

Source: OEDO

Task Number:

G20120695

General Information

Lead Assignee: OIS

OEDO Due Date: 10/15/2012

Other Assignees:

SECY Due Date:

Other Parties: Karen.Olive@nrc.gov

Subject: MEMORANDUM REPORT: AUDIT OF NRC'S CONTRACT ADMINISTRATION OF THE EPM CONTRACT - SEPTEMBER 17, 2012 (OIG-12-A-18)

Description:

CC Routing: ADM, CFO, OGC

ADAMS Accession Numbers - Incoming:

Response / Package:

Other Information

Cross Reference OIG-12-A-18

SRM\Other: No

Process Information

Action Type: Memo

OEDO Concurrence: No

Signature Level: OEDO Signature; Darren Ash, DEDCM

OCM Concurrence: No

Special Instructions:

OCA Concurrence: No

Please coordinate with ADM, CFO, and OGC to prepare a complete response to Stephen D. Dingbaum, OIG for signature by Darren, Ash, DEDCM. Please address ALL resolved recommendations. Be sure to include the target completion date and identify the current point-of-contact for each recommendation. The final memo will be forwarded via (as an attachment) to Judy Gordon, cc: Stephen Dingbaum, Steven Zane and the RidsEdoMailCenter by 10/15/2012. If applicable, be sure to attach in email any enclosures to the response. See additional instructions attached. For questions, please contact Jesse Arildsen, OEDO at 301-415-1785.

Document Information

Originator Name: Stephen D. Dingbaum

Date of Incoming: 09/17/2012

Originator Org: OIG

Document Received by OEDO Date: 09/17/2012

Date Response Requested by 10/17/2012

Addressee: R.W. Borchardt, EDO

Originator:

Incoming Task: Memo

OEDO POC: Jesse Arildsen

Boyer, Rachel

From: Kreuter, Jane on behalf of Dingbaum, Stephen
Sent: Monday, September 17, 2012 7:51 AM
To: Borchardt, Bill
Cc: Mamish, Nader; Brock, Kathryn; Arildsen, Jesse; Jaegers, Cathy
Subject: OIG'S most recent Audit Report: OIG-12-A-18 Memorandum Report: Audit of NRC's Contract Administration of the EPM Contract
Attachments: FINAL REPORT 9.12.12(JAK).pdf; Instructions for Responding to OIG Report Recommendations.doc

Attached please find the following Office of the Inspector General's Most Recent Audit Report:

OIG-12-A-18 –AUDIT OF NRC'S CONTRACT ADMINISTRATION OF THE EPM CONTRACT –
September 17, 2012

ADAMS Accession Number – ML 12261A025

Attached is the Office of the Inspector General's (OIG) memorandum report titled, *Audit of NRC's Contract Administration of the EPM Contract*. The objective of this audit was to evaluate NRC's contract administration for technology initiatives using Enterprise Project Management (EPM) applications under Contract # NRC-DR-33-10-303. This audit identified opportunities to enhance internal controls over the contract administration process associated with the oversight and management of the contract.

This report will be publically available in ADAMS and on the NRC Web Site on September 18, 2012.

If you have any questions, please contact me at 415-5915 or Robert Wild, Team Leader, at 415-5948.

Stephen D. Dingbaum
Assistant Inspector General for Audits



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

OFFICE OF THE
INSPECTOR GENERAL

September 17, 2012

MEMORANDUM TO: R. William Borchardt
Executive Director for Operations

FROM: Stephen D. Dingbaum */RA/*
Assistant Inspector General for Audits

SUBJECT: MEMORANDUM REPORT: AUDIT OF NRC'S CONTRACT
ADMINISTRATION OF THE EPM CONTRACT
(OIG-12-A-18)

The Office of the Inspector General (OIG) conducted an audit of the Nuclear Regulatory Commission's (NRC) contract administration of the Enterprise Project Management (EPM) contract. The audit objective was to evaluate NRC's contract administration for technology initiatives using EPM applications under Contract # NRC-DR-33-10-303. OIG determined that there is a lack of effective internal controls governing administration of the contract, specifically over the invoice review process. As a result, OIG identified the need to update current agency guidance as well as to certify the accuracy of invoices received from and payments made to the contract from the inception through the closeout.

Please provide information on actions taken or planned on each of the recommendations within 30 days of the date of this report. Actions taken or planned are subject to OIG followup as stated in MD 6.1.

BACKGROUND

In November 2009, NRC entered into Contract # NRC-DR-33-10-303 to "execute its vision for implementing Microsoft technologies throughout the enterprise in a timely,

efficient and secure manner.” NRC stated in the contract’s statement of work that it currently employs a variety of Microsoft technologies, including EPM tools.¹ NRC noted that these EPM applications were integral to its business operations and justified the need to obtain Microsoft consulting services to support product updates and upgrades as the agency integrates all of the existing Microsoft technologies into its current operating environment.

These EPM technologies cited by NRC in the contract are part of a Microsoft product suite that helps organizations by providing tools for scheduling, tracking, and updating projects. These applications are intended to help optimize resources, minimize costs, facilitate collaboration, manage project scope, and deliver projects on time. Essentially, Microsoft claims its EPM tools are designed to assist organizations in managing inter-related projects to ensure that constituents, contractors, and stakeholders receive clear and accurate progress reports on a regular basis.

The contract has an estimated ceiling of approximately \$34 million and is an Indefinite Delivery, Indefinite Quantity (IDIQ) contract with provisions for firm fixed price and labor hour task orders.² The contract was awarded on November 4, 2009, for 1 year with 4 option year periods of performance. As of July 9, 2012, NRC had spent \$7,521,789.93. The contract was implemented as an umbrella contract (frequently referred to as a “blanket contract”), which provides the opportunity for multiple offices to obtain a variety of services related to implementing Microsoft EPM technologies over the contract’s designated period of performance. For example, the Office of Nuclear Reactor Regulation, the Office of New Reactors, and the Office of Information Services use the Microsoft EPM applications, including Microsoft Project Server, Microsoft Project Professional, and SharePoint to electronically support various agency programs, such as licensing programs and maintenance of existing systems.

Effective implementation of the contract requires a significant level of coordination among participating offices. For example, the Office of Administration and the Office of Information Services share responsibility for overseeing the contract’s implementation. Specifically, the Office of Administration is responsible for facilitating the contract award and closeout process and negotiating contract terms. These activities are managed by a contract specialist. The Office of Information Services is tasked with routine contract

¹ EPM tools include applications such as Microsoft Project Server 2007, Microsoft SharePoint 2007, and Microsoft SQL Server 2005.

² An Indefinite Delivery, Indefinite Quantity contract provides for an indefinite quantity, within stated limits, of supplies or services to be furnished during a fixed period, with deliveries or performance to be scheduled by placing orders with the contractor (Federal Acquisition Regulation (FAR) 16.504).

oversight, including coordinating invoice reviews, monitoring funding, and initiating contract modifications. These activities are managed by a Contracting Officer's Representative.³ Individual offices that use the contract have responsibility for assigning a Task Order Manager to oversee the daily implementation of their respective task orders.

OBJECTIVE

The audit objective was to evaluate NRC's contract administration for technology initiatives using EPM applications under Contract # NRC-DR-33-10-303.

RESULTS

NRC's administration of the contract demonstrates a notable lack of internal controls, specifically over the invoice review process. Invoice irregularities have occurred because NRC has not provided staff with detailed guidance that sufficiently addresses the specifics of reviewing and approving contract invoices, including those resulting from IDIQ contracts. Consequently, NRC lacks assurance that contract costs are being consistently and appropriately evaluated to determine whether they are allowable, allocable, and reasonable. OIG reviewed 83 invoices totaling approximately \$6.8 million and found several irregularities. Anomalies included costs that were outside the invoice billing period, inconsistent labor categories and contractor and job roles, as well as status reports that did not match invoice billing periods. As a result, NRC is vulnerable to potential fraud, waste, and abuse.

Federal and Industry Guidance Cites Need for Internal Controls

Federal guidance stresses the significance of implementing effective internal controls. For example, the Government Accountability Office publication, *Standards for Internal Control in the Federal Government*,⁴ stipulates that management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. It states that management and employees are responsible for establishing

³ A Contracting Officer's Representative assists in the technical monitoring or administration of a contract (FAR Title 48, para 1.604).

⁴ GAO/AIMD-00-21.3.1, issued November, 1999.

and maintaining internal controls and creating an environment that sets a positive and supportive attitude toward conscientious management and internal controls.

The Office of Management and Budget also stresses the importance of internal controls in OMB Circular A-123, *Management's Responsibility for Internal Control*. According to Circular A-123, internal controls help to ensure that desired results are achieved through effective stewardship of resources while safeguarding assets and preventing and detecting errors and fraud. Implementing effective internal controls is especially important in the area of contract administration, where robust controls are needed to provide reasonable assurance that contract funds are not being lost to improper payments, waste, and mismanagement.

Private industry also recognizes the importance of internal controls and staff's consistent understanding of them. For example, in its June 2012 report, *Evaluating and Improving Internal Control in Organizations*, the International Federation of Accountants noted, "internal controls can only work effectively when they, together with the risks they are supposed to modify, are clearly understood by those involved."

Invoice Review Process Lacks Effective Internal Controls

Staff inconsistently review invoices

NRC's invoice review process lacks effective internal controls. This is readily apparent in how the staff inconsistently review invoices. For example, one staff member in the Office of Administration indicated that it was up to the individual Task Order Managers to devise a process to verify that money and hours charged are reasonable and that the work was performed as claimed.

Nonetheless, some aspects of this process are described in Management Directive 11.1, *NRC Acquisition of Supplies and Services*. For example, the management directive requires the use of NRC Form 292, "Voucher Transmittal for Review and Approval Prior to Payment," to be used as part of the invoice review and approval process. This form requires the Task Order Manager/Contracting Officer's Representative to determine that labor hours, travel, and other direct costs are "reasonable and commensurate for the type and nature of work completed during the billing period."

According to one Office of Information Services staff member directly involved in invoice review and approvals, the staff member was directed to remove Form 292 from the invoice review process because a key stakeholder in the Division of Contracts believed it unnecessarily "cluttered up" the process. In contrast, a different staff member

responsible for reviewing contract task orders stated that the Form 292 is used as a key part of that office's review process. The staff member then produced a copy of the form that had been completed during the review and approval of a current contract invoice.

The staff member in the Office of Information Services who was instructed not to use Form 292 stated that their office was also instructed by staff in the Office of Administration, Division of Contracts, not to use MD 11.1 because it was "obsolete." This same Office of Information Services staff member emphasized that, as a result, there is no up-to-date guidance for invoice review beyond what is currently in use.

Invoice information cannot be adequately verified

Although NRC staff purport to review contractor invoices for "reasonableness" per NRC guidance, the staff's invoice review and approval practices do not include the steps necessary to verify that the number of contractor labor hours billed are accurate and allowable. Specifically, source documentation, such as applicable timekeeping records or contractor time sheets, are not requested to verify the contractor labor hours invoiced. When OIG asked a Task Order Manager about the verification process for contractor invoices, the Task Order Manager indicated that it was that individual's responsibility to perform a detailed review of invoices, monthly status reports, and the number of hours reported by the contractor. However, the staff member also noted that they did not request or review timesheets to verify labor hours billed.

Agency Guidance Is Outdated and Not Specific

Management Directive 11.1, last revised in 2006,⁵ is the primary guidance document concerning the administration of NRC contracts that total approximately \$144 million in expenditures for fiscal year 2012.⁶ Yet, this guidance is outdated and does not provide staff with criteria that sufficiently addresses how to verify information contained in the invoices that are reviewed and approved. Overall, the guidance sets a standard that does not meet existing Federal and industry internal controls and best practices standards.

⁵ Discussions with NRC staff disclosed that MD 11.1 is currently under revision and is to be finalized by May 2014.

⁶ This estimate is current as of August 7, 2012.

Guidance is out of date

Agency staff noted that the staff titles appearing in Management Directive 11.1, as well as its appendices, are out of date. For example, titles such as Project Officer and Contracting Officer are included, whereas Contracting Officer's Representative is not included at all, despite current Federal regulation endorsing the consistent use of the term.

Moreover, the Invoice Workflow chart included with Management Directive 11.1 — which depicts the invoice review process — is out of date and no longer representative of the current process. For example, the Invoice Workflow chart indicates that contractor invoices are primarily reviewed and approved by the Project Officer, Contract Specialist, and Office of the Chief Financial Officer. However, OIG's discussions with agency staff disclosed that contractor invoices are currently being reviewed and approved by the Contracting Officer's Representative, the Task Order Manager from the program office that requested the work, and the Contract Specialist from the Office of Administration. Invoices and approvals are then forwarded to the Office of the Chief Financial Officer's payment services provider — the Department of the Interior, National Business Center — for review to ensure all approvals have been submitted, accounting data is complete, and for payment processing.

Guidance is not specific

Management Directive 11.1 does not provide staff with guidance that sufficiently addresses the process for reviewing and approving invoices. For example, no specific information is provided as to what information and/or supporting source documentation should be reviewed during the invoice review process. In fact, the Management Directive only generally states that the Project Officer [i.e., the Contracting Officer's Representative] should review each of the invoices or vouchers submitted by the contractor to determine whether payment should be made, suspended, or disallowed. Management Directive 11.1 also states that the Contract Specialist should review an invoice to ascertain whether the contractor has expended a greater percentage of the contract's funds than can be justified by the contractor's technical progress or if the contractor's billing exceeds money obligated under the contract. The management directive does not provide details beyond these vague instructions regarding how staff should review invoices to ensure a consistent, coherent review process, particularly for the multi-office coordination issues involved in overseeing a blanket contract. As one staff member opined during a discussion with OIG, "...there are not sufficient controls in

place. Management Directive 11.1 was not designed to address the management of blanket contracts.”

In addition, the contract itself does not provide any specific guidance in the form of terms and conditions that enables the review of specific charges for each task order on the invoices submitted by the contractor. Task orders are not specific to individual projects, but include a list of all allowable activities under the scope of work. Staff explained to OIG that work related to a new reactor construction database,⁷ for example, could be charged under multiple task orders depending on the type of work performed. OIG questioned whether it was possible for staff to account for specific costs if multiple task orders were being used inconsistently. Staff confirmed that this was currently not possible.

Waste, Fraud, and Abuse Risks

The lack of specific and up-to-date agencywide guidance for the administration of contracts leaves the agency vulnerable to undue risk of waste, fraud, and/or abuse. Specifically, without such guidance, NRC does not have adequate assurance that amounts billed on contractor invoices are being consistently and appropriately reviewed to ensure that invoiced costs are allowable, allocable, and reasonable. While OIG did not find any conclusive evidence of waste, fraud, or abuse, auditors did note some irregularities with regard to the contract invoices. OIG auditors reviewed 83 invoices valued at approximately \$6.8 million from the inception of the contract in November 2009 to May 2012 and identified the following:

- 12 percent of invoices had hours documented that were outside of the invoice billing period or could not otherwise be verified.
- 25 percent of invoices included labor categories that did not appear to match designated contractor roles or could not be otherwise verified.
- 18 percent of invoices did not have a status report period that matched the billing period.
- 8 percent of invoices did not match job roles listed in the task order or could not otherwise be verified.

⁷ The database is called the Construction Inspection Program Information Management System. For more details, see OIG-12-A-16, Audit of NRC's Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) Process, July 12, 2012.

Without specific guidance and the implementation of strong internal controls, there is an increased risk that potential waste, fraud, or abuse could occur and not be detected prior to invoice approval and payment.

AGENCY COMMENTS

On August 23, 2012, OIG issued the discussion draft of this report to the Executive Director for Operations. OIG met with NRC management officials and staff at an August 30, 2012, exit conference, at which time the agency provided informal comments to the draft report. The informal comments were incorporated into the draft report as appropriate. NRC management and staff reviewed the revised draft report and agreed with the findings and recommendations. The agency opted not to provide formal comments for inclusion in this final report.

RECOMMENDATIONS

OIG recommends that the Executive Director for Operations:

1. Update Management Directive 11.1 to reflect current contract administration-related terminology, including current process flow charts illustrating specific contractor invoice review procedures.
2. Expedite publication of interim guidance that clarifies and updates current contract administration-related terminology and processes for invoice review.
3. Develop and implement an agencywide standard to guide the invoice review and approval process with a requirement to routinely evaluate source documentation, including but not limited to labor hour time sheets and contractor certified payroll records, as appropriate for the contract type and nature of services provided.
4. Using the new agencywide standard, certify the accuracy of invoices received from and payments made to the contractor since the inception of Contract # NRC-DR-33-10-303 through its closeout.

SCOPE AND METHODOLOGY

The scope of the audit was limited to reviewing contract administration practices for NRC's contract # NRC-DR-33-10-303 from inception of the contract to August 1, 2012.

The audit included interviews with agency staff from the Office of Administration, Office of Information Systems, Office of New Reactors, and the Office of the Chief Financial Officer. OIG also reviewed Federal and agency guidance that outlined the processes and procedures pertaining to the utilization and oversight of projects using EPM technologies. Guidance for contract administration and internal controls best practices were also reviewed. Auditors obtained and examined contract documents and records that delineate work pertaining to the EPM technologies, system applications, and projects. OIG reviewed 83 contractor invoices and any documentation supporting internal control review of costs for systems and projects developed or maintained under the contract.

OIG conducted this performance audit at NRC headquarters in Rockville, MD, between April 2012 and August 2012. Internal controls related to the audit objective were reviewed and analyzed. Throughout the audit, auditors were aware of the possibility or existence of fraud, waste, or misuse in the program in accordance with generally accepted Government auditing standards.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit work was conducted by R. K. Wild, Team Leader; Jacki Storch, Audit Manager; Larry J. Weglicki, Senior Auditor; Timothy Wilson, Senior Management Analyst; and Dana Furstenau, Student Analyst.

Instructions for Responding to OIG Report Recommendations

Instructions for Action Offices

Action offices should provide a written response on each recommendation within 30 days of the date of the transmittal memorandum or letter accompanying the report. The concurrence or clearance of appropriate offices should be shown on the response. After the initial response, responses to subsequent OIG correspondence should be sent on a schedule agreed to with OIG.

Please ensure the response includes:

1. The report number and title, followed by each recommendation. List the recommendations by number, repeating its text verbatim.
2. A management decision for each recommendation indicating agreement or disagreement with the recommended action.
 - a. For agreement, include corrective actions taken or planned, and actual or target dates for completion.
 - b. For disagreement, include reasons for disagreement, and any alternative proposals for corrective action.
 - c. If questioned or unsupported costs are identified, state the amount that is determined to be disallowed and the plan to collect the disallowed funds.
 - d. If funds put to better use are identified, then state the amount that can be put to better use (if these amounts differ from OIG's, state the reasons).

OIG Evaluation of Responses

If OIG concurs with a response to a recommendation, it will (1) note that a management decision has been made, (2) identify the recommendation as resolved, and (3) track the action office's implementation measures until final action is accomplished and the recommendation is closed.

If OIG does not concur with the action office's proposed corrective action, or if the action office fails to respond to a recommendation or rejects it, OIG will identify the recommendation as unresolved (no management decision). OIG will attempt to resolve the disagreement at the action office level. However, if OIG determines that an impasse has been reached, it will refer the matter for adjudication to the Chairman.

Semiannual Report to Congress

In accordance with the Inspector General Act of 1978, as amended, OIG is required to report to Congress semiannually on April 1 and October 1 of each year, a summary of each OIG report issued for which no management decision was made during the previous 6-month period. Heads of agencies are required to report to Congress on significant recommendations from previous OIG reports where final action has not been taken for more than one year from the date of management decision, together with an explanation of delays.

Additional Instructions to Action Offices/Regions on Responding to OIG Requests for Status Updates for OIG Report Recommendations

The action Offices/Region should provide a memorandum addressed to the Assistant Inspector General for Audits (AIGA) signed by the Office Director or Regional Administrator. The response should provide the status of each recommendation in the associated OIG audit report.

The memorandum should provide updated status for the OIG report recommendations by the date specified. An extension will not be granted since the memorandum is requesting a status of the recommendation(s), not the completion of the recommendation(s).

Please ensure the updated status memorandum addresses all "resolved" and "unresolved" recommendations and include for each recommendation separately:

- (a) the recommendation by number, repeating its text verbatim,
- (b) a response that describes under each recommendation the action(s) needed for closure,
- (c) the target completion date for the action(s), and
- (d) the identification of the current point-of-contact.

When appropriate, ensure applicable document(s) to support OIG closure of recommendation(s) are attached as Enclosures and/or provide an ADAMS accession number with viewer rights. Be sure to include the audit number, for example: OIG-11-A-01, and task number(s) to the case reference field in the ADAMS profile.

Forward the memorandum to OIG via email, as described in the Special Instructions or Remarks in the associated action item ticket.

Please note that status update memoranda that are in response to publically available OIG audit report recommendations should be profiled in ADAMS to be publically available, and the memorandum should not be marked to the contrary.