

# AUDIT REPORT

Audit of the Nuclear Regulatory Commission's  
USAID-Funded Activities

OIG-08-A-12 July 15, 2008



All publicly available OIG reports (including this report) are accessible through  
NRC's Web site at:

<http://www.nrc.gov/reading-rm/doc-collections/insp-gen/>



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

OFFICE OF THE  
INSPECTOR GENERAL

July 15, 2008

MEMORANDUM TO: R. William Borchardt  
Executive Director for Operations

Margaret M. Doane  
Director, Office of International Programs

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

SUBJECT: AUDIT OF THE NUCLEAR REGULATORY COMMISSION'S  
USAID-FUNDED ACTIVITIES (OIG-08-A-12)

Attached is the Office of the Inspector General's (OIG) audit report titled, *Audit of the Nuclear Regulatory Commission's (NRC's) USAID-Funded Activities*.

The report presents the results of the subject audit. Agency comments provided at the April 24, 2008, exit conference and on May 30, 2008, have been incorporated, as appropriate, into this report. No changes were made to the report based on the agency's July 2, 2008, formal comments (see Appendix C).

Appendix C provides information on actions taken or planned on each of the audit report recommendations. Corrective actions taken or planned are subject to OIG followup as stated in Management Directive 6.1.

We appreciate the cooperation extended to us by members of your staff during the audit. If you have any questions or comments about our report, please contact me at 415-5915 or Steven Zane, Team Leader, Financial and Administrative Audit Team, at 415-5912.

Attachment: As stated

## Electronic Distribution

Frank P. Gillespie, Executive Director, Advisory Committee on Reactor Safeguards/Advisory Committee on Nuclear Waste  
E. Roy Hawkens, Chief Administrative Judge, Atomic Safety and Licensing Board Panel  
Karen D. Cyr, General Counsel  
John F. Cordes, Jr., Director, Office of Commission Appellate Adjudication  
Jim E. Dyer, Chief Financial Officer  
Rebecca L. Schmidt, Director, Office of Congressional Affairs  
Eliot B. Brenner, Director, Office of Public Affairs  
Annette Vietti-Cook, Secretary of the Commission  
Bruce S. Mallett, Deputy Executive Director for Reactor and Preparedness Programs, OEDO  
Martin J. Virgilio, Deputy Executive Director for Materials, Waste, Research, State, Tribal, and Compliance Programs, OEDO  
Darren B. Ash, Deputy Executive Director for Information Services and Chief Information Officer, OEDO  
Vonna L. Ordaz, Assistant for Operations, OEDO  
Timothy F. Hagan, Director, Office of Administration  
Cynthia A. Carpenter, Director, Office of Enforcement  
Charles L. Miller, Director, Office of Federal and State Materials and Environmental Management Programs  
Guy P. Caputo, Director, Office of Investigations  
Thomas M. Boyce, Director, Office of Information Services  
James F. McDermott, Director, Office of Human Resources  
Michael R. Johnson, Director, Office of New Reactors  
Michael F. Weber, Director, Office of Nuclear Material Safety and Safeguards  
Eric J. Leeds, Director, Office of Nuclear Reactor Regulation  
Brian W. Sheron, Director, Office of Nuclear Regulatory Research  
Corenthis B. Kelley, Director, Office of Small Business and Civil Rights  
Roy P. Zimmerman, Director, Office of Nuclear Security and Incident Response  
Samuel J. Collins, Regional Administrator, Region I  
Luis A. Reyes, Regional Administrator, Region II  
James L. Caldwell, Regional Administrator, Region III  
Elmo E. Collins, Jr., Regional Administrator, Region IV

## **EXECUTIVE SUMMARY**

---

### **BACKGROUND**

The Foreign Assistance Act of 1961, as amended, and the Freedom Support Act (FSA) contain the funding authority to provide nuclear regulatory assistance to countries of the former Soviet Union (FSU). The Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006, section 509(c), requires the Office of the Inspector General (OIG) to perform periodic program and financial audits for the agency receiving the transfer or allocation of U.S. Agency for International Development (USAID) funds. The Nuclear Regulatory Commission (NRC) uses both USAID funds<sup>1</sup> and NRC appropriated funds to provide international nuclear regulatory assistance to FSU countries. This report presents the results of OIG's audit of NRC's use of USAID funds (exclusive of NRC appropriated funds).

For fiscal years (FY) 1992 through 2007, USAID provided the NRC approximately \$53,315,000 in FSA funding for assistance programs to improve near-term safety of Soviet designed reactors and enhance regulatory oversight of radioactive sources in Armenia, Georgia, Kazakhstan, Russia, and Ukraine. NRC's Office of International Programs (OIP) is responsible for administering NRC's USAID-funded program.

### **PURPOSE**

The objectives of this audit were to evaluate whether:

1. NRC's corrective actions resulting from OIG's recommendations in Audit Report OIG-02-A-04, dated December 3, 2001, are being adequately implemented.
2. NRC's management controls over the use of USAID funds are adequate.

### **RESULTS IN BRIEF**

NRC's corrective actions resulting from the previous OIG audit of USAID-funded activities have been either adequately implemented or are no

---

<sup>1</sup> For purposes of this report, OIG uses the terms USAID funds and FSA funds interchangeably.

longer applicable. However, opportunities exist to improve NRC's management controls over the use of USAID funds. Specifically, NRC:

- Miscategorized USAID funds in NRC's accounting records, and
- Did not process Intragovernmental Payment and Collection transactions within the required timeframe.

#### **RECOMMENDATION**

This report makes recommendations to improve NRC's management controls over the use of FSA funds. A consolidated list of these recommendations appears in Section IV of this report.

#### **AGENCY COMMENTS**

At an April 24, 2008, exit conference, agency senior executives agreed to provide suggested revisions to the discussion draft report for OIG's consideration. On May 30, 2008, NRC provided suggested report revisions, which served as a basis for further discussions between the agency and OIG. This final report incorporates revisions made, where appropriate, as a result the agency's suggestions.

On July 2, 2008, the Director, OIP, provided a formal response to this report (Appendix C). No changes were made to the report, based on the agency's formal response. OIG's response to the agency's formal comments is presented as Appendix D.

## **ABBREVIATIONS AND ACRONYMS**

---

AdSTM	Advanced Systems Technology and Management, Inc.
DOE	U.S. Department of Energy
FSA	Freedom Support Act
FSU	former Soviet Union
GAO	U.S. Government Accountability Office
FY	fiscal year
IPAC	Intragovernmental Payment and Collection
MD	Management Directive and Handbook
MOA	Memorandum of Agreement
NRC	U.S. Nuclear Regulatory Commission
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OIP	Office of International Programs
USAID	U.S. Agency for International Development

[Page intentionally left blank.]

## **TABLE OF CONTENTS**

---

EXECUTIVE SUMMARY.....	i
ABBREVIATIONS AND ACRONYMS .....	iii
I. BACKGROUND .....	1
II. PURPOSE.....	4
III. FINDINGS .....	5
A. MISCATEGORIZATION OF USAID FUNDS.....	5
B. UNTIMELY TRANSACTION PROCESSING .....	11
IV. CONSOLIDATED LIST OF RECOMMENDATIONS .....	14

### **APPENDICES**

A. SCOPE AND METHODOLOGY .....	15
B. PRIOR AUDIT REPORT RECOMMENDATIONS.....	17
C. FORMAL AGENCY COMMENTS.....	19
D. OIG RESPONSE TO FORMAL AGENCY COMMENTS.....	21



[Page intentionally left blank.]

## I. BACKGROUND

The Foreign Assistance Act of 1961, as amended, and the FSA contain the funding authority to provide nuclear regulatory assistance to countries of the FSU. The Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006, section 509(c), requires OIG to perform periodic program and financial audits for the agency receiving the transfer or allocation of USAID funds. NRC uses both USAID funds<sup>2</sup> and NRC appropriated funds to provide international nuclear regulatory assistance to FSU countries. This report presents the results of OIG's audit of NRC's use of USAID funds (exclusive of NRC appropriated funds).

For FY 1992 through 2007, USAID provided NRC approximately \$53,315,000 in FSA funding for assistance programs for Armenia, Georgia, Kazakhstan, Russia, and Ukraine. Figure 1 highlights the FSU countries receiving FSA funds from NRC.



**Figure 1: Map highlights former Soviet Union countries that receive FSA funds from NRC.**

<sup>2</sup> For purposes of this report, OIG uses the terms USAID funds and FSA funds interchangeably.

Figure 2 indicates the breakdown of FSA funding by country, as provided by NRC.

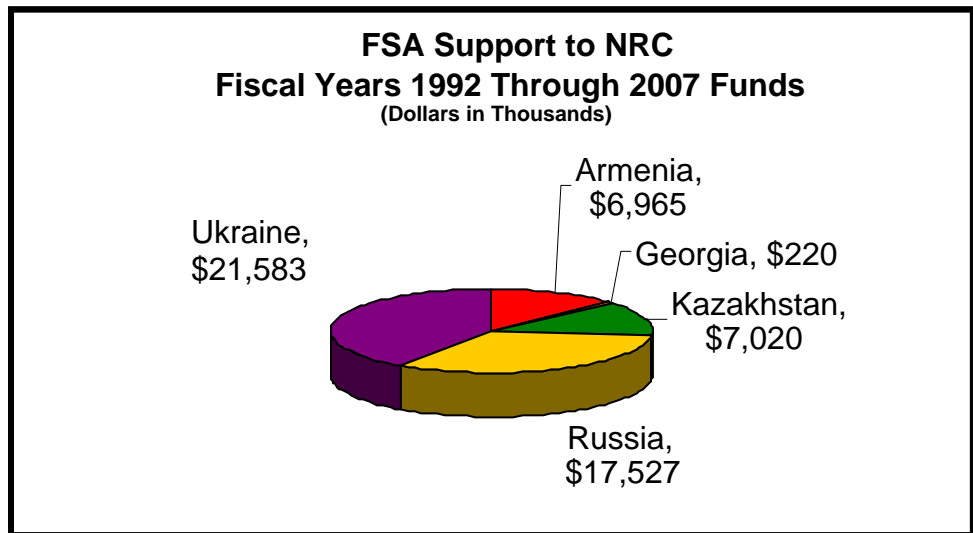


Figure 2: FSA Funds FY 1992 - FY 2007

An objective of these assistance programs is to improve near-term safety of Soviet-designed reactors and enhance regulatory oversight of radioactive sources in Armenia, Georgia, Kazakhstan, Russia, and Ukraine. FSA funds use includes:

- Development of source databases,
- Radiation safety standards training,
- Design certification training,
- Decommissioning of Soviet-designed nuclear plants, and
- Protection of nuclear materials.

### Program Administration

NRC's OIP is responsible for administering NRC's USAID-funded program. OIP is composed of approximately 31 personnel and is headed by a Director who reports to the NRC Commission. The International Cooperation and Assistance Branch, one of two branches within OIP, has responsibility for facilitating the agency's nuclear regulatory assistance to the countries of the FSU, and has dedicated two full time equivalents to accomplish this effort.<sup>3</sup> Two OIP staff serve as project managers of the following agreements for NRC's assistance:



**Chernobyl Nuclear Power Plant, Ukraine**

Source: Vadim Mouchkin / International Atomic Energy Agency

- One commercial contract with Advanced Systems Technology and Management, Inc. (AdSTM),<sup>4</sup> and
- Three Department of Energy (DOE) laboratory agreements.<sup>5</sup>

---

<sup>3</sup> OIP plans to devote additional resources to the USAID-funded program. Due to a retirement during the audit period, one position was unfilled for 3 months.

<sup>4</sup> The contract NRC-08-07418, effective January 11, 2007, requires, for example, that AdSTM assist in developing country specific long-term plans which focus primarily on providing assistance to (1) develop country specific national registries of radioactive sources, and(2) establish laws and regulations to regulate and control the sources.

<sup>5</sup> The DOE laboratory agreements include one agreement with Brookhaven National Laboratory, *Support to Russian Federal Nuclear and Radiation Safety Authority*, July 22, 2002; one agreement with Brookhaven National Laboratory, *Support to State Nuclear Regulatory Committee of Ukraine*, May 31, 2001; and one agreement with Pacific Northwest National Laboratory, *Technical Support for the Ukrainian Nuclear Regulatory Administration/State Scientific and Technical Center*, May 25, 1999. These three laboratory agreements each have a current expiration date of September 2008.

## **II. PURPOSE**

---

The audit objectives were to evaluate whether:

1. NRC's corrective actions resulting from OIG's recommendations in Audit Report OIG-02-A-04, dated December 3, 2001, are being adequately implemented.
2. NRC's management controls over the use of USAID funds are adequate.

See Appendix A for a description of the audit scope and methodology.

### **III. FINDINGS**

---

NRC's corrective actions resulting from the previous OIG audit of USAID-funded activities have been either adequately implemented or are no longer applicable. (See Appendix B for a list of the prior OIG audit report recommendations.) However, opportunities exist to improve NRC's management controls over the use of USAID funds. Specifically, NRC:

- Miscategorized USAID funds in NRC's accounting records, and
- Did not process Intragovernmental Payment and Collection transactions within the required timeframe.

#### **A. MISCATEGORIZATION OF USAID FUNDS**

---

While the Memoranda of Agreement (MOAs) between USAID and NRC specify the dollar amounts allocated to each of five FSU countries, the methodology used by NRC to pay individual AdSTM contract invoices resulted in a miscategorization of approximately \$154,000 of FSA funds on the agency's official accounting records for the audit period. This condition is the result of inadequate contract provisions, noncompliance with agency policy, and undocumented and incorrect office procedures. Unless corrected, this payment practice could result in NRC overspending the FSA amounts allocated by USAID to specific countries.

##### **Memoranda of Agreement Requirements**

The MOAs between USAID and NRC require that FSA funds allocated to NRC be used to improve near-term safety of Soviet-designed nuclear reactors and enhance regulatory oversight of radioactive sources in Armenia, Georgia, Kazakhstan, Russia, and Ukraine. Annually, the MOAs allocate a certain dollar amount of funds to each country. FY 2006 FSA funds in the amount of \$2,015,000 were allocated as shown in Figure 3 below:

<u>COUNTRY</u>	<u>FSA FUNDS ALLOCATED IN FY 2006</u>
Armenia	\$500,000
Georgia	\$120,000
Kazakhstan	\$400,000
Russia	\$500,000
Ukraine	\$495,000

**Figure 3: FY 2006 Fund Allocation for FSA Funds Per MOAs Between USAID and NRC**

Upon receipt of the FSA funds, NRC assigns each country separate accounting job codes within the agency's accounting system. This assignment of accounting codes is in accordance with Federal accounting rules,<sup>6</sup> which require budget integrity (spending in accordance with legal authority) and accurate accounting to determine operating performance (how much programs cost).

**Payment of Contractor Invoices**

NRC entered into its new contract with AdSTM in January 2007. AdSTM performs work in several countries on behalf of NRC, including, but not limited to, the countries that are specified in the MOAs. As of September 2007, AdSTM submitted four invoices that were paid using FSA funds. Each of these four invoices reflects work performed in four of the five countries<sup>7</sup> specified in the MOAs and in five<sup>8</sup> other countries (See Figure 4). While the contractor's invoices are for work performed in the nine countries, the invoices do not discretely identify the costs associated with the work performed in each individual country.

Since there is a lack of detailed invoice documentation, OIG requested that the OIP project manager separate the costs, by country, for each invoice submitted under the new contract, through September 2007. The OIP project manager provided this information (see Figure 4, section labeled, "Project Manager Estimate of Work Performed by Country"), but stated that

<sup>6</sup> Federal Accounting Standards Advisory Board, *Federal Accounting Concepts and Standards*, December 31, 1996.

<sup>7</sup> The four countries specified in the MOAs where the contractor performed work are: (1) Armenia, (2) Georgia, (3) Kazakhstan, and (4) Ukraine. No work was performed in Russia.

<sup>8</sup> The five other countries not specified in the MOAs, but where the contractor performed work are (1) Azerbaijan, (2) Kyrgyzstan, (3) Moldova, (4) Tajikistan, and (5) Uzbekistan.

certain costs were based upon estimates, using information provided in each invoice, of how much time contractor personnel spent working on country-specific issues.

Of the four invoices submitted by AdSTM and paid using FSA funds, NRC paid one invoice using FSA funds allocated to Armenia, one invoice using FSA funds allocated to Georgia, and two invoices using FSA funds allocated to Kazakhstan. Therefore, for each of the four individual invoices, FSA funds allocated to a specific FSU country were used to pay for contractor work performed in that country, and were also used to pay for contractor work performed in:

- Other countries specified in the MOAs (which have their own allocation of FSA funds), and
- Countries not specified in the MOAs.

The complete details of this miscategorization are shown in Figure 4 below.

**Figure 4: Miscategorization of FSA Funds**

	Countries Specified in the Memoranda of Agreement with USAID				Countries Not Specified in the Memoranda of Agreement with USAID					Total All Columns
	Armenia	Georgia	Kazakhstan	Ukraine	Azerbaijan	Kyrgyzstan	Moldova	Tajikistan	Uzbekistan	
<b>Project Manager Estimate of Work Performed by Country</b>										
Invoice Number <sup>8</sup>										
17-0109-02	\$ 40,647	6,792	28,114	784	261	8,209	3,415	2,614	784	91,623
17-0109-03	12,517	6,766	30,218	794	265	10,255	2,648	2,648	794	66,906
17-0109-05	11,989	6,914	25,937	29,699	1,839	2,360	19,056	2,419	726	100,940
17-0109-06	9,103	13,853	40,653	29,911	313	2,501	11,101	3,127	17,199	127,761
<b>Total (A)</b>	<b>74,257</b>	<b>34,325</b>	<b>124,922</b>	<b>61,189</b>	<b>2,678</b>	<b>23,326</b>	<b>36,220</b>	<b>10,808</b>	<b>19,504</b>	<b>387,230</b>
<b>FSA Funds Used to Pay Invoice</b>										
Invoice Number <sup>8</sup>										
17-0109-02	91,623	-	-	-	-	-	-	-	-	91,623
17-0109-03	-	66,906	-	-	-	-	-	-	-	66,906
17-0109-05	-	-	100,940	-	-	-	-	-	-	100,940
17-0109-06	-	-	127,761	-	-	-	-	-	-	127,761
<b>Total (B)</b>	<b>91,623</b>	<b>66,906</b>	<b>228,701</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>387,230</b>
Overcharged (B-A) <sup>9</sup>	17,365	32,581	103,779							153,725
Undercharged (B-A) <sup>10</sup>				(61,189)	(2,678)	(23,326)	(36,220)	(10,808)	(19,504)	(153,725)
Countries not specified in the Memoranda of Agreement with USAID					(2,678)	(23,326)	(36,220)	(10,808)	(19,504)	(92,536)

<sup>8</sup> Since the first and fourth contractor invoices were paid using NRC funds rather than FSA funds, they are not included in Figure 4, which reflects FSA funds only.

<sup>9</sup> Overcharges represent FSA funds allocated to a country that were spent in excess of the cost of the contractor work performed for that country.

<sup>10</sup> Undercharges represent contractor work performed for a country paid with FSA funds that were allocated to other countries.



The miscategorization of approximately \$154,000 of FSA funds results in a lack of compliance with Federal accounting rules.

OIG notes that the OIP project manager responsible for this contract tracks the FSA funds in a file separate from the agency's official accounting records. This document is stored on the project manager's personal computer hard drive and is rarely accessed by anyone other than him. Reportedly, in December 2007, a new contract manager for Assistance Programs was hired and this information is now on a password protected shared drive folder.

### **Reasons for Miscategorization**

The miscategorization of FSA funds results from inadequate contract provisions, noncompliance with agency policy, and undocumented and incorrect office procedures.

#### **Inadequate Contract Provisions**

The billing instructions included in the AdSTM contract do not require the contractor to specify the costs by country. However, because the FSA funds are transferred to NRC with prescribed dollar amounts allocated to each specifically named country, it is essential to separate the invoice costs by country so that FSA funds are used in accordance with the MOAs.

#### **Noncompliance with Agency Policy**

OIP miscategorized FSA funds because it did not follow agency policy during the fulfillment of its funds control responsibilities. Furthermore, OIP managers have not performed the supervisory responsibilities needed to ensure that project managers have followed agency policy. Management Directive and Handbook 4.2, *Administrative Control of Funds* (MD 4.2), contains agency policy that assigns allowance holders the responsibility for ensuring that allocated funds are expended for the purposes for which they were appropriated as reflected in the current allowances and financial plans. Adherence to this funds control policy and supervisory attention are required measures that could have prevented this miscategorization.

## **Undocumented and Incorrect Office Procedures**

OIP does not currently have official documented office procedures explaining how to correctly process contractor invoices. Such office specific procedures are needed because the use of FSA funds and the requirement to identify contract costs by country are functions unique to OIP. NRC offices, including smaller offices, have established office instructions intended to facilitate staff compliance with higher level requirements such as statutes, regulations, Federal standards, and agency policy. Procedures stated in an office instruction should be followed in order to benefit from previous lessons learned, achieve compliance with applicable requirements, and improve efficiency and consistency.

OIP is developing office procedures expected to provide guidance on completing OIP tasks and activities. OIP drafted an office level Desk Officers Handbook that OIP management said is expected to contain an appendix with procedures that address the use of funds, including FSA funds allocated by USAID and NRC appropriated funds.

### **Accounting Impact**

The above described process used by NRC to pay AdSTM's invoices has resulted in a miscategorization of FSA funds in NRC's official accounting records in the amount of \$153,725 (see Figure 4). The \$153,725 miscategorization of FSA funds includes \$92,536 used to pay the contractor for work performed in countries not specified in the MOAs. The difference of \$61,189 reflects contractor work performed for Ukraine, but paid out of FSA funds for Armenia, Georgia, and Kazakhstan.

In addition, the current contractor payment practice could result in NRC overspending the amounts allocated by USAID to specific countries. Requiring the contractor to prepare invoices that identify contract costs by country would facilitate proper invoice processing and accounting to include the correct use of FSA funds.

## **Recommendations**

OIG recommends that the Director, OIP, in coordination with other appropriate offices:

1. Modify the Advanced Systems Technology and Management, Inc., contract to require invoices to identify contract costs by country.
2. Correct accounting records applicable to the Advanced Systems Technology and Management, Inc., contract.
3. Develop and implement written office procedures for the U.S. Agency for International Development funded program to include guidance on contract payments and associated quality controls involving supervisory review.

## **B. UNTIMELY TRANSACTION PROCESSING**

U.S. Government Accountability Office (GAO) and agency policy require that management provide timely review and approval of transactions. However, OIP did not process DOE laboratory agreement transactions within the required timeframe. The laboratory agreement transactions were not processed timely because OIP is not following existing agency policy and lacks quality controls involving supervisory review. Without adherence to agency policy and quality controls regarding OIP's transaction processing, the potential for improper payments is increased.

### **Intragovernmental Payment and Collection Approval Requirements**

The GAO<sup>11</sup> publication, *Standards for Internal Control in the Federal Government*, requires timely review and approval of transactions to ensure accuracy and validity of records. NRC implements this internal control standard through agency requirements contained in Management Directive and Handbook 11.7, *NRC Procedures for Placement and Monitoring of Work with the U.S. Department of Energy (DOE)* (MD 11.7). MD 11.7 requires that DOE lab agreement project managers sign and return the "Approval for Interagency Billing – DOE" form within 20 calendar days from the date on the forwarding memorandum from the Office of the Chief Financial Officer (OCFO) that transmits the voucher backup material.

The Intragovernmental Payment and Collection (IPAC) transaction is processed using the NRC Approval Form for Interagency Billing that OCFO generates from the agency's financial accounting system. In accordance with MD 11.7, project managers are required to process and return the NRC Approval Form for Interagency Billing to OCFO within the required timeframe.

### **Untimely IPAC Approvals**

OIP did not approve IPAC transaction documentation within the required timeframe. OIG reviewed 10 IPACs for work that Brookhaven National Laboratory conducted between May 2007 and August 2007 for assistance activities to Russia. OIG found that OIP did not approve and return to OCFO any of the IPACs

---

<sup>11</sup> In November 1999, when this guidance was written, GAO's legal name was the General Accounting Office.

within the required 20 calendar day timeframe. Furthermore, these 10 IPACs were past due by an average of 76 days. Figure 5 below shows an aging chart for the sample of IPACs reviewed.

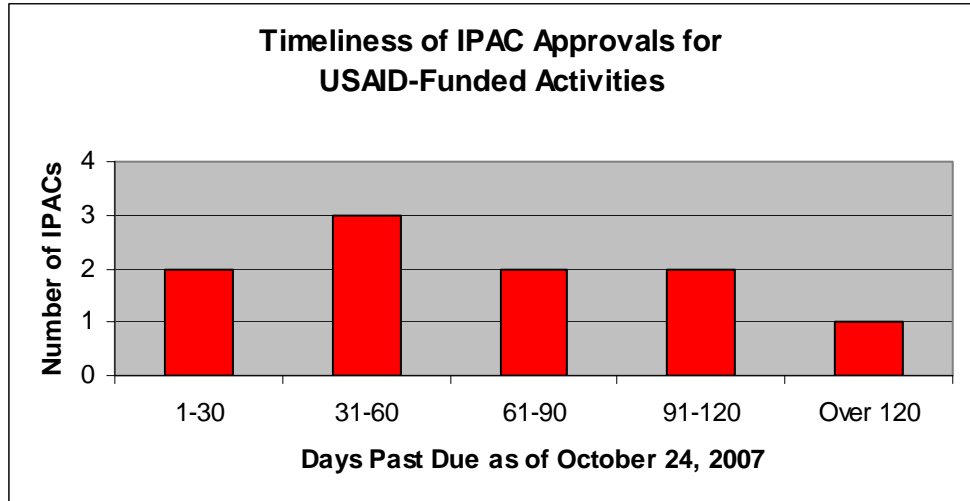


Figure 5: Aging Chart for the Sample of IPACs Reviewed

**Noncompliance with Agency Policy and Lack of Quality Controls**

OIP did not process the laboratory agreement transactions timely because:

- OIP is not following existing agency policy, and
- OIP managers do not have quality control procedures in place involving review of IPAC transaction processing.

The office procedures OIP is developing are expected to provide guidance on completing OIP tasks and activities. OIP drafted an office level Desk Officers Handbook that OIP management said is expected to contain an appendix with procedures for using FSA funds.

**Improper Payment Errors**

Without quality control procedures that ensure IPAC transactions are processed within required timeframes, OIP heightens the potential for improper payment errors that would otherwise be discovered during the IPAC review process.

OIP has experienced IPAC processing errors in the past. For example, during the period, December 2004 through December 2005, four IPAC errors occurred. These errors accounted for approximately \$23,000 being miscategorized in NRC's official accounting records. Corrected in October 2007, these errors could have been prevented if the project manager had adhered to the agency's IPAC processing requirements.

### **Recommendations**

OIG recommends that the Director, OIP, in coordination with other appropriate offices:

4. Develop and implement quality controls to require periodic supervisory review of the timeliness of Intragovernmental Payment and Collection transaction processing.
5. Modify OIP supervisor's and project managers' performance elements, standards, and appraisal (NRC Form 412) to include accountability measures for following NRC policies regarding Intragovernmental Payment and Collection transaction processing and funds control.

## **IV. CONSOLIDATED LIST OF RECOMMENDATIONS**

---

OIG recommends that the Director, OIP, in coordination with other appropriate offices:

1. Modify the Advanced Systems Technology and Management, Inc., contract to require invoices to identify contract costs by country.
2. Correct accounting records applicable to the Advanced Systems Technology and Management, Inc., contract.
3. Develop and implement written office procedures for the U.S. Agency for International Development funded program to include guidance on contract payments and associated quality controls involving supervisory review.
4. Develop and implement quality controls to require periodic supervisory review of the timeliness of Intragovernmental Payment and Collection transaction processing.
5. Modify OIP supervisor's and project managers' performance elements, standards, and appraisal (NRC Form 412) to include accountability measures for following NRC policies regarding Intragovernmental Payment and Collection transaction processing and funds control.

## **SCOPE AND METHODOLOGY**

---

To determine whether NRC has adequate internal controls in place to manage the USAID funds, OIG auditors reviewed and analyzed pertinent program data, authoritative guidance, and prior OIG and GAO reports which focused on the management of nuclear safety assistance.

In addition, OIG conducted interviews with selected NRC representatives and officials from the U.S. Department of State and USAID to gain an understanding of the program and to determine current issues, problems, or known deficiencies.

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.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Steven Zane, Team Leader; Vicki Foster, Audit Manager; Terri Cooper, Senior Auditor; and Robert Woodward, Auditor, conducted this audit from April 2007 to December 2007. We performed the audit work at NRC Headquarters in Rockville, Maryland.



[Page intentionally left blank.]

## **PRIOR AUDIT REPORT RECOMMENDATIONS**

---

NRC OIG, *Audit of AID-Funded Activities*, Report OIG-02-A-04, dated December 3, 2001, made five recommendations to improve the effectiveness and efficiency of NRC's USAID-funded nuclear regulatory assistance program. Specifically, in the prior report, OIG recommended that the Director, OIP:

- Develop a process for tracking the status of the program's ongoing projects.
- Issue formal guidance in a Management Directive or other appropriate vehicle that clearly sets forth NRC policy, procedures, and guidance on implementing agreements.
- Pending issuance of the formal guidance on implementing agreements, issue timely interim guidance.
- Convene quarterly project manager counterpart meetings.
- Complete final action on the outstanding Government Accountability Office (GAO) recommendation regarding strategic planning by November 30, 2001.

[Page intentionally left blank.]

FORMAL AGENCY COMMENTS



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

July 2, 2008

MEMORANDUM FOR: Stephen Dingbaum  
Assistant Inspector General for Audits  
Office of the Inspector General

FROM: Margaret M. Doane, Director *Margaret M. Doane*  
Office of International Programs

SUBJECT: OFFICE OF THE INSPECTOR GENERAL REPORT "AUDIT OF  
NRC'S USAID-FUNDED ACTIVITIES"

U.S. NRC  
 2008 JUL -3 AM 8:59  
 OFFICE OF THE  
 INSPECTOR GENERAL

This memorandum provides the Office of International Programs' (OIP's) response and comments on the Office of the Inspector General's (OIG's) subject audit report. OIP is in full agreement with the report's recommendations. OIP believes that these recommendations will enhance administrative control of funds.

OIP's radioactive source-related assistance efforts currently use both Freedom Support Act (FSA) funds and NRC appropriated funds. OIP expects to phase-out use of FSA funds for radioactive source-related assistance activities by early 2010. Until that time, NRC Contract 08-07-418 with Advanced Systems Technology and Management, Inc. will contain both FSA and NRC appropriated funds. OIP recognizes that the use of NRC appropriated funds was outside of the scope of the OIG audit report and, as such, NRC appropriated funds were not included by OIG in the calculations that identified a miscategorization of FSA funds. OIP's calculations, however, indicate that when NRC appropriated funds are included, the total amount of FSA funds miscategorized is significantly reduced to total under \$20,000.

We have reviewed your specific recommendations and provide the following responses:

Recommendation 1

Modify the Advanced Systems Technology and Management, Inc. contract to require invoices to identify contract costs by country.

Response

Agree. OIP will work with the Office of Administration's Division of Contracts to prepare and issue an appropriate contract modification.  
Completion: September 1, 2008.

Recommendation 2

Correct accounting records applicable to the Advanced Systems Technology and Management, Inc. contract.

Response

Agree. OIP has already worked with the Office of the Chief Financial Officer to correct accounting records applicable to contract 08-07-418.  
Completion: Complete.

Recommendation 3

Develop and implement written office procedures for the U.S. Agency for International Development funded program to include guidance on contract payments and associated quality controls involving supervisory review.

Response

Agree. OIP will develop and implement such written office procedures.  
Completion: January 1, 2009.

Recommendation 4

Develop and implement quality controls to require periodic supervisory review of the timeliness of Intragovernmental Payment and Collection transaction processing.

Response

Agree. OIP will develop and implement such quality controls.  
Completion: January 1, 2009.

Recommendation 5

Modify OIP supervisor's and project managers' performance elements, standards and appraisal (NRC Form 412), to include accountability measures for following NRC policies regarding Intragovernmental Payment and Collection transaction processing and funds control.

Response

Agree. OIP elements and standards were revised and implemented for FY2008. These elements and standards address quality, quantity, and timeliness in the area of project management. In addition, OIP will work with the appropriate office to ensure timely issuance of IPACs and receipt by OIP.  
Completion: January 1, 2009.

Please feel free to contact me should you have any questions regarding this response.

## **OIG RESPONSE TO FORMAL AGENCY COMMENTS**

---

On July 2, 2008, the Director, OIP, provided a formal response to this report which expressed full agreement with the report's recommendations. Since our audit scope excluded NRC appropriated funds, we cannot comment on the agency's calculations of miscategorized FSA funds which include the use of NRC appropriated funds.

We will review the adequacy of agency corrective actions taken during the audit followup process.