

February 28, 2013

MEMORANDUM TO: Stephen D. Dingbaum  
Assistant Inspector General for Audits  
Office of the Inspector General

FROM: Darren B. Ash **/RA/**  
Deputy Executive Director  
for Corporate Management  
Office of the Executive Director for Operations

SUBJECT: STATUS OF RECOMMENDATIONS: AUDIT OF U.S. NUCLEAR  
REGULATORY COMMISSION'S CONTRACT ADMINISTRATION  
OF THE ENTERPRISE PROJECT MANAGEMENT CONTRACT  
(OIG-12-A-18)

In response to the Office of the Inspector General's (OIG's) e-mail of November 20, 2012, this memorandum provides a revised agency response to further clarify the agency's planned actions for Recommendations 1, 2, 3, and 4 from the subject audit report.

Recommendation 1:

Update Management Directive [MD] 11.1 to reflect current contract administration-related terminology, including current process flow charts illustrating specific contractor invoice review procedures.

Response:

Agree. The Division of Contracts (DC) is currently revising MD 11.1, "NRC Acquisition of Supplies and Services," to include general invoice review guidance and current terminology for Contracting Officer Representatives (CORs). MD 11.1 will establish overall COR invoice review policies.

The MD team has advised DC to document specific procedures and exhibits, such as workflows, in a location outside of MD 11.1 to allow for more frequent updating and more effective use. Therefore, DC plans to keep the specific procedures, standards, and workflows that it develops in response to these OIG recommendations on its SharePoint site, which is called "The CORner." However, once the U.S. Nuclear Regulatory Commission's Enterprisewide Acquisition Toolset (NEAT) is fully operational, DC will move the invoice review materials to NEAT.

Target Completion Date: May 31, 2014  
Point of Contact (POC): Joseph Schmidt

CONTACT: Joseph Schmidt, ADM/DC  
(301) 492-3626

Recommendation 2:

Expedite publication of interim guidance that clarifies and updates current contract administration-related terminology and processes for invoice review.

Response:

Agree. On October 10, 2012, the Office of Administration took immediate action and issued a memorandum (Agencywide Documents Access and Management System at Accession No. ML12277A411) concerning invoice inconsistencies that the OIG found during its audit of the Enterprise Project Management (EPM) contract. The memorandum referred employees to guidance available in the agency's "Acquisition Guidebook for Contracting Officer's Representatives," revised in October 2012, stressing the importance of proper invoice reviews. (A copy of the guidebook is available at "The CORner" in SharePoint.)

DC will develop and publish procedures to ensure consistent COR contractor invoice reviews. DC agrees with the OIG's recommendation for the establishment of a COR invoice review workflow and will collaborate with the Office of the Chief Financial Officer (OCFO) to develop such a workflow and include it as an attachment to the new COR invoicing review procedures. DC will place the procedures and corresponding workflow in SharePoint at "The CORner" under "Invoice Review Guidance for CORs," and subsequently in NEAT.

Target Completion Date: June 30, 2013  
POCs: Joseph Schmidt  
Erikka Legrand

Recommendation 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 timesheets and contractor certified payroll records, as appropriate for the contract type and nature of services provided.

Response:

Agree. DC has developed three draft COR invoice review checklists that are intended to serve as the agency standard for reviewing contractor invoices for fixed-price, cost-reimbursement, and time-and-materials or labor-hour contracts. These checklists will help provide greater consistency for the COR contractor invoice review and approval process. DC will pilot these checklists to help gauge their overall usefulness. Based on the results of the pilot, DC will revise the checklists in collaboration with the OCFO and implement them as appropriate. The date of June 30, 2013, has been established for this deliverable to allow for the pilot and to coincide with issuance of the agency's interim guidance under Recommendation 2.

In response to the use of source documentation, when the contracting officer (CO) determines, under Federal Acquisition Regulation 9.105, that a preaward survey is required, he or she

follows Defense Contract Audit Agency guidance for the conduct of preaward surveys for applicable contracts. This includes inquiry, observation, and inspection to determine the adequacy of the contractor's timekeeping system. Once the CO determines that the contractor's accounting system is adequate, contractors should not need to submit individual timesheets or similar source documentation to support and substantiate each invoice submitted. However, for internal control purposes, CORs will be required to conduct periodic reviews of contractor source documents (e.g., timesheets or certified payroll records) to ensure proper billings for cost-reimbursement contracts. Source documentation will not be required for contracts in which the prices of goods or services or labor rates were fixed at the time of award.

Currently, the agency's billing instructions for cost-reimbursement and time-and-materials or labor-hours contracts include a requirement for detailed budget breakdowns for direct charges, including labor costs. This feature serves as an added safeguard in the event of suspect contractor billings. As necessary, the CO may suspend or disallow any unsupported cost until such time as adequate support documentation is provided, as deemed appropriate.

Target Completion Date: June 30, 2013  
POC: Joseph Schmidt

#### Recommendation 4:

Using the new agency-wide standard, certify the accuracy of invoices received from and payment made to the contractor since the inception of Contract No. NRC-DR-33-10-303 through its closeout.

#### Response:

Agree. DC is currently reviewing contractor invoices under the EPM contract using checklists referenced under Recommendation 3 to verify accuracy and completeness of billed costs. The final checklists will serve as the agency-wide standard for COR reviews of contractor invoices.

DC is using an independent contractor to review and verify contract invoice information submitted under NRC-DR-33-10-303; the independent contractor used a draft version of the COR invoice review checklists. The finalized checklists serve as the new agency standard for invoice reviews. The agency will incorporate any lessons learned during the EPM invoice review process to inform and enhance the checklists.

Target Completion Date: April 30, 2013  
POC: Sharlene McCubbin

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