System (RIMS) for the purpose of unifying its project and financial management systems. RIMS will possess the capability to track milestones and to monitor the status of all project closeout actions. Therefore, we believe that RIMS will eventually be an important management tool for helping to ensure timely project closures. The scheduled completion date for RIMS is May 1994.

### SIMILAR CONDITIONS EXIST IN OTHER NRC PROGRAM OFFICES; CORRECTIVE ACTIONS ARE UNDERWAY

#### *The Office of Nuclear Reactor Regulation*

NRR initiated an internal review in August 1992 to identify any problems in its project management process. The NRR review team found many problem

areas and made 34 recommendations to NRR management for improving project management for work placed with the laboratories and commercial contract work. We considered the recommendations to be appropriate and found that many of them addressed problems similar to those identified at RES. However, the report did not fully address training, nor did it cover tracking of project status.

#### NRR Training

Most of NRR's project management staff have not received required formal training. For example, 176 employees (including 112 technical monitors) of the total 208 involved with DOE projects have not taken either of the Office of Personnel's (OP) courses, "Acquisition for Project Managers," or "Acquisition for Supervisors and Managers," as required by NRR office procedures. Although NRR's internal report recognized this lack of formal training as a problem area, it did not fully address the problem in its recommendations.

NRR requested that ADM<sup>2</sup> "consider flexibility in the training requirements for technical monitors" and suggested "a new shorter duration course that would focus on the more limited needs of a technical monitor." ADM recently informed OIG that it was considering revisions to current OP training requirements. However, until the revisions are complete, ADM believes that NRR should schedule training for those employees who have not received the required formal training in project management. We agree with ADM's position, especially in view of conditions noted in NRR's own internal review and conditions previously reported by OIG at RES.

#### NRR Tracking of Project Status

Our review of NRR's system to track project status identified 8 of 10 sampled projects that were categorized as "active," but were actually complete. We believe that NRR should include performance periods on status reports distributed to project managers and their supervisors. This would allow NRR to more quickly identify completed projects and ensure their timely closure.

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<sup>2</sup>Specifically, ADM's Division of Contracts and Property Management

According to one NRR project manager, previous status reports contained performance periods that highlighted expiring projects that would soon need to be closed out. NRR personnel could not explain why this practice was abandoned in FY 1992; we believe it should be reinstated.

*The Office of Nuclear Material Safety and Safeguards*

NMSS was performing project management adequately in all but one area. Specifically, NMSS was not annually reconciling and disposing of all property remaining from completed projects. We believe the primary reason for this breakdown was that the Division of Contracts and Property Management (DCPM) had not distributed annual DOE inventory lists to the program offices as we previously reported. DCPM has started distributing the inventory lists to NMSS, and NMSS has begun to reconcile its portion of the inventory.

*The Office for Analysis and Evaluation of Operational Data*

AEOD officials stated that they examined controls over DOE laboratory work after reviewing a draft management directive on placing work with DOE laboratories and our audit reports on RES. AEOD identified five problem areas that were similar to those found at RES.

We found that AEOD has taken corrective actions in all areas except tracking of project status. AEOD lacks a process or system to identify active projects and their performance periods. We believe that this impedes AEOD's ability to initiate timely closeout actions on completed projects. For those projects that AEOD has identified as complete and is currently closing, we found that almost half have been expired for over 2 years.

As part of its financial management process, AEOD prepares quarterly funding reports that track the financial status of the projects it administers. We believe these reports should include performance periods for each project. This would aid project managers in identifying completed projects that should be closed.



### THE OFFICE OF THE CONTROLLER HAS TAKEN ACTION ON PRIOR RECOMMENDATIONS

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We previously recommended that OC, prior to final posting to NRC's accounting system, verify completion of the review and approval process for payments made to DOE. NRC disagreed with our recommendation and sought guidance from the General Accounting Office (GAO). GAO responded by suggesting alternative controls related to NRC payments to DOE.

OC has adopted the GAO suggestions except for implementing yearend cutoff procedures for identifying those payments to DOE that project managers did not verify as received and accepted. In an OIG meeting with OC representatives, the Controller said that there is a need to identify the payments. Subsequently, GAO provided additional guidance to NRC. GAO granted relief from recording a yearend adjusting entry if the balance of unverified payments to DOE is immaterial and if there would be a short period of time after yearend before the payments were verified and bills returned to OC. NRC officials believed that this condition would exist at yearend and not require an adjustment. OIG will reevaluate this matter during our upcoming audit of the agency's FY 1993 financial statements.

### CONCLUSIONS

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RES management has taken decisive and appropriate actions to address the financial management deficiencies cited in our previous audit reports. We also found that other NRC offices have addressed financial management problems in their project management processes and have implemented appropriate corrective actions in most areas. However, to preclude recurring problems, NRC management must sustain its financial management initiatives. We are making three recommendations based on our follow-up efforts.

## RECOMMENDATIONS

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We recommend that the Director, NRR:

1. Ensure that all key personnel, including technical monitors, receive formal training in project management; and
2. Improve reports issued to project managers and their supervisors by including each project's performance period.

We recommend that the Director, AEOD:

3. Revise the office's quarterly financial reports to include performance periods for all DOE projects, thereby giving project managers added visibility concerning those projects that should be targeted for closure.

## AGENCY COMMENTS

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On November 26, 1993, the Deputy Executive Director for Nuclear Reactor Regulation, Regional Operations and Research (DEDO) responded to our draft report and agreed with the three recommendations contained therein. He also suggested clarifying language for one section of the report, and we have made changes where we believed appropriate. Appendix III contains a copy (without enclosures) of the DEDO's comments.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

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The Office of the Inspector General recently issued two audit reports addressing financial and administrative accountability for the U.S. Nuclear Regulatory Commission's (NRC) Office of Nuclear Regulatory Research (RES) work placed with the Department of Energy's (DOE) laboratories. In those reports, we focused on the closeout process, showed serious management breakdowns in RES' oversight of projects with DOE, and identified eight areas for improvement (see Appendix II for details of the eight areas). We also found that the Office of the Controller (OC) did not have adequate controls over the review, approval, and verification of payments to DOE.

Because of our reports, the Committee on Appropriations expressed concerns in the 1994 Energy and Water Development Appropriations Bill about RES' financial management problems. The Committee requested that NRC ensure that RES implemented necessary corrective actions and determine whether similar problems exist in other NRC offices. The objective of this review was to address the Committee's concerns.

We held interviews and discussions with NRC management and administrative staff from RES, OC, the Office of Nuclear Reactor Regulation, the Office of Nuclear Material Safety and Safeguards, the Office for Analysis and Evaluation of Operational Data, and the Office of Administration. Our review included an examination of selected project files, supporting financial information, and training records for personnel involved with DOE project management activities.

We conducted our review at NRC Headquarters in July and August 1993, according to generally accepted Government auditing standards.

## SUMMARY OF THE EIGHT AUDIT ISSUES

1. Project Closing and Deobligation of Funds

According to agency guidance, projects with the Department of Energy (DOE) should be closed promptly after completion and all uncosted funds should be deobligated. At the Office of Nuclear Regulatory Research (RES), projects were not being closed after completion. At least \$1.4 million was available for other agency use.

2. Accounting for NRC-Funded Property

Agency guidance provides specific requirements regarding the responsibilities of the U.S. Nuclear Regulatory Commission (NRC), DOE, and the laboratories for the proposal, authorization and purchase, receipt, inventory control, and disposal of NRC-funded property and equipment. At RES, project managers were not following agency guidance for tracking and disposing of property and equipment acquired under DOE projects.

3. Transfers of Prior-Year Funds

Agency guidance on authorizing financial flexibility does not allow authorized funds to be transferred between projects after the end of the fiscal year without the prior approval of the Controller. From FY 1989 to June 1992, RES transferred \$2.3 million of prior-year funds without the required approval of the Controller.

4. Final Laboratory Performance Evaluations

Agency guidance on closing DOE projects requires project managers to evaluate and document the laboratory's performance to include the technical, schedule, and cost aspects of the project. Since RES was not closing projects, it also was not conducting final laboratory performance evaluations.

5. Tracking of Project Status

RES did not use available management tools for tracking project status. Of particular interest to us was system information that could be used for the early identification of completed projects for closeout purposes. RES developed a comprehensive RES system several years ago to provide cost, schedule, and performance information on individual projects, but this system was not routinely used by project managers. As of October 1992, RES could not account for the completion status of 1,400 projects begun since FY 1975.

6. Review of Project Costs

Agency guidance requires the project manager to recommend approval or disapproval of cost vouchers. There was no evidence that RES' project managers had reviewed DOE cost vouchers since at least 1986. Most project managers we interviewed could not initially support costs to date with information from their project files.

7. Organization and Retention of Project Files

Agency guidance provides specific instructions for maintaining administrative documents and records for work placed with DOE. The guidance outlines project file sections, section contents, and individual responsibilities. At RES, many project files were missing, many files lacked significant portions of the required contents, and most of the files in our sample were disorganized.

8. Training of Key Personnel

Agency guidance requires NRC office directors to ensure that project managers are trained properly to perform project management duties. At RES, not all project managers and their supervisors (including senior managers) had taken required formal training. Many project managers who had been trained still did not properly follow agency procedures.



## AGENCY COMMENTS



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

November 26, 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 - INDEPENDENT REVIEW OF FINANCIAL AND  
ADMINISTRATIVE CONTROLS FOR WORK PERFORMED BY DEPARTMENT  
OF ENERGY LABORATORIES

I have reviewed the subject report, forwarded by your memorandum of October 19, 1993, and agree with the basic findings and recommendations. For accuracy, I am enclosing a markup of page 4 of the report that recognizes the beneficial effects of draft M.D. 11.7 in late 1992 on recognition and correction of the areas related to OIG review of RES DOE laboratory work.

The following actions are being taken in response to the recommendations contained in the report.

RECOMMENDATION (1) (NRR)

Ensure that all key personnel, including technical monitors, receive formal training in project management.

RESPONSE (1)

NRR has initiated an effort to ensure that all key personnel attend either the "Acquisition for Project Managers" course or the "Acquisition for Supervisors and Managers" course sponsored by the Office of Personnel by May, 1995. It should be noted that potentially in excess of 200 individuals in NRR will require this training. In light of the current course size and frequency (approximately quarterly), NRR has estimated a schedule of approximately eighteen months to complete the training of key personnel. If the demand warrants, NRR plans to work with the Office of Personnel to schedule additional courses to expedite training of key NRR Personnel.

RECOMMENDATION (2) (NRR)

Improve reports issued to project managers and their supervisors by including each project's performance period.

RESPONSE (2)

NRR will modify its financial tracking system to include each DOE project's period of performance by June 30, 1994.

Thomas J. Barchi

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RECOMMENDATION (3) (AEOD)

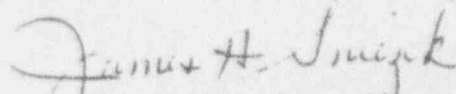
Revise the office's quarterly financial reports to include performance periods for all DOE projects, thereby giving project managers added visibility concerning those projects that should be targeted for closure.

RESPONSE (3)

AEOD will modify the office's monthly financial reports to include performance periods for all DOE projects by February 1, 1994 and has instituted a revised priority for close-out of completed projects.

In addition to the specific recommendations cited above, page 3 of the report refers to the internal review initiated by NRR in August 1992 and the 34 recommendations resulting from that review. Attached for your information is NRR's response to each of the 34 recommendations.

I appreciate the opportunity to review this report prior to its publication.

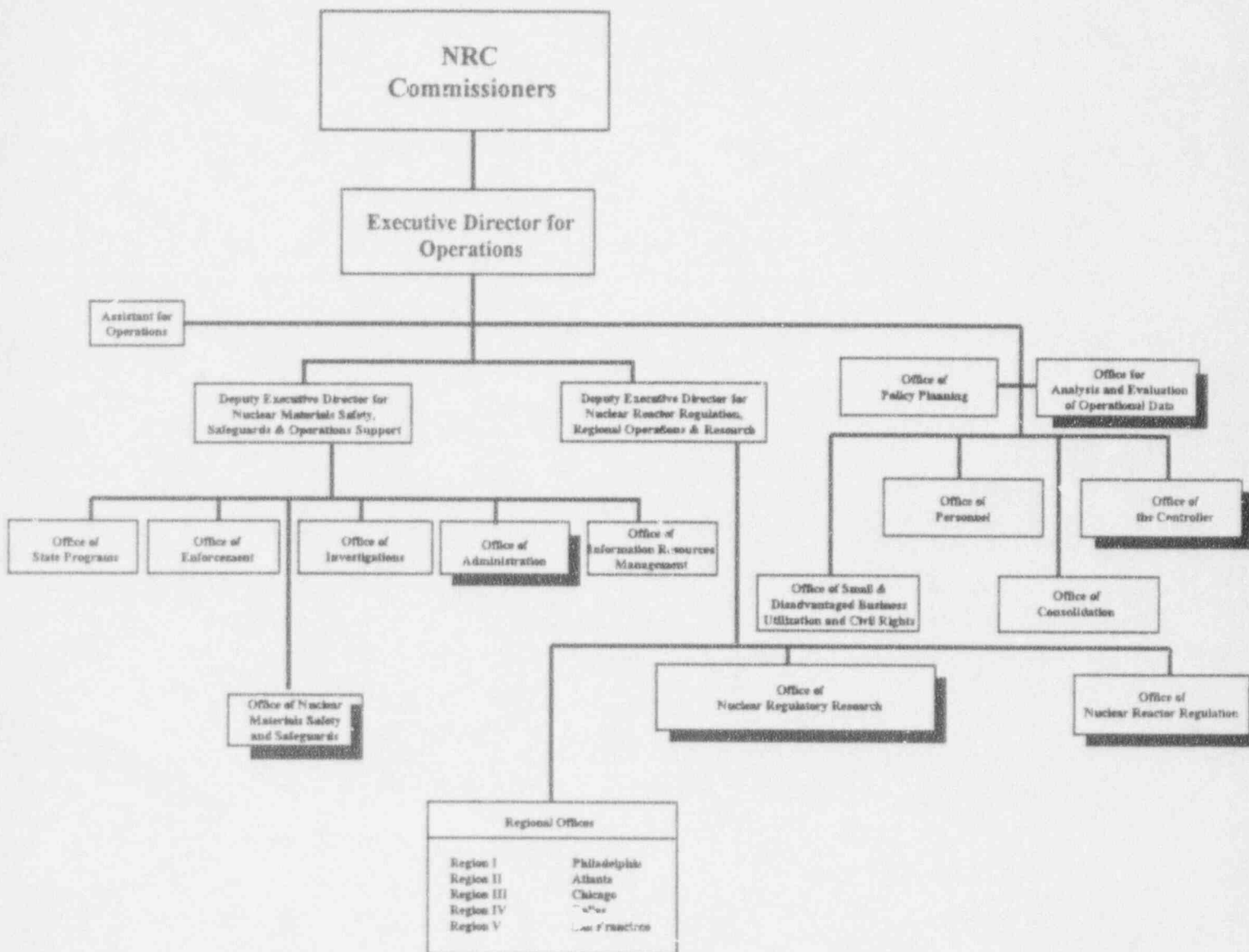


James H. Sniezek, Deputy Executive Director  
for Nuclear Reactor Regulation,  
Regional Operations and Research

Enclosures:

1. Markup of page 4
2. Response to internal review  
recommendations

## U.S. NRC FUNCTIONAL ORGANIZATION CHART



Areas Audited

## **MAJOR CONTRIBUTORS TO THIS REPORT**

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William Glenn, Team Leader

Russell Irish, Senior Auditor

Doris Martin, Contract Auditor

George Pourchot, Contract Auditor