

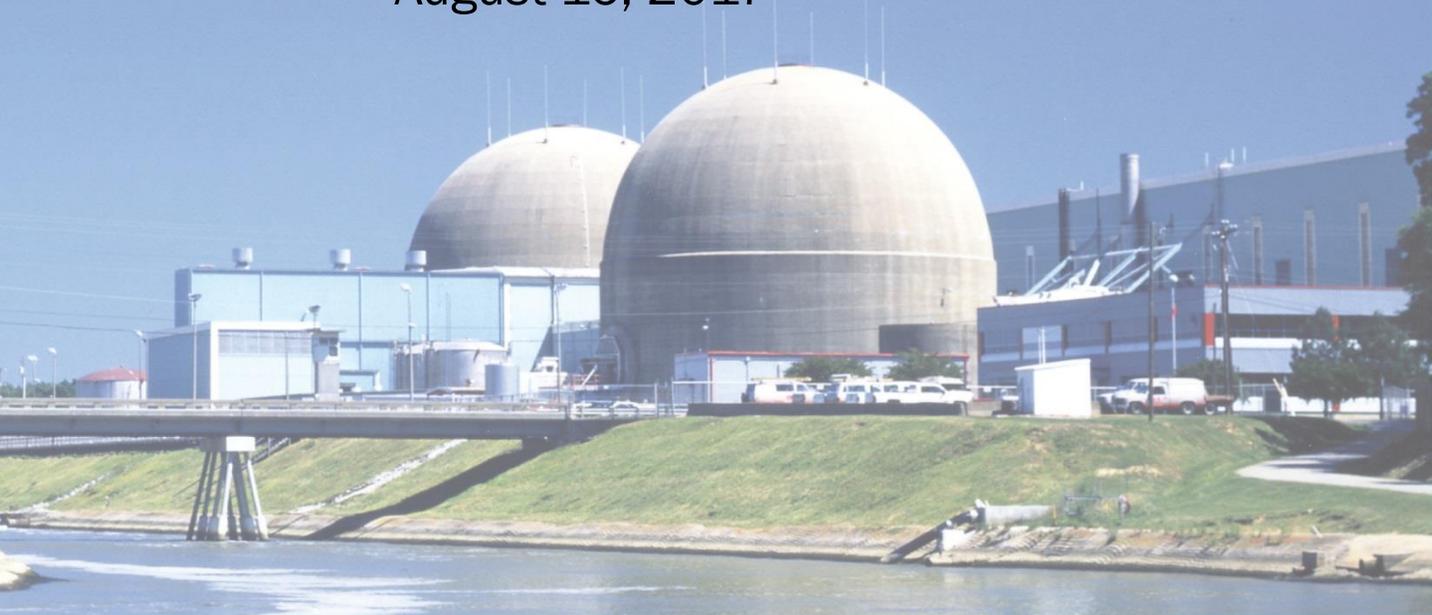


OFFICE OF THE INSPECTOR GENERAL

U.S. NUCLEAR REGULATORY COMMISSION
DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Audit of NRC's Contract Administration Process

OIG-17-A-20
August 16, 2017



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

**OFFICE OF THE
INSPECTOR GENERAL**

August 16, 2017

MEMORANDUM TO: Victor M. McCree
Executive Director for Operations

FROM: Dr. Brett M. Baker */RA/*
Assistant Inspector General for Audits

SUBJECT: AUDIT OF NRC'S CONTRACT ADMINISTRATION
PROCESS (OIG-17-A-20)

Attached is the Office of the Inspector General's (OIG) audit report titled *Audit of NRC's Contract Administration Process*.

The report presents the results of the subject audit. Following the July 19, 2017, exit conference, agency staff indicated that they had no formal comments for inclusion in this report.

Please provide information on actions taken or planned on each of the recommendations within 30 days of the date of this memorandum. Actions taken or planned are subject to OIG follow-up 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 (301) 415-5915 or Eric Rivera, Team Leader, at (301) 415-7032.

Attachment: As stated



Office of the Inspector General

U.S. Nuclear Regulatory Commission
Defense Nuclear Facilities Safety Board

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Results in Brief

Why We Did This Review

The Federal Acquisition Regulation and Nuclear Regulatory Commission's (NRC) Management Directive 11.1, *NRC Acquisition of Supplies and Services*, and NRC's Acquisition Regulation under 48 Code of Federal Regulations Chapter 20 provide specific requirements for NRC's contract administration process.

Contract administration involves those activities performed by agency officials after they award a contract. Contracting Officers (COs) administer NRC contracts. However, COs delegate specific contract administration responsibilities and technical supervision tasks to a Contracting Officer's Representative (COR). CORs are responsible for daily administration and technical direction of contracts during the period of performance. CORs review and reconcile invoices including verifying support for payment and collection. The COR is expected to maintain working contract files.

Contract administration is a key activity driver of NRC's strategic goals in increasing the economy, efficiency, and effectiveness of stewardship of government resources. At the end of fiscal year 2016, NRC had 43 COs and 644 CORs. From October 1, 2014 through September 30, 2016, NRC awarded 69 new contracts totaling \$351.8 million.

The audit objective was to assess the effectiveness of NRC's contract administration process and compliance with Federal and agency regulations.

Audit of NRC's Contract Administration Process

What We Found

Generally, NRC's contract administration processes comply with applicable regulations, and the agency's internal controls governing contract administration are adequate. However, opportunities exist to improve the effectiveness of internal controls for NRC's management of contractor invoices and supporting documentation and for contract closeout procedures followed by CORs.

What We Recommend

OIG made three recommendations to improve the effectiveness of management of contractor invoices and supporting documentation and to strengthen adherence to contract closeout procedures by CORs. Two recommendations address the effectiveness of internal controls over recordkeeping for contractor invoices and supporting documentation. The third recommendation addresses enhancement of internal controls to ensure better adherence to contract closeout procedures.

Management stated their agreement with the findings and recommendations in this report.

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ABBREVIATIONS AND ACRONYMS

ADM	Office of Administration
AMD	Acquisition Management Division
CFR	Code of Federal Regulations
CO	Contracting Officer
COR	Contracting Officer's Representative
FAR	Federal Acquisition Regulation
FY	Fiscal Year
GAO	Government Accountability Office
IPP	Invoice Processing Platform
MD	Management Directive
NRC	Nuclear Regulatory Commission
NRCAR	NRC Acquisition Regulation
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General

I. BACKGROUND

Contract Administration

Contract administration is a key activity driver of the NRC's strategic goals in increasing the economy, efficiency, and effectiveness of stewardship of government resources. It encompasses all dealings between the Government and the contractor from the time the contract is awarded until the work has been completed and accepted or the contract terminated, payment has been made, and disputes have been resolved. Contract administration involves those activities performed by agency officials after a contract has been awarded. Good contract administration practices allow the Government to determine if a contractor performed work in accordance with the terms of the contract.

The Federal Acquisition Regulation (FAR) and NRC's Management Directive and Handbook (MD) 11.1, *NRC Acquisition of Supplies and Services* (Effective May 9, 2014), and the NRC Acquisition Regulation (NRCAR) under 48 Code of Federal Regulations (CFR) Chapter 20 are the criteria NRC uses for contract administration.

Contract Administration – Roles and Responsibilities

NRC's Office of Administration (ADM), Acquisition Management Division (AMD) is responsible for the contract administration function.

Per MD 11.1, Contracting Officers (COs) administer NRC contracts. However, COs delegate responsibility for specific contract administration activities or technical supervision tasks to a Contracting Officer's Representative (COR). CORs are responsible for the daily administration and technical direction of a contract during the period of performance.

Their responsibilities include

- Verifying deliverables against contract terms.
- Reviewing and reconciling invoices.
- Monitoring contract funding.
- Overseeing contractor performance.
- Addressing security requirements for onsite contractors.

- On/off-boarding of contractor staff.
- Verifying support for Intra-Governmental Payment and Collection.

The COR is expected to maintain a working contract file, and AMD retains the official contract file. COs and CORs are required to take biennial training to maintain certification as contracting professionals.

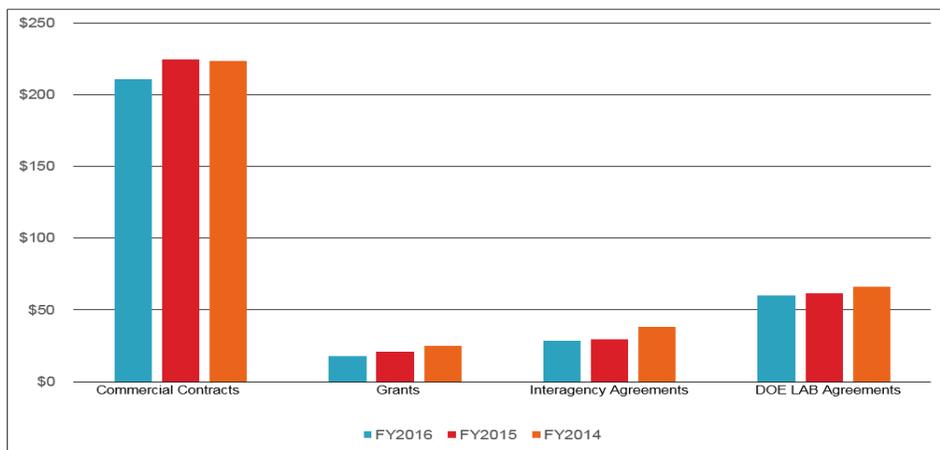
In addition to contract administration, AMD's roles include

- Assisting NRC program officials to comply with Federal procurement and agency regulations.
- Monitoring contracts, grants, and interagency agreements.
- Overseeing agency acquisition workforce training and certifications.
- Developing policies and procedures consistent with OMB and other Federal statutes.
- Providing NRC with automated tools, techniques, processes, and data needed for the ongoing support of the agency's acquisition program.

Agency-wide Obligations for Contracts

At the end of fiscal year (FY) 2016, NRC had 43 COs and 644 CORs. From October 1, 2014 through September 30, 2016, NRC awarded 69 new contracts totaling \$351.8 million.

Figure 1: Fiscal Year 2016 Open Contract Obligations (in \$ millions)



Source: OIG generated.

OIG retained RMA Associates, LLC to conduct this performance audit.

II. OBJECTIVE

The audit objective was to assess the effectiveness of NRC's contract administration process and compliance with Federal and agency regulations. The report appendix contains information on the audit scope and methodology.

III. FINDINGS

The NRC process for contract administration generally complies with applicable laws, regulations, and policies. However, management oversight of the contract administration process should be improved in the following areas:

- A. Record retention for invoices and related supporting documentation should be improved.
- B. Contract closeout initiation controls need strengthening.

A. Process for Archiving Invoices and Other Supporting Documentation Should Be Improved

Federal agencies are required to implement internal controls for effective information, communication, and monitoring. NRC does not centralize contractor invoices and attendant supporting documentation to provide easy reference for CORs who may need to review and reconcile invoice submissions or substantiate payments and collection. This is because NRC has no uniform policy for archiving supporting documentation for contract expenses. Should there be a disorderly transition in the assigned COR, this lack of documentation increases the risk of undetected contract fraud, waste, and abuse

What Is Required

Federal Guidance Provides Specific Internal Control Requirements

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (September 2014) requires agency management to implement a control framework that includes information, communication, and monitoring.

NRC's MD 11.1, *NRC Acquisition of Supplies and Services*, mandates the parties responsible for certification of invoices for payment. The CORs are required to

- Review contractor invoices thoroughly to determine completeness, accuracy, and reasonableness of billed costs, including verification of indirect cost rates.
- Maintain appropriate documentation necessary to demonstrate thorough review of contractor invoices.
- Document the invoice review process to show that the appropriate review was performed for each invoice as required by AMD.

What We Found

NRC Does Not Centralize Contractor Invoices and Attendant Supporting Documentation

NRC COs and CORs do not consistently record or archive contractual accounting records and supporting documentation within a centralized repository. Auditors sampled two contracts from a previous period along with 15 contracts during the period of FY15 through FY16 that obligated over \$2.1 million to assess whether contract administration controls and compliance requirements were satisfied. Based on the contracts from FY15 through FY16, the following inconsistencies were found:

1. NRC's CORs maintain invoices and supporting documentation at different locations. When there is a change in COR, invoices and supporting documentation maintained by the previous COR are not always given to the new COR.

2. Of the 15 contracts reviewed for FY15 through FY16, six had insufficient, inadequate or no documentation to support that proper, valid, and reasonable payments were made within the terms of the contract. For each of the six contracts, the current COR did not receive one or more types of documentation such as contractor receipts, logs and timesheets and the records could not be located for this audit.

Why This Occurred

Lack of Uniform Policy

Invoices and supporting documentation are not always located and provided to successive CORs because NRC lacks an overall policy on archiving invoices and supporting documentation. Based on interviews with CORs, a centralized repository is currently in development, but the agency had not implemented it as of FY16.

Lack of Uniform Practices

Further, NRC management has not prescribed a standard, uniform process to be used by CORs to monitor and validate invoiced labor hours charged. AMD management acknowledged this as a concern and expressed the belief that the new invoicing payment system may be part of the solution. Office of the Chief Financial Officer (OCFO) and ADM are in the process of implementing Treasury's Invoice Processing Platform (IPP). As configured, IPP will retain invoices and make supporting documentation submitted by commercial contractors along with a record of invoice approval readily accessible. The current COR and any future CORs assigned to a particular contract or task order may view this information as needed. NRC will pilot IPP in July 2017 and will officially launch the new service during the first quarter of calendar year 2018.

Why This Is Important

Risk of Unsupported Contract Expenses

Lack of supporting contract expense documentation within a central repository increases the likelihood of undetected contract fraud, waste, and abuse. CORs are required to review contractor invoices thoroughly to determine completeness, accuracy, and reasonableness of billed costs, including verification of indirect cost. CORs are also required to maintain appropriate documentation necessary to demonstrate their thorough review of contractor invoices. Without documentation, NRC's COs do not have assurance that CORs have thoroughly reviewed billed costs and accepted them as allowable and reasonable. Although COs are ultimately responsible for approval and payment of each invoice submitted by contractors for \$25,000 or more, they rely upon initial assessments of invoices and recommendations by the CORs for paying them. Complete recordkeeping of invoices with supporting documentation is important to track contract expenses in accordance with FAR requirements.

Recommendations

OIG recommends that the Executive Director for Operations

1. Develop and implement a system that centralizes the management of contractor provided invoices and supporting documentation.
2. Develop a uniform prescribed practice and methodology to be used by CORs to validate invoiced labor hours charged.

B. Contract Closeout Initiation Controls Need Strengthening

NRC's policies reflect Federal requirements for contract administration including orderly and timely closeout of contracts. However, NRC's CORs did not initiate timely contract closeouts within prescribed Federal and agency guidance because NRC lacks adequate internal control procedures to support closeout policies and verify staff compliance. This reduces NRC's ability to deobligate and reprogram contract funds for other purposes.

What Is Required

Federal and Agency Guidance Specify Contract Closeout Requirements

Federal and agency guidance specify requirements for timely contract closeout. FAR 4.804, *Closeout of Contract Files* requires orderly and timely closeout of all contract files for expired contracts. According to NRC's MD 11.1, contracts are considered closed when they are administratively completed, meaning that all activities leading to completion and final payment are accomplished. MD 11.1 also requires that final payment is made upon completion and acceptance of all work required under the contract when the contractor presents a properly executed and duly certified final voucher or invoice. In addition, MD 4.2, *Administrative Control of Funds* (Effective June 2015) requires that contracts must undergo a status review to identify excess funds that could be deobligated. CORs must complete these reviews within 90 days of contract completion.

What We Found

Delays in Closeout Initiations

Contract closeouts are not being initiated in a timely manner. Auditors sampled 2 contracts from a previous period along with 15 contracts selected from the 69 contracts administered during the period of FY15 through FY16. Of those 15, 5 should have entered the closeout process. The performance period for these contract closeout samples had expired. However, the closeout initiation for one contract was incomplete and CORs had not initiated requests for closeout within the requisite 90 days for the other four. For two of those four contracts, initiation of closeout was more than 6 months behind schedule.

Why This Occurred

NRC Policy Lacks Controls to Initiate Contract Closeout

NRC lacks prescriptive procedures for the COR to follow regarding final invoice submission. NRC policy states that contractors need to identify their last invoice as "final." This enables the COR to start closeout initiation procedures. However, without controls specifying a process to enforce this final invoicing requirement, CORs delay taking action to initiate contract closeout, which contributes to the buildup in unliquidated obligations.

Why This Is Important

Unliquidated Obligations Could Be Put to Better Use

Implementing control procedures to strengthen adherence to contract closeout procedures will enable CORs to start closeout initiation procedures timely. According to NRC's OCFO, unliquidated obligations for commercial contracts from budget fiscal years 2007 through 2013 totaled approximately \$3.5 million. Reducing unliquidated obligations increases funds the agency can use to support its mission.

Recommendations

OIG recommends that the Executive Director for Operations

3. Design and implement procedures for timely contract closeout initiation by CORs.

IV. CONSOLIDATED LIST OF RECOMMENDATIONS

OIG recommends that the Executive Director for Operations

1. Develop and implement a system that centralizes the management of contractor provided invoices and supporting documentation.
2. Develop a uniform prescribed practice and methodology to be used by CORs to validate invoiced labor hours charged.
3. Design and implement procedures for timely contract closeout initiation by CORs.

V. AGENCY COMMENTS

An exit briefing was held with the agency on July 19, 2017. Prior to this meeting, NRC management reviewed a discussion draft and provided comments that have been incorporated into this report as appropriate. As a result, NRC management stated their general agreement with the findings and recommendations and chose not to provide formal comments for inclusion in this report.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The audit objective was to assess the effectiveness of NRC's contract administration process and compliance with Federal and agency regulations.

Scope

This audit focused on NRC's new contracts awarded during FYs 2015 and 2016 and related closeout requests. We conducted this performance audit from January 2017 through May 2017 at NRC headquarters in Rockville, MD.

NRC awarded 69 new contracts, totaling \$351.8 million, from October 1, 2014 through September 30, 2016. Fifteen of the 69 contracts along with two contracts from a previous period were sampled. All 17 contracts were subject to random and judgmental sampling and tested to assess whether contract administration controls and compliance requirements were satisfied. At the end of fiscal year FY 2016, NRC had 43 COs and 644 CORs; 15 CORs were interviewed for this audit.

Methodology

We reviewed relevant criteria for this audit including:

- FAR 4.804 - Closeout of Contract Files
- GAO - Standards for Internal Control in the Federal Government (September 2014)
- NRC MD 11.1 - *NRC Acquisition of Supplies and Services*
- NRC MD 4.2 - *Administrative Control of Funds*
- NRCAR under 48 CFR Chapter 20

To obtain the perspectives of NRC staff, we interviewed and completed walkthroughs of contract administration procedures with agency staff from

OCFO, ADM, and NRC CORs. We also examined Federal and agency guidance and compared them with processes and procedures pertaining to contract administration. In addition, we developed process narratives and control matrices identifying risks and key internal control points. We examined a sample of 15 contract documents and records of contract closeout requests initiated for contracts awarded during FYs 2015 and 2016. In addition to the sample of 15, we examined two contracts from prior years. Auditors provided internal control questionnaires to each COR having responsibility for 15 sampled contracts to assess their understanding of the contract administration process.

Internal controls related to the audit objective were reviewed and analyzed. NRC is generally compliant with relevant laws and regulations. However, per the findings documented in this report, we identified areas for NRC to improve their contract administration process. Throughout the audit, auditors considered the possibility of fraud, waste, or abuse 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.

The audit was conducted by Reza Mahbod, Senior Partner; Rob Irish, Team Leader/Engagement Partner; Renee Whittington, Engagement Manager, and Sunil Fernando, Engagement Senior.

TO REPORT FRAUD, WASTE, OR ABUSE

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COMMENTS AND SUGGESTIONS

If you wish to provide comments on this report, please email OIG using this [link](#).

In addition, if you have suggestions for future OIG audits, please provide them using this [link](#).