

June 9, 2003

MEMORANDUM TO: William D. Travers
Executive Director for Operations

Jesse L. Funches
Chief Financial Officer

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

SUBJECT: MEMORANDUM REPORT: REVIEW OF NRC-S PURCHASE
ORDER PROCESSING (OIG-03-A-17)

The Office of the Inspector General (OIG) is conducting an audit of the Nuclear Regulatory Commission's (NRC-s) contract administration practices. During the audit, OIG reviewed NRC-s purchase order¹ processing. This report is being issued before the overall report so that NRC officials can take immediate action to improve purchase order processing. Specifically, NRC needs to maintain their current efforts to develop a single integrated E-Procurement system, which includes purchase order processing, rather than continuing to use overlapping stand-alone systems.

The Division of Contracts (Contracts) and the Division of Financial Services (Accounting) have non-integrated computer systems and agency program offices have their own office-specific invoice tracking systems, all of which require entry of the same or similar information. This condition exists because NRC has not developed an integrated system that meets the needs of Contracts, Accounting, and the program offices. Contracts and Accounting recognized this problem and both organizations are currently working together to develop an integrated

¹ Per Federal Acquisition Regulation 2.101, a *Purchase order, when issued by the Government, means an offer by the Government to buy supplies or services, including construction and research and development, upon specified terms and conditions, using simplified acquisition procedures.*

E-Procurement System. In addition, action has been initiated to make process improvements in the commercial payments area. Close intra-agency coordination on these initiatives will significantly contribute to the success of the initiatives as well as:

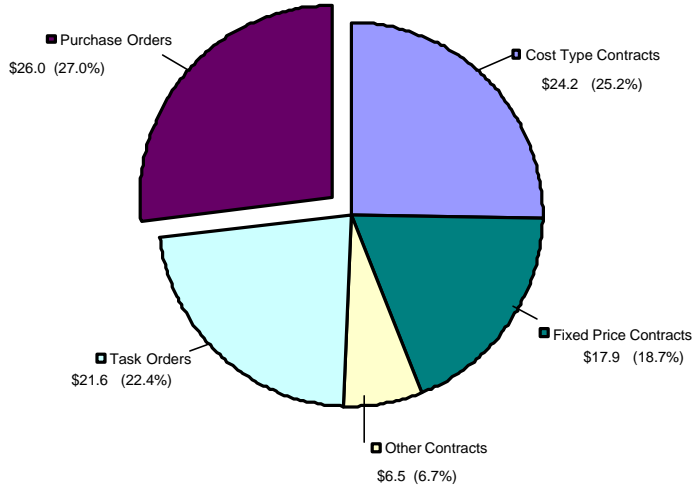
- \$ Foster implementation of the Government Paperwork Elimination Act,
- \$ Support the President's E-Government initiatives,
- \$ Result in net savings of more than \$338,000 over a five-year period, and
- \$ Facilitate compliance with recent Joint Financial Management Improvement Program *Acquisition/Financial Systems Interface Requirements*.

BACKGROUND

The agency uses purchase orders as one means to acquire a broad range of products, supplies, and services, including, but not limited to, technical assistance and research in nuclear fields, information technology, facility management, and administrative support.

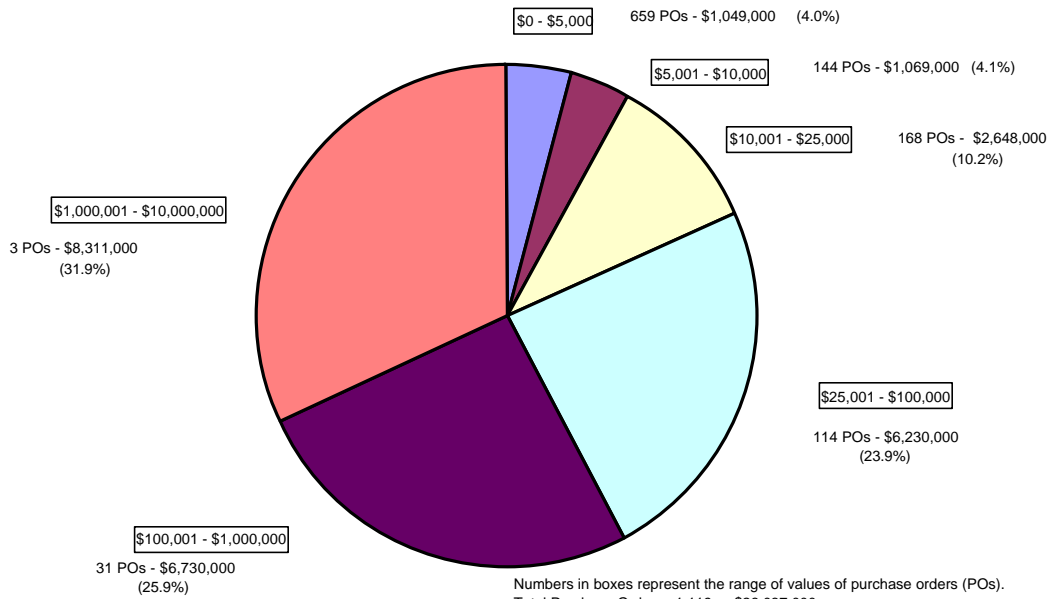
Purchase orders are generally used for purchases between \$2,500 and \$100,000 and are included in Contract's purchase order tracking system. This system also tracks General Services Administration schedule orders under which purchase orders are issued that occasionally exceed \$1,000,000. During FY 2002, NRC executed procurement actions totaling \$96.2 million, which included 1,119 purchase orders valued at approximately \$26 million. The following charts show a breakdown of NRC's FY 2002 procurement actions and purchase orders.

FY 2002 Procurement Actions (Dollars in Millions)



Total Procurement Actions - \$96.2 Million
Excluding DOE Agreements

FY 2002 Purchase Orders



PURPOSE

The objectives of our audit of NRC's contract administration practices are to (1) review the effectiveness of management controls, and (2) identify additional economies and efficiencies within NRC's contract administration program. Specifically, OIG reviewed management controls concerning purchase order processing from initiation of a request through invoice payment.

RESULTS

Management Controls are Generally Adequate

Management controls over purchase order processing are generally adequate. Review of a statistical sample of 134 purchase orders totaling approximately \$17 million (65 percent of the FY 2002 purchase order total) revealed that transactions were properly authorized and supported by adequate documentation. Tests for compliance with the Prompt Payment Act disclosed only two minor instances of noncompliance out of the sample of 134 purchase orders. Specifically, two data entry errors resulted in two late payments that should have included interest.

Economies and Efficiencies are Possible

Contracts and Accounting have non-integrated computer systems and agency program offices have their own office-specific invoice tracking systems, all of which require entry of the same or similar information. This condition exists because NRC has not developed an integrated system that meets the needs of Contracts, Accounting, and the program offices. Contracts and Accounting recognized this problem and both organizations are currently working together to develop an integrated E-Procurement System. In addition, action has been initiated to make process improvements in the commercial payments area.

Current Invoice Tracking Systems are Inefficient

Current invoice tracking systems used by Contracts, Accounting, and program offices are inefficient and burdensome. To track invoices, Contracts uses the Contract and Payment System, Accounting uses the Federal Financial System-Department of the Interior, and the program offices primarily use their own invoice tracking systems. A detailed matrix, prepared by Contracts, revealed the existence of twelve pieces of information for each invoice that must be manually entered into the tracking systems maintained by each of the above mentioned offices. This re-entry of the same or similar information is clearly not in the agency's best interest. The matrix follows:

INVOICE TRACKING

Data Elements	Federal Financial System	Contract and Payment System	Program Office Invoice Tracking Systems
Voucher or number	X	X	X
Voucher or invoice date	X	X	X
Contract or Purchase Order #	X	X	X
Date Received	X	X	X
Billing Period	X	X	X
To Project Officer	X	X	X
From Project Officer (due date included)	X	X	X
To Contract Specialist (due date included)	X	X	X
From Contract Specialist (due date included)	X	X	X
To Division of Accounting and Finance (due date included)	X	X	X
Date of Payment (due date included)	X	X	X
Amount withheld	X	X	X

The above matrix shows some of the duplication that exists. Contracts also pointed out that current systems include duplicate entry of the same or similar data associated with pre-award information, as well as award and contract administration information. Contracts and Accounting have recognized the need for process improvements and have initiated separate actions to eliminate the duplication.

Division of Contracts Proposed E-Procurement System

On March 17, 2003, an Information Technology Project Proposal Screening Form for the E-Procurement System was submitted to the Chief Information Officer. Submission of the screening proposal is the first step in the procurement of most Information Technology projects. Contracts proposes to purchase a commercially available E-Procurement system that will interface with the Federal Financial System-Department of the Interior. The proposed system is intended to streamline and simplify internal business processes among NRC program, procurement, and finance offices by integrating the requisition, acquisition, payment, workflow, and reporting functions. Since the proposed system significantly impacts Contracts as well as Accounting, close coordination between these offices will significantly contribute to the success of this initiative and (1) foster implementation of the Government Paperwork Elimination Act, (2) support the President's E-Government initiatives, (3) result in net savings of more than \$338,000 over a five-year period, and (4) facilitate compliance with recent Joint Financial Management Improvement Program *Acquisition/Financial Systems Interface Requirements*.

(1) Implements Government Paperwork Elimination Act

The proposed E-Procurement System implements the Government Paperwork Elimination Act, which directs agencies to move to electronic document management from creation to retirement.

(2) Supports the President's E-Government Initiatives

Expanded E-Government is one of the five Government-wide initiatives included in the President's Management Agenda. E-Government initiatives aim to improve the management of information technology, simplify business processes, and unify information flows across business lines. These initiatives are designed to achieve beneficial results which include:

- \$ Reducing Government operating costs by simplifying and unifying² agency work processes, information and work flow, and
- \$ Enabling information to be collected on-line once and reused, rather than being collected many times.

² In the federal government, financial systems are often automated separately from procurement systems, significantly increasing costs and minimizing potential savings.

The proposed E-Procurement system supports the President's E-Government initiatives by enabling NRC to directly access Government-wide shared acquisition services and databases (e.g., the Business Partner Network, Federal Procurement Data Systems-Next Generation, and Past Performance Information Retrieval System), which have been created under the President's Integrated Acquisition Environment Initiative.

(3) Results in Net Savings

The proposed E-Procurement system is expected to result in net savings of more than \$338,000 over a five-year period. The proposal states that the estimated cost of the project phase for the E-Procurement System is between \$250,000 and \$499,000. This compares favorably with the proposal's estimated cost savings of \$837,850 applicable to Contracts only. (Savings of \$837,850 minus costs of \$499,000 equals net savings of \$338,850.) Had potential cost savings attributable to Accounting and program offices been considered, the anticipated net savings would be even greater.

(4) Facilitates Compliance with Joint Financial Management Improvement Program Requirements

The Joint Financial Management Improvement Program *Acquisition/Financial Systems Interface Requirements*, dated June 2002, identifies existing government-wide statutory and regulatory requirements associated with the mutual functional interfaces between finance and acquisition. Agencies must use the prescribed functional requirements, in addition to agency-unique mission requirements, in planning their financial management and acquisition systems improvement projects. The document further requires that financial management systems support the partnership between acquisition and financial managers, and ensure the integrity of information for decision-making and measuring performance.

Since the E-Procurement System is intended to integrate the requisition, acquisition, payment, workflow, and reporting functions, it is essential that Contracts and Accounting coordinate to give full consideration to the above referenced requirements in the procurement of the system.

Accounting's Streamlining Initiative

An Accounting official indicated that the office is exploring avenues for streamlining processes in the travel and commercial payments areas. Accordingly, Accounting is developing a statement of work to obtain the services of a contractor who will be engaged under a cross-servicing agreement with the Department of Interior/National Business Center. One area of interest to Accounting is workload management, an area which Contracts included in its proposed E-Procurement system.

Close Coordination Between Contracts and Accounting is Critical

The Information Technology Project Proposal Screening Form for the

E-Procurement System states in part:

[Division of Contracts] *DC has contacted the [Office of the Chief Information Officer] OCIO and the [Division of Accounting and Finance³] DAF and has learned that they are not planning any workflow or financial management enhancements which would be supplementary, complementary, or closely-related to DC-s proposed project. DC is not aware of any applicable ongoing, supplementary, or complementary projects planned or scheduled by the program offices.*

This statement indicates that there is significant potential for overlap between Contracts' and Accounting's respective initiatives. Therefore, OIG contacted representatives from both offices and recommended that they closely coordinate their efforts. Additionally, OIG met with a representative from the Office of the Chief Information Officer and discussed the importance of ensuring that there is no overlap or duplication between the respective initiatives proposed by Contracts and Accounting.

While Contracts is presently further ahead than Accounting in their respective streamlining initiatives, close coordination between Contracts and Accounting is critical to the success of these initiatives. Moreover, such coordination is necessary to avoid duplication between the initiatives that would result in unnecessary expense.

RECOMMENDATION

We recommend that the Executive Director for Operations and the Chief Financial Officer:

1. Install an E-Procurement system that incorporates the Joint Financial Management Improvement Program *Acquisition/Financial Systems Interface Requirements*, dated June 2002.

In accordance with the attached instructions, please provide information on actions taken or planned on the recommendation by July 9, 2003. Actions taken or planned are subject to OIG follow-up.

AGENCY COMMENTS

On June 2, 2003, OIG discussed its draft report with agency senior executives who generally agreed with the report recommendation. This final report incorporates agency comments, where appropriate.

³ The Division of Accounting and Finance no longer exists. The Division of Financial Services is presently responsible for commercial payments.

SCOPE/CONTRIBUTORS

To accomplish the audit objective, OIG evaluated management controls related to the agency's processing of purchase orders from initiation of the requests through invoice payment. This work included a review of applicable laws, regulations, NRC policy, and interviews with NRC staff (in the Offices of Chief Financial Officer, Administration, and Chief Information Officer) to identify pertinent issues. OIG selected a statistical sample of 134 purchase orders and performed various compliance tests. The audit was performed in accordance with generally accepted Government auditing standards and included a review of management controls related to the objectives of the audit. OIG conducted the audit of purchase order processing from November 2002 through March 2003.

This audit was conducted by Steven Zane, Team Leader; Kathleen Stetson, Audit Manager; and Michael Steinberg, Senior Auditor.

Attachment: As stated

cc: W. Dean, OEDO
M. Malloy, OEDO
P. Tressler, OEDO

R. McOsker, OCM/RAM
B. Torres, ACMUI
G. Hornberger, ACNW
G. Apostolakis, ACRS
J. Larkins, ACRS/ACNW
P. Bollwerk III, ASLBP
K. Cyr, OGC
J. Cordes, OCAA
E. Merschoff, CIO
J. Funches, CFO
P. Rabideau, Deputy CFO
J. Dunn Lee, OIP
D. Rathbun, OCA
W. Beecher, OPA
A. Vietti-Cook, SECY
W. Kane, DEDR/OEDO
C. Paperiello, DEDMRS/OEDO
P. Norry, DEDM/OEDO
M. Springer, ADM
R. Borchardt, NRR
G. Caputo, OI
P. Bird, HR
C. Kelley, SBCR
M. Virgilio, NMSS
S. Collins, NRR
A. Thadani, RES
P. Lohaus, STP
F. Congel, OE
M. Federline, NMSS
R. Zimmerman, NSIR
R. Wessman, IRO
H. Miller, RI
L. Reyes, RII
J. Dyer, RIII
P. Gwynn, RIV
OPA-RI
OPA-RII
OPA-RIII
OPA-RIV