



U.S. Nuclear Regulatory Commission

Chairman's Semiannual Report to the Congress

October 1, 1993 – March 31, 1994

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

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U.S. Nuclear Regulatory Commission
Washington, DC 20555

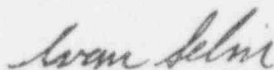
FOREWORD

The U.S. Nuclear Regulatory Commission's tenth semiannual report, "Management Decisions and Final Actions on Office of the Inspector General [OIG] Audit Recommendations," covers the six months from October 1, 1993, to March 31, 1994, and is required by Section 106(b) of the Inspector General Act Amendments of 1988 (P.L. 100-504). It complements the report prepared by OIG on audit reports issued during the same six months and gives information on actions taken in response to audit reports.

The number of reports and recommendations remaining open over a year increased considerably during this period. Several of these recommendations have already been implemented and many are scheduled to be implemented during the next reporting period.

OIG reviewed NRC's fee policy by conducting an audit of the basis on which license fees are established. Management also reviewed NRC's policy for assessing annual charges as required by the Omnibus Reconciliation Act of 1990. These reports evaluated several options for resolving concerns involving fairness and equity of the NRC fee policies and the efficiency of those policies. Modifications will be required to existing legislation to effectively address the concerns contained in the reports.

Cooperation and interaction between OIG and management continues to be maintained at the highest professional levels.



Ivan Selin, Chairman
U.S. Nuclear Regulatory Commission

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INTRODUCTION

This is the tenth semiannual report to the Congress on management decisions and final actions taken by the U.S. Nuclear Regulatory Commission (NRC) in response to the recommendations ensuing from the audits performed by the Office of the Inspector General (OIG). This report presents the status of (1) recommendations remaining from the previous reporting period, (2) recommendations made during the reporting period, and (3) recommendations remaining open for more than a year. The sections titled "Status of Recommendations Remaining From the Previous Period" and "Management Decisions on Reports Issued During This Period" present the status of items of Commission interest. The statistical tables and the section titled "Management Decisions Not Implemented Within One Year" are required to be presented in accordance with the Inspector General Act Amendments of 1988.

BACKGROUND

Public Law 100-504, Inspector General Act Amendments of 1988, placed new reporting requirements on both inspectors general and agency heads to report to the Congress on audits performed, audit findings, and audit recommendations. Section 106(b) of this law requires that agency heads submit semiannual reports to the Congress regarding management decisions and final actions taken pursuant to audit recommendations.

STATUS OF RECOMMENDATIONS REMAINING FROM THE PREVIOUS PERIOD

The agency continues to take the necessary steps to resolve open recommendations remaining from the last reporting period. Table I gives the status of open recommendations and completions during the reporting period. During this reporting period, the staff completed final action on nine recommendations and closed one audit report remaining from the previous period. The 13 reports remaining open from the previous reporting period contain 22 recommendations in varying stages of completion. Eleven of the reports contain recommendations over a year old and are described in the section entitled "Management Decisions Not Implemented Within One Year." The audit report "Review of NRC's System To Followup on Audit Recommendations" was closed out during the reporting period. The OIG review showed that, overall, NRC's follow-up system is adequate and NRC officials have been effective in implementing and closing out recommendations. The Commission responded to OIG on October 19, 1993, that the existing authority and responsibility were adequate to achieve the results contemplated.

TABLE I
STATUS OF OPEN RECOMMENDATIONS

For The Period October 1, 1993, To March 31, 1994

Status	<u>Less than a year old</u>		<u>Over a year old</u>	
	No. of reports	No. of recommendations	No. of reports	No. of recommendations
Open at beginning of report period	10	26	4	5
Closed during report period	-1	-8		-1
Became one year old during report period	<u>-7</u>	<u>-10</u>	<u>+7</u>	<u>+10</u>
Remaining open at end of report period	2	8	11	14
New reports issued during report period	8	12		
Reports closed - no recommendations	-5	0		
New reports - closed recommendations	—	<u>-5</u>		
Remaining open - new reports	3	7		
Total open at end of report period	5	15	11	14

MANAGEMENT OF MISADMINISTRATION INFORMATION IS INADEQUATE

Because of an increasing number of reports of medical misadministrations and heightened public and Congressional interest in the effectiveness of NRC's regulation of nuclear medicine, OIG reviewed NRC's collection and analysis of misadministration data. To obtain a Commission perspective on the medical misadministration issue, the OIG attended oversight briefings on (1) NRC's initiatives to prevent misadministrations, (2) a misadministration that resulted in the death of a patient, (3) views of the medical community on misadministrations, and (4) the Agreement States program regarding the reporting of medical misadministrations. OIG met with appropriate headquarters and regional staff to obtain their perspective on misadministrations and the medical license inspection program, and reviewed and analyzed medical misadministration reports and other programmatic information.

OIG concluded that NRC's management of information on medical misadministrations had significant weaknesses and recommended that NRC (1) independently verify the number and type of procedures involving the medical use of byproduct material that licensees perform annually, (2) use misadministration data to establish performance indicators to evaluate the effectiveness of its programs and strengthen its regulatory oversight, and (3) encourage Agreement States to (a) report all misadministrations and (b) adopt NRC's new reporting criteria before 1995.

NRC explored two options to determine the number and types of annual procedures that involve the medical use of byproduct material: 1) review the records of operational data and 2) issue a rule to ensure that licensees collect the information in a consistent format and report it to the Commission. The staff determined it could not obtain this information through routine inspection efforts because of the current inspection frequency and the belief that complete information on the number of administrations might not be readily obtained in records available during an inspection. Furthermore, it would be necessary to clearly define administration, and the staff does not believe that there is sufficient justification for the imposed burden to require licensees to collect and report information annually on the number of administrations. The number of procedures of a given type vary widely with the size and nature of the medical practice, the equipment available, etc, which would make comparison of error rates and relative safety of different treatment modalities difficult. If NRC were to require licensees to report the total number of administrations, this would not provide the annual number of procedures nationwide because Agreement State licensees comprise approximately two-thirds of the medical facilities and do not currently require their licensees to report the total number of administrations. Therefore, the NRC staff does not intend to pursue efforts to obtain the annual number of procedures. The staff does not believe that the objectives of the Medical Management Plan or the overall NRC medical use regulatory program will be unfulfilled because of the lack of this information.

The Offices of State Programs (OSP) and Nuclear Material Safety and Safeguards (NMSS) are in the process of collecting and reviewing misadministration data from both Agreement States and non-Agreement States. This information will be used to establish standardized performance indicators for both the Agreement States and the non-Agreement States. It is projected that these indicators will be developed by January 31, 1995.

The collection of medical misadministration data is not specifically required by an NRC regulation or the terms of the Agreements that the 29 States have signed with NRC. In the spirit of cooperation with NRC and under the provisions of the exchange-of-information program of their agreements, all Agreement States collected and sent medical misadministration data to the NRC for calendar years 1992 and 1993. The NRC will continue to encourage the Agreement States to report all misadministrations and to adopt compatible regulations. To foster prompt recording, a joint materials event report database is being developed to collect and disseminate NRC and Agreement State event report data on a real-time basis. The NRC provided prototype data for evaluation to the Agreement States during workshops conducted on May 11-12, 1994. The database is scheduled for operation on October 31, 1994.

RESULTS OF AUDIT OF NRC'S FY 92 FINANCIAL STATEMENTS

The independent auditor retained by OIG rendered an opinion on NRC's FY 1992 financial statements as required by the Chief Financial Officer's Act. The auditors stated that the financial statements present fairly, in all material respects, the financial position of NRC. The opinion was qualified because of the following scope limitations: (1) the assessment of compliance with laws and regulations did not provide for a review of the U.S. Department of Energy's (DOE's) extent of compliance with laws and regulations for the NRC funds DOE expended, and (2) complete historical accounting records were lacking to support the value and depreciation assigned to property, plant, and equipment. Additionally, the independent auditor submitted a report on NRC's internal control structure that identified four material weaknesses and two reportable conditions. The material weaknesses were: (1) general accounting controls at the general ledger level were not maintained, (2) interagency responsibilities regarding reimbursements for DOE work were not adequate, (3) billing of fees was not timely, and (4) capitalization policies for supplies inventory, leasehold improvements and automated data processing (ADP) software were nonexistent. The reportable conditions were: (1) accounting system did not provide object class and program information, and (2) accounting records for reversionary interest in property, plant, and equipment held by the DOE National Laboratories were not maintained.

During FY 1993, NRC implemented a new accounting system in order to address the problems identified with general ledger controls. The lack of subsystem automated interfaces was the primary reason for the lack of general ledger controls. The new system automates the subsystem interface with the general ledger. The following three subsystems were not integrated during the initial implementation in FY 1993 and continue to be manual: (1) fees accounts receivable, (2) payroll, and (3) property. There are future plans to build automated interfaces for all except the property subsystem. A reconciliation process will ensure the integrity of the manual interfaces.

NRC is reviewing the process for procuring, managing projects, and paying for the work performed by the DOE National Laboratories. Internal controls associated with the following have been improved: (1) NRC review of the billing for work performed by the DOE National Laboratories and (2) project management of the reversionary interest in property. Negotiations between the NRC and DOE Inspectors General are under way in an effort to

remove the scope limitation on future financial statement audits through a cooperative audit effort.

Capitalization policies have been established and will be published in the agency's policy directive. Documentation to support the value and depreciation assigned to property, plant, and equipment will be maintained.

On April 8, 1994, NRC requested a waiver of the Treasury rule that generally requires the billing of accounts receivable within five days of the work for which the cost was incurred. NRC is requesting a waiver because of the special requirements governing the fee-related accounts receivable and other factors.

One of the material weaknesses identified was the lack of capitalization policies for ADP software. The Office of Information Resources Management (IRM) agreed to submit to the Office of the Controller (OC) invoice costs assigned to unique application system identifiers in order to track costs against each system. The contract modification to make these changes to NRC invoices was completed in September 1993. IRM now routinely submits this information to OC.

In September 1993, IRM also submitted to OC a verified list of all systems for which IRM is responsible that fall under the capitalization requirements as well as systems that are expected to be made operational or dropped from operation in FY 1994.

Additionally, NRC is updating and will be reissuing appropriate accounting policies in a new management directive that it plans to publish in September 1994.

MANAGEMENT DECISIONS ON REPORTS ISSUED DURING THIS PERIOD

Eight new audit reports containing 12 recommendations were issued during this period. Five of the reports made no recommendations. NRC management agreed to all the recommendations, and five have already been implemented. While the report "Review of Fees for Licensees" contained no recommendations, it did offer several suggestions for improvements in the fee process. As required by the Energy Policy Act of 1992, NRC reviewed its policy for assessment of annual charges under the Omnibus Reconciliation Act of 1990, solicited public comment on the need for changes to this policy, and recommended to Congress changes needed to prevent placing an unfair burden on NRC licensees. These reports evaluated several options for resolving concerns involving fairness and equity of the NRC fee policies and the efficiency of those policies. To address the concerns contained in the reports effectively, modifications to existing legislation will be required. The three reports that contained recommendations are summarized below.

INDEPENDENT REVIEW OF FINANCIAL AND ADMINISTRATIVE CONTROLS FOR WORK PERFORMED BY DOE LABS

This audit review focused on NRC's financial and administrative accountability for work placed with DOE National Laboratories. The report centered on the four largest offices that contract work with DOE and concluded that the management of the Office of Nuclear Regu-

latory Research (RES) has taken decisive and appropriate actions to address the financial management deficiencies reported in previous audits. Other NRC offices also have addressed financial management problems in their project management processes and have carried out appropriate corrective actions in most areas. The third of the three recommendations has been implemented. The Office for Analysis and Evaluation of Operational Data modified the office's monthly financial report to include performance periods for all DOE National laboratory projects and has instituted a revised priority for close-out of completed projects.

The first recommendation was to ensure that key personnel were trained. The Office of Nuclear Reactor Regulation (NRR) has continued its efforts to ensure that all key personnel associated with contracting or contract management have attended available courses. It has completed training for 37 individuals through regularly scheduled courses and for 1 through a specially designed course. Monthly courses are planned and the goal is to complete this training by May 1995.

The second recommendation involved the improvement of project managers' reports. RES is developing a comprehensive tracking system that it estimates will be implemented by October 1994. NRR plans to adopt this system but continues to track performance periods for DOE projects and is aggressively pursuing closure of old contracts.

NRC EFFECTIVELY MANAGES ITS CONTRACT WITH SOUTHWEST RESEARCH INSTITUTE FOR OPERATING THE CENTER FOR NUCLEAR WASTE REGULATORY ANALYSES

On October 1987, the agency contracted with Southwest Research Institute (SwRI) to establish and operate the Center for Nuclear Waste Regulatory Analyses, a Federally-funded research and development center. The mission of the center is to provide technical assistance and research in support of NRC's high-level waste management program under the Nuclear Waste Policy Act of 1982, as amended. In December 1993, OIG issued an audit report on NRC's adherence to contracting policies and procedures related to the management of its contract with SwRI for operation of the center, as well as on the efficiency and effectiveness of that management. OIG found that, overall, NRC is doing a very effective job of managing this contract. It also identified two areas in which NRC could improve its performance. It recommended that NRC consider strengthening the award fee process and evaluate the cost efficiency of using the center for technical assistance work.

Five specific recommendations were made: (1) payment should be made to SwRI promptly on receipt of a properly approved invoice or within 30 calendar days of the official agency receipt date, whichever is earlier; (2) the NRC center program manager should ensure that invoices are reviewed and approved within a 7-day period; (3) the award fee process should be revised to include (a) award fees based on weighted element areas according to contract funding levels (b) documented Center Review Group (CRG) deviations from evaluations by the program element manager (c) award fees based on the mathematical equivalent of the CRG final score and (d) award fees only for performance that is more than satisfactory; (4) the NRC center program manager should either revise the criteria for rating the center on timeliness to demonstrate NRC's real concern in this area or redirect the resources being spent on the ongoing analysis of this issue to other areas; and (5) a docu-

mented cost comparison and justification for any high-level waste (HLW) technical assistance work performed at the center should be performed. NRC management generally agreed with the recommendations.

NRC has taken actions necessary to close four of the five recommendations. A new voucher review process was implemented to ensure timely review and approval of center vouchers and timely payment to SwRI. The new process has been reviewed and has proven to be effective. The award fee process has been evaluated and revisions, which NRC believes will strengthen the process, have been made. The last CRG evaluation of the center's performance showed that timeliness of center deliverables was not a problem. Therefore, consistent with OIG's Recommendation 4 and the findings of CRG, the NRC center program manager has determined that little would be gained by continuing to place additional emphasis on this issue. Although timeliness of center deliverables will continue to be monitored, unless a problem in the area is identified, it will no longer be a management topic. Work on the remaining recommendation (Recommendation 5) has been initiated. The cost comparison and justification for performance of HLW technical assistance work at the center will be completed in the summer of 1994.

NRC'S INFORMATION SYSTEMS NEED MANAGEMENT ATTENTION

The audit showed that NRC maintains an estimated 200 to 300 automated information systems. OIG conducted a satisfaction survey of 186 system users as part of the audit. Although all but one of the systems in the sample were determined to be in use, OIG noted that the management controls over these systems required strengthening for them to be more effective and efficient tools for use by the employees. The survey showed that managers were dissatisfied with certain aspects of the systems, Federal Information Resource Management Regulation (FIRMR) requirements were not fully met, procedures for accession lists needed improvement, and the agency lacked knowledge of the total number and the dollars expended on these systems. OIG had four recommendations. Management agreed with all recommendations and has already implemented one of them. OIG recommended that an action plan for evaluating and addressing staff and managerial problems be developed and implemented. The Office of Information Resources Management (IRM) has developed a comprehensive strategy to address the OIG recommendation.

Management agreed to conduct a review of all computer systems and identify systems no longer required by the end of FY 1994. IRM will also review policies and procedures regarding the handling of application systems no longer required and those for maintaining accession lists by July 1994. The IRM has also agreed to publish instructions regarding Federal Information Processing acquisitions and FIRMR requirements by May 1994.

STATISTICAL TABLES

Table II gives the dollar value of disallowed costs determined through contract audits conducted by the Defense Contract Audit Agency (DCAA) and OIG. OIG conducted one audit that questioned \$112,458, but found that all the costs had been cleared. These costs also appear in reports subsequently issued by OIG. The details of these contract audits are not given as part of this report.

Table III gives the dollar value of funds that audits showed could be put to better use. These figures are the result of pre-award contract audits conducted by DCAA and OIG, as well as internal program audits performed by OIG. With one exception, DCAA performed all the contract audits reported in both tables. OIG conducted an audit of the contract "Moving Master" and questioned \$39,136 in costs. Final action has been taken, and appropriate adjustments have been made to this contract. A previous OIG internal program audit "Improvements Needed in Financial and Administrative Accountability for RES Funded Work at DOE Laboratories" identified \$1.4 million in funds that could be put to better use. Category A reflects this \$1.4 million of RES funds associated with approximately 1100 DOE laboratory projects that were identified as potentially needing to be closed out. Approximately 1000 of these projects have been closed out and approximately \$775 thousand has been deobligated. RES plans on closing out the remaining projects and deobligating all available funds by July 1994.

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

MANAGEMENT REPORT ON OFFICE OF INSPECTOR GENERAL
AUDITS WITH DISALLOWED COSTS

For the period October 1, 1993, through March 31, 1994

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	4	\$184,666
C Audit reports on which final action was taken during this reporting period	4	\$184,666
(i) disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise	(3)	(\$ 72,208)
(ii) disallowed costs that were written off by management	(1)	(\$112,458)*
D Reports on which no final action had been taken by the end of this reporting period	0	\$ 0

* \$112,458 in unresolved direct costs were originally questioned; completion of entire audit indicated all costs were cleared and no costs were disallowed.

TABLE III

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

For the period October 1, 1993 through March 31, 1994

Category	Number of audit reports	Recommendations that funds be put to better use by manage- ment agreed to in a management decision
A Audit reports on which final action has not been taken by the beginning of this reporting period	2	\$1,409,580
B Audit reports on which management decisions were made during this reporting period	2	\$ 43,048
C Audit reports on which final action was taken during this reporting period	2	\$ 43,048
(i) Recommendations that were actually completed	(2)	(\$ 43,048)
(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	\$ 634,580

MANAGEMENT DECISIONS NOT IMPLEMENTED WITHIN ONE YEAR

Management decisions were made before March 1993 for the 11 OIG audit reports discussed below, but as of March 31, 1994, 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. In only one report, "Improvements Needed in Financial and Administrative Accountability for RES Funded Work at DOE Laboratories," did OIG recommend that funds be put to better use. Approximately \$625 thousand remain to be deobligated once all projects are closed.

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

November 30, 1990

OIG made five recommendations concerning NRC's management of reporting requirements under 10 CFR Part 21. Four of the five recommendations have been implemented. The final action item involves compliance with 10 CFR Part 21 by non-reactor licensees and vendors. A proposed rule that clarifies that these entities are subject to Part 21 was submitted to the Agreement States, who have raised substantive policy and legal issues. A legal analysis on questions regarding alternatives for implementing requirements equivalent to Part 21 for the Agreement State licensees was provided to the staff on May 13, 1994. The staff is reviewing the legal analysis and will determine the best approach to pursue for implementation of 10 CFR Part 21.

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

September 17, 1991

In reviewing the procurement practices of the ACRS in dealing with the DOE National Laboratories, OIG made four recommendations. Only one remains open. The open recommendation requires oversight by the Division of Contracts and Property Management (DCPM) of goods and services procured from the DOE National Laboratories.

The Executive Director for Operations sent NRC Management Directive 11.7, "NRC Procedures For Placement and Monitoring of Work With the Department of Energy," to DOE on December 30, 1993. DOE comments were received on March 21, 1994. The DCPM staff met with DOE on several occasions to discuss DOE comments. DOE issues were resolved on April 13, 1994. The directive was prepared in final form and is being reviewed by senior NRC management. It is expected that it be issued by June 1994.

One recommendation was closed during the reporting period. NRC asked for an opinion from the Comptroller General on the legality of procuring the services of an individual from the DOE National Laboratories to serve on the ACRS. The General Accounting Office's Office of the General Counsel responded and concluded that the Atomic Energy Act and the Federal Advisory Committee Act contemplate an employment arrangement between the agency and a committee member, and that obtaining a member's service from the DOE National Laboratories through the procurement process raised some difficult legal questions. For these reasons, it strongly recommended continuation of NRC's current practice of dealing directly with advisory committee members who are employees of National Laboratories. The NRC plans to continue the current practices.

REVIEW OF CONTRACTING FOR CONSULTING SERVICES

January 29, 1992

OIG made one recommendation in its annual audit of agency compliance with Office of Management and Budget (OMB) Circular No. A-120 "Guidelines for Use of Advisory and Assistance Services" regarding guidance on consulting services. OIG recommended that 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. The issuance of NRC Management Directive 11.7 scheduled for June 1994 will complete implementation of this recommendation.

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

August 31, 1992

The OIG staff reviewed the project management practices in the RES related to the acquisition of goods and services from DOE National Laboratories. OIG made three recommendations that centered on the review and approval of cost vouchers and subsequent verification of RES work performed. One of the three recommendations remains open. OIG 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. The issuance of NRC Management Directive 11.7 scheduled for June 1994 will complete implementation of this recommendation.

FREQUENT-FLYER BENEFITS

October 15, 1992

The OIG audited the NRC program for managing and administering frequent-flyer benefits as a result of allegations that agency personnel had used frequent-flyer benefits acquired from official travel for personal use. OIG made four recommendations to strengthen NRC policy and procedures for using frequent-flyer benefits. In response to two of the recommendations, 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 that frequent-flyer benefits be used to reduce overall travel costs to the agency and (2) clearly state that personal use of frequent-flyer benefits earned through official travel is a criminal violation subject to the penalties of the law. NRC deferred implementing any policy changes on the use of frequent-flyer benefits based on a petition filed by the Senior Executive Association (SEA) with the General Accounting Office (GAO) for reconsideration of its position that frequent flyer benefits earned through official travel are the property of the government.

The General Services Administration recently revised the Federal Travel Regulations to incorporate changes concerning the use of first-class travel including a change regarding the use of frequent-flyer benefits for upgrades to first-class. Consequently, the NRC is revising Management Directive 14.1, Official Temporary Duty Travel (formerly Official Travel), to incorporate the two remaining OIG recommendations as well as to revise the policy on the use of frequent flyer benefits in regard to first-class accommodations. The management directive is expected to be issued in FY 1994.

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

October 26, 1992

In 1992, OIG investigated an allegation that an NRC regional office had conducted an inadequate inspection and mishandled an allegation concerning a materials license. Because of that investigation, OIG initiated a follow up audit to examine programmatic issues related to actions taken by regional offices. It concluded that NRC's policies and procedures for deferring materials inspections and verifying licensee assertions needed improvement. Its recommendations were the following: (1) policies and procedures should be developed for ensuring that initial materials license inspections are performed within a specified period after the license is issued; (2) policies and procedures should be developed to ensure that subsequent materials license inspections are performed according to schedule, or a uniform policy for deferring these inspections should be developed; (3) NRC training programs for new and inexperienced inspectors should emphasize the topic of verification of licensee assertions; and (4) additional guidance and training on handling situations when inspectors believe they are being misinformed by licensee officials should be provided. To address the first two recommendations, the Office of Nuclear Material Safety and Safeguards revised Inspection Manual Chapter 2800, "Materials Inspection Program," on December 20, 1993. This revision incorporates guidance for ensuring that initial materials license inspections and on-site visits are performed within a specified period after the licensee's facility is completed and a license is issued, regardless of whether the licensee has possessed material. In addition, this manual chapter gives a uniform policy for deferring materials inspections. These changes are being incorporated into a new Management Directive 8.8, which is planned to be published on August 1, 1994.

To address the last two recommendations, the Fundamentals of Inspection Course, which is used for training NRC inspectors on the philosophy regarding the development and implementation of inspection programs, was updated to emphasize the topic of verification of licensee assertions.

IRM'S COMPUTER SECURITY PROGRAM

December 15, 1992

The OIG staff examined the results of an independent compliance review of the Office of Information Resources Management (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. OIG determined that the uncorrected deficiencies warranted immediate agency attention and recommended that (1) a detailed action plan be developed to address the remaining weaknesses identified in the LANL report and (2) 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 implemented. The computer security program will continue to be reported as a material weakness until all items in the detailed action plan have been completed.

All items in the action plan have been completed except for the certification and accreditation of all NRC sensitive information systems. According to OMB Circular A-130, "Manage-

ment of Federal Information Resources," sensitive information systems must be certified and accredited. NRC has undertaken programs to certify and accredit all sensitive information systems (e.g., microcomputer-based, minicomputer-based, and mainframe-based) using both self assessments and General Services Administration contractor assistance. The current schedule shows that all sensitive unclassified computer systems will be certified and accredited by December 1994.

REVIEW OF NRC'S IMPLEMENTATION OF THE FMFIA FOR 1992

December 23, 1992

OIG recommended that NRC develop a quality assurance program to ensure that (1) FMFIA activities are planned and conducted continuously throughout the year (2) internal control review reports are consistent in presentation and (3) internal control reviews are documented with sufficient evidence that links actual work performed during the internal control review process with a report. A quality assurance program has been developed and implemented through the issuance of (1) guidance addressing the first three recommendations and (2) a memorandum, dated October 9, 1992, to office directors and regional administrators advising them of the process for validating corrective actions resulting from management control reviews. The fourth recommendation was to include the quality control provisions, addressed by the above guidance, in NRC Management Directive 4.4, "Internal Controls." Issuance of this directive has been delayed because of Government-wide and agency activities that are likely to significantly affect the management control program at NRC. The National Performance Review (NPR) has reviewed management controls in the Federal Government, and the Office of Management and Budget has delayed publication of its planned revision of Circular A-123, "Internal Controls," to incorporate NPR recommendations. However, NRC is revising Management Directive 4.4 to incorporate the quality control provisions and plans to issue it by August 31, 1994.

INTERNAL CONTROL REVIEW OF LICENSE FEE BILLING SYSTEMS

December 31, 1992

OIG recommended that the Commission ensure that the Federal Financial System (FFS) is capable of on-line input for the billing and collection of fees so that excess manual procedures can be eliminated. In accordance with this recommendation, work continues on incorporating detail receivable information into the FFS with a completion date of September 30, 1994.

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

March 5, 1993

During late 1992 and early 1993, OIG conducted an audit of project management practices in RES related to the acquisition of goods and services at DOE National Laboratories. The audit showed the following: (1) projects were not being closed on completion; (2) managers could not account for NRC-funded property and equipment at DOE National Laboratories; (3) project files were missing, incomplete, and disorganized; (4) key personnel and managers were not adequately trained in financial and administrative accountability; (5) performance of the DOE National Laboratory on projects was not being evaluated; (6) RES was not making use of available management tools to track project status; and (7) project managers did not review costs.

Three of the five recommendations stemming from the audit have been completed. One of the open recommendations requires prompt closure of projects on completion. RES had a backlog of 1140 projects that were required to be closed out. As of April 15, 1994, 1050 of these projects had been closed out. The remaining 90 projects are being reviewed and are expected to be completed by July 1994. Approximately \$775 thousand have been deobligated and approximately \$625 thousand are being reviewed for possible deobligation on remaining projects.

The other open recommendation involves not making use of management tools to track project completion status. RES is continuing to develop a new integrated project and financial management system, called the Research Information Management System (RIMS). One RIMS feature will be the capability to track the status of all RES projects through their entire life cycle from inception through closeout. The objective is to improve the planning, management approval and oversight of projects with the intent of eliminating much of the paperwork involved in the procurement process. This system is in the final stages of development and is expected to be completed in September 1994.

GENERAL LEDGER CONTROLS

March 15, 1993

Before the audit of the FY 1992 financial statement required by the Chief Financial Officers Act of 1990, OIG reviewed the internal control structure of the general ledger, including the payroll, travel, commercial payments, property, and license fee billing subsidiary systems. It rated the general ledger as a high-risk environment and concluded that the internal control structure surrounding the system was inadequate.

The major findings focused on the problems with the subsidiary systems combining manual operations with automated ones to provide monthly summary accounting data to the general ledger. NRC made significant progress toward correcting the internal control problems by implementing the Federal Financial System (FFS). The FFS provides for an automated interface between the accounting system and various subsidiary systems. Three subsystems were not integrated during the initial implementation in FY 1993 and continue to be manual: (1) fees accounts receivable, (2) payroll, and (3) property. There are future plans to build automated interfaces for all except the property subsystem. A reconciliation process will ensure the integrity of the manual interfaces. It is projected that an improved payroll processing system will be implemented in FY 1996.