

OFFICE OF THE INSPECTOR GENERAL

U.S. NUCLEAR

REGULATORY COMMISSION



AUDIT REPORT

UNITED STATES NUCLEAR REGULATORY COMMISSION





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OFFICE OF THE INSPECTOR GENERAL

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# AUDIT REPORT

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FOLLOWUP REVIEW  
OF NRC'S  
CONTRACT CLOSE-OUT PROCESS

OIG/94A-10 April 5, 1994

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# AUDIT REPORT

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UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D. C. 20565

April 5, 1994

OFFICE OF THE  
INSPECTOR GENERAL

MEMORANDUM FOR: The Chairman  
Commissioner Rogers  
Commissioner Remick  
Commissioner de Planque

FROM:

*David C. Williams*  
David C. Williams  
Inspector General

SUBJECT:

REPORT ON FOLLOWUP REVIEW OF NRC'S  
CONTRACT CLOSE-OUT PROCESS

Attached is the Office of the Inspector General's (OIG) followup report on recommendations contained in OIG's report entitled "Review of NRC's Contract Close-out Process," dated June 26, 1992.

The report contained three recommendations which we followed up on in January 1994. We found that the recommendations have been or are in the process of being satisfactorily implemented and therefore consider them closed.

Attachment:  
As stated

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## TABLE OF CONTENTS

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REPORT SYNOPSIS .....	i
INTRODUCTION .....	1
BACKGROUND .....	1
FINDINGS .....	2
CONCLUSIONS .....	3

### APPENDICES

- I U.S. NRC FUNCTIONAL ORGANIZATION CHART
- II MAJOR CONTRIBUTORS TO THIS REPORT

## REPORT SYNOPSIS

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The Office of the Inspector General's (OIG) followup review of the three recommendations contained in its June 1992 report on the Nuclear Regulatory Commission's (NRC) contract close-out process disclosed that corrective action has been taken and the recommendations have been or are in the process of being satisfactorily implemented.

In its report, OIG noted that NRC's Division of Contracts and Property Management (DCPM), Office of Administration's (ADM) backlog of completed, but not yet closed contracts, had increased significantly since its last audit in July 1988. OIG also noted that the contractor hired by DCPM to reduce its backlog had made limited progress in reducing this backlog. OIG concluded that as a result, about \$8.1 million in funds that could be freed up for other uses was being tied up unnecessarily.

OIG found that DCPM developed an action plan as recommended by OIG and in implementing it, has been successful in reducing its backlog of completed but not yet closed contracts. We found that all but 230 of the October 1991 backlog of 829 contracts have been closed out. DCPM's backlog of completed but not closed contracts consisted of 368 contracts at the end of January 1994. This backlog of 368 contracts is made up of the 230 contracts remaining from the original inventory of 829 contracts and 138 others that were added since October 1991. ADM has established an inventory level of 300 contracts by July 31, 1994. We believe ADM will reach this goal as planned. DCPM also acquired the services of a new close-out contractor using an agreement that included incentives, performance standards and milestones recommended by OIG. In addition, DCPM eliminated its practice of setting aside a five percent reserve on contracts and deobligated outstanding balances on 55 contracts cited in OIG's report.

## INTRODUCTION

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In June 1992, the Office of the Inspector General (OIG) issued an audit report on its review of the Nuclear Regulatory Commission's (NRC) contract close-out process<sup>1</sup>. The objectives of this audit were to (1) determine the overall status of contract close-outs and (2) review and evaluate NRC's effectiveness in closing out contracts in excess of \$100,000.

On June 19, 1992, the Deputy Executive Director for Nuclear Materials Safety, Safeguards and Operations Support (DEDO) responded to OIG's draft report noting his agreement with OIG's recommendations. The DEDO's response also included a plan of action to implement the recommendations.

In January 1994, OIG initiated this followup review of recommendations contained in its audit report. The purpose of this review was to determine whether NRC has implemented those actions agreed to in its response to OIG's report. This review included an examination of NRC's current backlog of completed contracts, contract close-out procedures and NRC's contract for closing out contracts.

## BACKGROUND

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In its June 1992 audit report, OIG noted that NRC's Division of Contracts and Property Management's (DCPM) Office of Administration's (ADM) backlog of completed, but not yet closed, contracts had increased significantly since the last audit in July 1988<sup>2</sup>. For example, the backlog increased from 591 contracts in May 1986, to 829 in October 1991.

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<sup>1</sup> Review of NRC's Contract Close Out Process, OIG/92A-04, June 26, 1992.

<sup>2</sup> Followup Review of Actions Taken on OIA's Report Entitled "Review of NRC's Procedures for Closing Out Expired Contracts", July 15, 1988.



Specifically, the new contractual agreement contains performance standards requiring the close out of 800 contracts for the first two years of the contract, and the assignment of first priority to the deobligation of funds. It also contains milestones such as the completion of actions deobligating excess funds on contracts which have been expired for more than 90 days by December 31, 1992, and the deobligation of funds on nearly 800 contracts by July 31, 1994. It further contains incentives such as balloon payments payable upon completion of steps outlined in the contract for both the base and option years of the contract.

We found that the new contractor has been successful in reducing the backlog of completed but not closed contracts. In February 1994, the Director, ADM reported to the DEDO that ADM had closed 625 expired contracts and deobligated approximately \$8 million in excess funds since July 1, 1992. The contracts closed out during this period include the close out of all but 230 of the October 1991 backlog of 829 contracts.

At January 31, 1994, the backlog of expired but not closed contracts totaled 368 contracts. This backlog includes the 230 contracts remaining from the original 829 contracts and 138 others that had been added since October 1991. The Director, ADM established a close-out inventory goal of 300 contracts by July 31, 1994. We believe that given the progress made to date, ADM will reach its goal as planned.

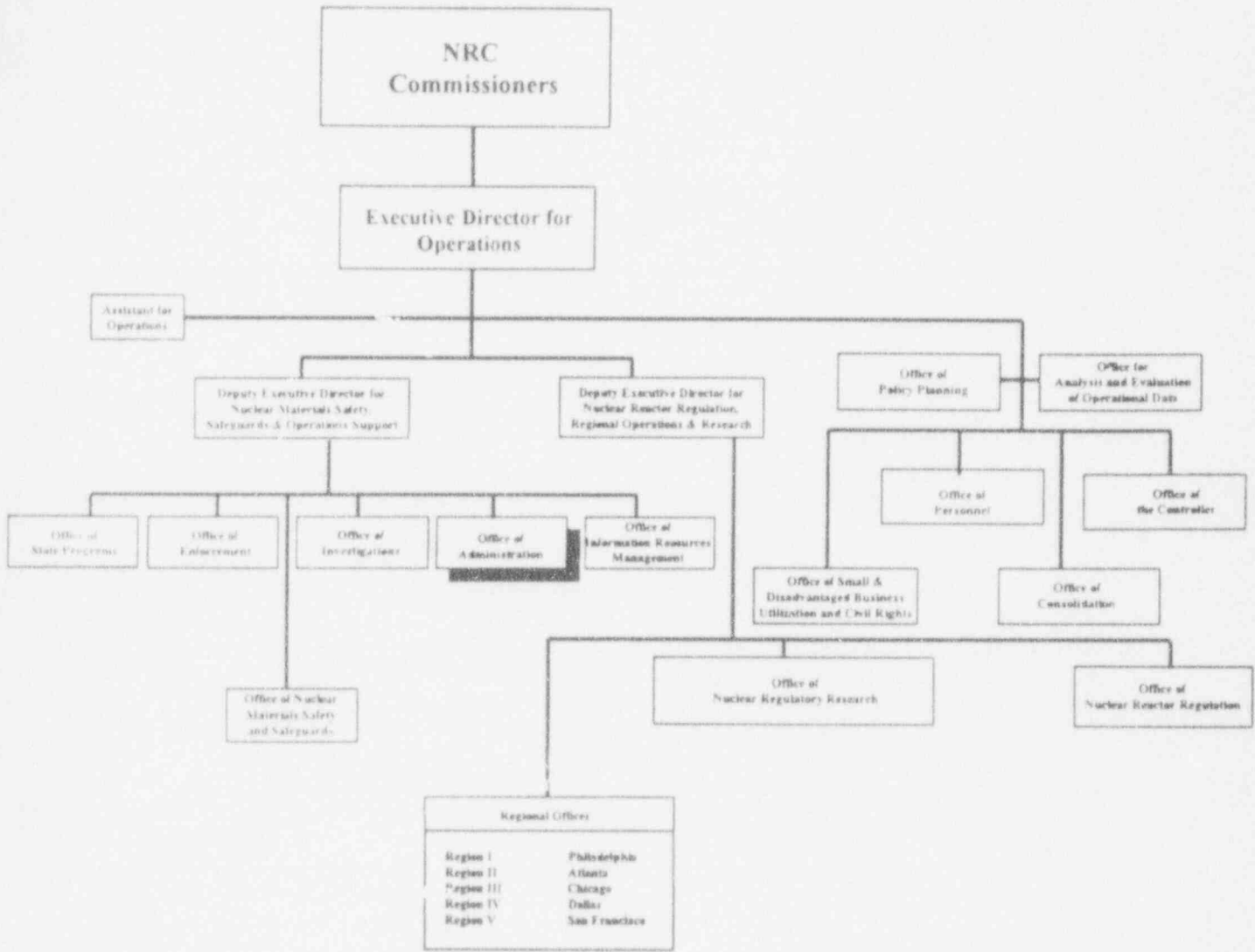
DCPM has also discontinued its practice of setting aside reserves on contracts and deobligated the unexpended balances existing on the 55 contracts cited in OIG's audit report.

## CONCLUSIONS

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We believe the actions taken by DCPM satisfy the objectives of OIG's recommendations. Accordingly, we anticipate no further followup action on the three recommendations. This completes OIG action on our June 1992 audit report.

**U.S. FUNCTIONAL ORGANIZATION CHART**



Area Audited

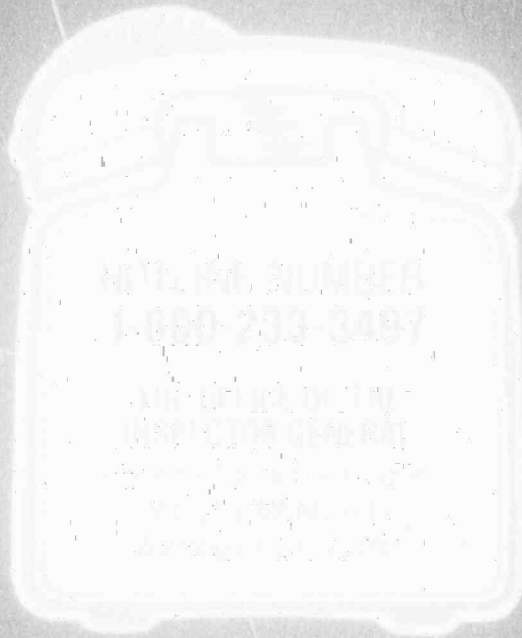
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