

# AUDIT REPORT

Audit of NRC's Grant Management  
Program

OIG-09-A-16 September 29, 2009



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

OFFICE OF THE  
INSPECTOR GENERAL

September 29, 2009

MEMORANDUM TO: R. William Borchardt  
Executive Director for Operations

Stephen Burns  
General Counsel

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

SUBJECT: AUDIT OF NRC'S GRANT MANAGEMENT PROGRAM  
(OIG-09-A-16)

Attached is the Office of the Inspector General's (OIG) audit report titled, *Audit of NRC's Grant Management Program*. The report presents the results of the subject audit. At a September 14, 2009, exit conference, agency senior executives provided suggested revisions to the discussion draft report. This report incorporates revisions made, where appropriate, as a result of the agency's suggestions.

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 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

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## **EXECUTIVE SUMMARY**

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### **BACKGROUND**

Pursuant to the Atomic Energy Act of 1954, as amended, and in conjunction with the Federal Grant and Cooperative Agreement Act of 1977, the U.S. Nuclear Regulatory Commission (NRC) may enter into arrangements to provide financial assistance to support programs with a public purpose that the Government wishes to encourage. Such assistance is provided through grants and cooperative agreements to educational institutions, nonprofit organizations, State and local governments, and professional organizations.

This report focuses on NRC's grant program, which has grown significantly since fiscal year 2005 in response to legislation authorizing the agency to increase its nuclear education grants to universities for course and curricula development, fellowships, scholarships, and faculty development.

### **PURPOSE**

The purpose of this audit was to determine whether NRC has established and implemented an effective system of internal controls for grants management.

### **RESULTS IN BRIEF**

NRC's grant program has grown considerably over the past several years. While the agency (a) recently achieved compliance with a Federal requirement to post monthly data on its grant spending on a Federal Government Web site, NRC (b) lacks overarching guidance concerning the current grant program, (c) does not require grants staff to have grant-specific training, (d) has incomplete and inconsistent grant files, and (e) has not issued a Federal regulation on debarment and suspension of irresponsible grantees. As a result of these program weaknesses, NRC lacks assurance of adequate oversight of the grant program, which can adversely affect the proper use of funds.

### **RECOMMENDATIONS**

This report makes recommendations to improve controls over the grants management program. A consolidated list of these recommendations appears in Section VI of this report.

## **AGENCY COMMENTS**

At a September 14, 2009, exit conference, agency senior executives provided suggested revisions to the discussion draft report. This report incorporates revisions made, where appropriate, as a result of the agency's suggestions.

## **ABBREVIATIONS AND ACRONYMS**

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2 CFR	Title 2, <i>Code of Federal Regulations</i>
DC	Division of Contracts
HR	Office of Human Resources
MD	Management Directive
NRC	Nuclear Regulatory Commission
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OMB	Office of Management and Budget
RES	Office of Nuclear Regulatory Research
SBCR	Office of Small Business and Civil Rights

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## I. BACKGROUND

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Pursuant to the Atomic Energy Act of 1954, as amended, and in conjunction with the Federal Grant and Cooperative Agreement Act of 1977, the U.S. Nuclear Regulatory Commission (NRC) may enter into arrangements to provide financial assistance to support programs with a public purpose that the Government wishes to encourage. Such assistance is provided through grants and cooperative agreements to educational institutions, nonprofit organizations, State and local governments, and professional organizations.

Both grants and cooperative agreements are legal instruments for transferring money, property, or services to a recipient. However, Government involvement with the recipient differs for the two forms of assistance. For cooperative agreements, "substantial involvement" is expected between the Federal agency and the recipient. In contrast, for grants, there is no substantial involvement between the Federal agency and the recipient.

Grants and cooperative agreements differ significantly from contracts, which are used to acquire supplies or services for the direct benefit or use of the Government. While agencies must monitor contractor performance closely to ensure work is performed satisfactorily and in a timely manner, the standards for monitoring grantees are less prescriptive. Federal grants staff are expected to exercise prudent oversight of Government funds; however, there is no statute or governmentwide rule or policy governing grant monitoring. Title 2, *Code of Federal Regulations* (2 CFR), "Grants and Agreements," contains some requirements that prescribe or limit activities or information (e.g., site visits, reports) needed for monitoring, but beyond this, it is left to agencies to develop their own specific monitoring expectations.

This report focuses on NRC's grant program, which has grown significantly since fiscal year (FY) 2005 in response to legislation authorizing the agency to increase its nuclear education grants to universities for course and curricula development, fellowships, scholarships,<sup>1</sup> and faculty development. In FY 2005, NRC provided approximately \$564,000 in assistance to outside entities, and in FY 2006, about \$1.5 million.<sup>2</sup> In FY 2007, the agency provided approximately \$7 million in grants, and in FY 2008, this figure increased to about \$20 million.

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<sup>1</sup> Scholarship money is also provided to trade schools and community colleges.

<sup>2</sup> Data for FYs 2007 and 2008 was provided by the Division of Contracts and covers grant dollars only. Data for FYs 2005 and 2006 is from USASpending.gov, a Federal Government Web site developed for agencies to report publicly on financial assistance spending. USASpending.gov data for NRC includes both grants and cooperative agreements.

There are no deliverables associated with NRC's education grants, except for project and financial progress reports. According to an Office of Human Resources (HR) employee who manages NRC's education grant program, there are no deliverables because the grant money is provided to the grantee to use for its program. The manager said that if a grantee is found not to have performed the work per the grant agreement, the grantee would place itself at risk of not receiving another grant.

### **Grant Awards**

NRC administers two types of grants: competitive and noncompetitive. Competitive grants are awarded – after an NRC review and evaluation process – to applicants who responded to an NRC funding opportunity announcement for a grant award. Noncompetitive grants are awarded to entities that write to NRC at any given time and propose a project that NRC determines aligns with its mission, provided money is available to fund the effort. These two types of grants are also referred to as solicited and unsolicited.

Grants are awarded and administered by staff in the Division of Contracts (DC) and monitored by grant “project officers” in the NRC office that recommended a particular grant should be awarded. When an NRC office decides a grant should be made, it transmits a request for procurement action to DC to initiate the grant award process. DC reviews the grant proposal to ensure conformance with 2 CFR requirements and negotiates with prospective grantees before awarding the grant. Also prior to award, staff in the Office of the General Counsel (OGC) and the Office of Small Business and Civil Rights (SBCR) review the request for procurement action package, which includes the grant application. The purpose of OGC's review, of proposed awards valued over \$25,000, is to determine whether the grant application complies with the terms of the grant opportunity announcement, a grant is the proper type of instrument, and that there are no apparent conflicts of interest posed by the grant application. SBCR's review is to determine if potential grantee is in compliance with Federal civil rights requirements.

Currently, there are three offices that manage grants: HR, the Office of Nuclear Regulatory Research (RES), and SBCR.

### **Grant Spending**

Ninety percent of NRC's FY 2007 and FY 2008 grant spending was for competitive, educational grants managed by HR. Table 1 provides a breakdown of NRC grants awarded in FY 2007 and FY 2008 by managing office.

**Table 1. Grants Awarded in FYs 2007 and 2008 by NRC Office\***

<b>Managing office</b>	<b>FY 2007 # grants</b>	<b>FY 2007 \$ awarded</b>	<b>FY 2008 # grants</b>	<b>FY 2008 \$ awarded</b>
HR	37	4.94M	96	19.72M
SBCR	5	0.47M	6	0.41M
RES	13	1.57M	11	0.29M
<b>TOTAL</b>	<b>55</b>	<b>6.98M</b>	<b>113</b>	<b>20.42M</b>

\*Source: Office of the Inspector General (OIG) generated using data provided by DC.

**Lean Six Sigma Review**

In October 2008, NRC initiated a Lean Six Sigma<sup>3</sup> review of the agency's grant process to reduce overall processing time and implement a formal, electronic tracking system. The Lean Six Sigma review team includes representatives from the multiple offices involved in NRC's grant process: DC, HR, SBCR, RES, OGC, and the Office of the Chief Financial Officer. A July 2009 article in the *NRC Reporter* noted that the Lean Six Sigma team for grants had recently reported to agency senior managers that the review was in its final phase, which involves assigning specific responsibility for the improvement tasks identified and ensuring that all of the agreed-on items are closed out. During the briefing, the team's spokesman noted that the Lean Six Sigma grants review had already reduced the average time for awarding noncompetitive grants from 191 to 108 days and for closing out grants from 77 to 33 days, resulting in a savings of about 2,700 days a year.

**II. PURPOSE**

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The purpose of this audit was to determine whether NRC has established and implemented an effective system of internal controls for grants management. See Appendix A for information on the audit scope and methodology.

<sup>3</sup> Lean Six Sigma is a methodology that facilitates the review of processes, both technical and administrative, to identify opportunities for process improvements. The results are intended to enhance efficiency, effectiveness, and knowledge management.

### **III. FINDINGS**

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NRC's grant program has grown considerably over the past several years. While the agency (a) recently achieved compliance with a Federal requirement to post monthly data on its grant spending on a Federal Government Web site, NRC (b) lacks overarching guidance concerning the current grant program, (c) does not require grants staff to have grant-specific training, (d) has incomplete and inconsistent grant files, and (e) has not issued a Federal regulation on debarment and suspension of irresponsible grantees. As a result of these program weaknesses, NRC lacks assurance of adequate oversight of the grant program, which can adversely affect the proper use of funds.

#### **A. NRC Achieved Compliance with Data Posting Requirement**

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Prior to May 2009, NRC was not in compliance with Federal requirements to provide the public, via a Federal Government Web site (USASpending.gov), with accurate, timely information on Federal assistance. However, during the course of this audit, NRC corrected the issue and populated the designated Web site with updated information on assistance funds.

##### **Reporting Requirements**

All Federal agencies are required to report accurate and timely information on agency spending via USASpending.gov, a Federal Government Web site designed and designated for this purpose. The Web site was developed pursuant to the Federal Funding Accountability and Transparency Act of 2006, which was signed into law on September 26, 2006. The act required the Office of Management and Budget (OMB) to create a single searchable Web site, accessible for free by the public, which included information on each Federal award. The act also required OMB to issue guidance and instructions to Federal agencies on populating the Web site. On March 6, 2008, OMB issued guidance requiring Federal agencies to submit monthly data on awards and providing technical details on how to submit data.

## **NRC in Compliance**

At the start of this audit, the USASpending Web site contained no information on NRC financial assistance to outside entities, a problem noted in a March 2009 letter from a Senate subcommittee<sup>4</sup> ranking member to the OMB Director. During the course of this audit, however, NRC corrected problems it was having populating the Web site, and now the site contains information on NRC assistance funds.

The NRC official responsible for submitting information to the USASpending Web site explained that although no NRC data appeared on the Web site prior to May 2009, NRC had been submitting the requested information to OMB each month. The official said that due to data compatibility problems, OMB had been unable to add NRC's data to the USASpending site. NRC ultimately resolved the problem by working with an NRC contractor to generate a compatible report. As a result, information concerning NRC awards is now available on the USASpending Web site.

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<sup>4</sup> Senate Subcommittee on Federal Financial Management, Government Information and International Security.

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## **B. Agency Lacks Comprehensive Guidance on Grants**

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NRC lacks a comprehensive guidance document describing the agency's grant policy and process to ensure the program functions as intended and that staff fulfill their responsibilities. Before such guidance can be written, the agency needs to complete its effort to define the competitive grant process. Without comprehensive guidance that includes options for managing grants, staff employ inconsistent approaches to managing grants. Additionally, NRC staff lack a clear understanding of the roles and responsibilities of the various individuals and offices involved in the grant process.

### **Comprehensive Guidance Document**

To ensure the grants management program runs effectively, NRC employees need a comprehensive guidance document. Such guidance should include the roles and responsibilities of individuals and offices with program responsibility and policies and procedures conveying management expectations for program operation.

### **NRC Lacks Comprehensive Guidance**

NRC lacks a comprehensive guidance document describing the agency's current grants policy and process. NRC's Management Directive and Handbook (MD) 11.6, *Financial Assistance Program*, addresses grants but contains outdated guidance and does not describe the current competitive grant program. There is also a short section in MD 11.1, *NRC Acquisition of Supplies and Services*, that some employees refer to for processing unsolicited (noncompetitive) grant proposals; however, the section actually refers to contracts and not to grants.

Furthermore, MD 11.6 does not describe the competitive education grant program currently in place at NRC or provide guidance on monitoring of grantees to ensure that grant funds are used for their intended purpose. Although MD 11.6 describes (1) solicited and unsolicited proposals; (2) how to determine whether the proposal is appropriately funded by a grant, cooperative agreement, or contract; (3) factors to consider in evaluating proposals; and (4) SBCR's and OGC's roles in the process, much of the guidance is outdated. While MD 11.6 refers several times to a review process for solicited RES grants – when RES does not currently have any solicited grants – it makes no mention of the competitive HR grant program through which most of NRC's grant dollars are currently awarded. Furthermore, while MD 11.6 contains information on receiving proposals, reviewing proposals, making awards, recordkeeping, and several other topics, the guidance is silent on appropriate methods for monitoring grantees to ensure the grant money is being used as intended.

Although the purpose of MD 11.1 is to address the acquisition of supplies and services through procurement actions at NRC, some program office staff involved with noncompetitive grants reported they found it useful for the evaluation of unsolicited grant proposals. MD 11.1 contains a brief section on evaluating and processing unsolicited proposals; however, it is written specifically for contracts and refers readers to MD 11.6 for information on grants. As noted in the background section of this report, the Government has significantly less involvement with grantees than with contractors, and the purpose of a grant is to accomplish a public purpose of support or stimulation, which is fundamentally different from the contract's purpose to acquire supplies and services for the Government.

Agency staff from offices involved with the grant process acknowledged the importance of developing a management directive that describes NRC's current grant program. The Lean Six Sigma team also recognizes this as a major issue that needs to be resolved.

### **NRC Needs To Resolve Matters**

NRC lacks overarching guidance describing the current grant program because such guidance cannot be written until the agency completes its effort to define the competitive grant process. The Lean Six Sigma grants review team has worked to define both the noncompetitive and competitive processes. While the team has agreed on the noncompetitive process, it has been unable to agree on the competitive process and, thus far, that process is undocumented.

During a July 2009 briefing to NRC's Deputy Executive Directors for Operations, the Lean Six Sigma team conveyed the issues that need to be resolved before a comprehensive management directive can be written. These unresolved issues included:

- Defining the competitive process, including issuing the agency grant announcement and the use of letters of intent to potential grantees.
- Uniformity of competitive process at NRC.
- Handling of multiyear awards.
- Post-award administration (roles and responsibilities).
- Location and process of updating one, shared electronic file.
- Existence of one grants office or team within an existing office.
- Scope of SBCR reviews.



Some of the difficulties reaching agreement may be attributable to the different grant backgrounds held by staff in DC and HR. To help manage NRC's expanded grant program, both offices hired staff with grant experience from other Federal agencies. However, these staff have different views on how the program should be run, based on their prior experience, which has made it difficult to reach agreement on some of the Lean Six Sigma issues.

### **Inconsistencies and Lack of Clarity on Roles and Responsibilities**

Without comprehensive guidance that includes options for managing grants, staff employ inconsistent approaches to managing grants. Additionally, NRC staff lack a clear understanding of the roles and responsibilities of the various individuals and offices involved in the grant process.

OIG identified that project officers have inconsistent approaches for managing their grants. One such inconsistency relates to grantee oversight. Two project officers use site visits routinely to monitor grantees, while a third project officer was unaware that site visits were an option available for monitoring grantees.

Another example of inconsistency pertains to ensuring the receipt of progress reports. While HR recently established a tracking process to ensure submission of required project progress reports, DC has no similar process to ensure financial progress reports are submitted.

Furthermore, NRC offices disagree over grant program roles and responsibilities. While HR project managers believe they should maintain their applicant screening process records in HR to ensure confidentiality, DC staff believe that information should be maintained by DC in the official grant file. Conversely, HR staff believe they should have access to grantee financial progress reports, while DC staff, who typically receive the reports, do not think this is necessary and do not necessarily provide them to HR staff when asked. In addition, some staff did not understand SBCR's review of grant proposals and felt it was burdensome to prospective grantees.

### **Recommendations**

OIG recommends that the Executive Director for Operations:

1. Resolve outstanding Lean Six Sigma issues, including definition of the competitive grant process, roles and responsibilities, development of a shared electronic grant database, and scope of SBCR reviews.

2. Update Management Directive 11.6 to comprehensively address NRC's competitive and noncompetitive grant program, including (a) roles and responsibilities of individuals and offices involved in the grant process, (b) process for awarding grants, and (c) required monitoring by project officers.
3. Issue interim guidance to accomplish the intent of recommendation 2, pending revision of Management Directive 11.6.

## C. NRC Does Not Require Grants Training

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NRC employees responsible for awarding and managing grants need to be trained in order to adequately perform their assigned duties. Currently, there are varying degrees of training and experience among these staff because management does not require training for those administering the grant program. As a result, the NRC lacks assurance of adequate oversight of the grant program, which can adversely affect the proper use of grant funds.

### Training Needs

NRC employees responsible for awarding and managing grants need training to adequately perform their assigned duties. Such training should allow personnel to gain and maintain a level of competence that allows them to accomplish their assigned duties. Furthermore, management needs to identify appropriate knowledge and skills needed for various jobs and provide appropriate training.

In addition, in February 2009, the National Procurement Fraud Task Force, Grant Fraud Committee, published a *White Paper*<sup>5</sup> with recommendations for enhancing the grant oversight process. The *White Paper* was based on the Committee's survey of National Procurement Fraud Task Force members to identify effective methods for detecting and preventing grant fraud. Survey respondents emphasized the importance of training in preventing and detecting grant fraud. (See Appendix B for a list of "best practices" compiled during audit fieldwork from the *White Paper* and other sources.)

### Varying Levels of Training and Experience Among Staff

There are varying degrees of training and experience among NRC personnel involved with awarding and managing grants. Auditors reviewed the iLearn<sup>6</sup> training records for the 26 staff (15 grant project officers and 11 DC staff) who either (1) awarded and provided oversight for the agency's FY 2007 and FY 2008 grants<sup>7</sup> or (2) are working on the agency's FY 2009 grants. Records reviewed reflect training that occurred between October 1, 2004, and July 1, 2009. The following graph shows that of the 26 staff:

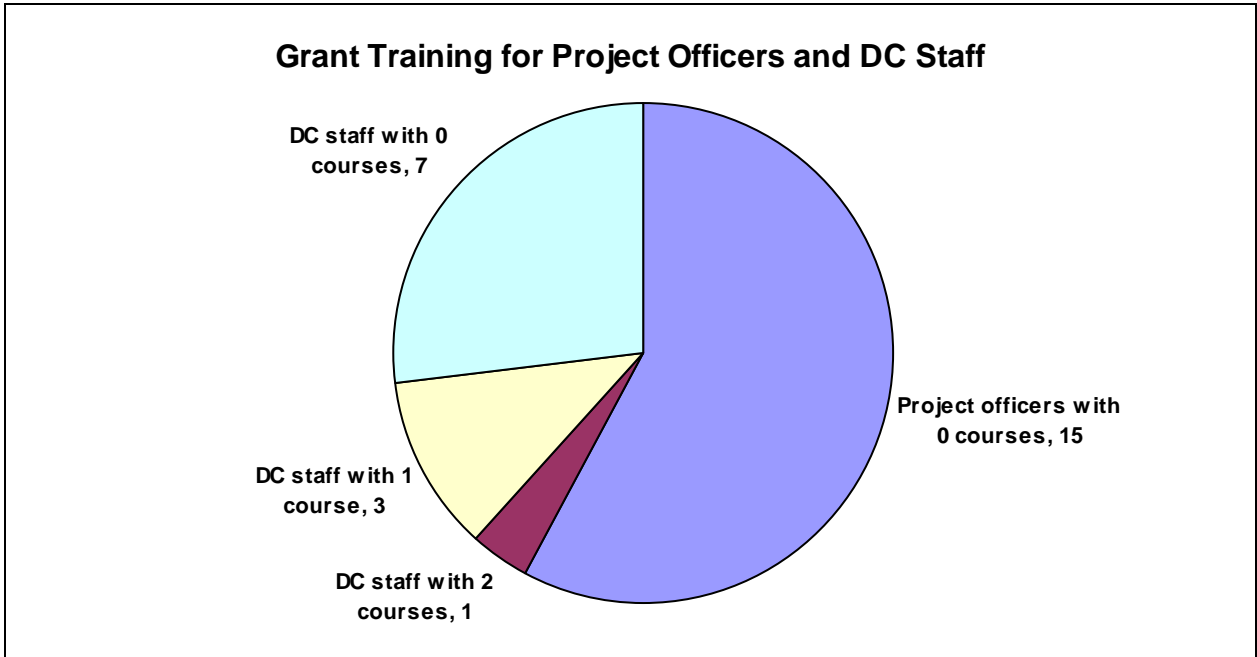
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<sup>5</sup> *A Guide to Grant Oversight and Best Practices for Combating Grant Fraud*, February 2009.

<sup>6</sup> iLearn is a "learning management system," which stores NRC employee training records and allows employees to submit training requests and register online for classes.

<sup>7</sup> Sixteen project officers provided oversight of the FYs 2007 and 2008 grants; however, one of the project officers no longer works for the agency and no iLearn records were available.

- 7 of 11 DC staff have not had any specific grant training.
- 3 of 11 DC staff have had 1 grant specific training course.
- 1 of 11 DC staff has had 2 grant specific training courses.
- None of the 15 project officers have had any specific grant training.



At the September 14, 2009, exit conference, agency managers noted that the iLearn system may be incomplete and does not reflect training received prior to NRC employment or informal, in-house training provided to staff.

Agency employees working with grants also have varying levels of experience in this area. An agency official noted that several individuals were hired from other agencies to work on NRC's grant program because of their extensive training and experience managing Federal grants. However, due to the volume of grant-related work that DC must deal with during certain time periods, the office must borrow DC staff with little or no grant experience to work on awarding grants. None of the staff who work on grants are required to have any NRC-specific or general grants training. While NRC does not offer formal grants training courses, an NRC official represented that DC conducted two informal sessions for DC and other NRC staff in FY 2009. In addition, formal training is readily available in the Washington, D.C., metropolitan area.

### **No Training Requirements**

NRC management does not require grant-specific training for those awarding and managing grants. At this time, there are no overarching Federal standards for grants training; instead, it is left up to each individual agency to set their own requirements. However, a Chief Financial Officer's Council subgroup is working to develop Federal grant training standards. As of August 2009, NRC had no defined training requirements for staff responsible for awarding and managing grants.

### **Adequate Oversight Not Assured**

Without training requirements for staff awarding and managing grants, the agency lacks assurance that the grant program has adequate oversight, which can adversely affect the proper use of more than \$20 million in grant funds. For example, when OIG asked one project officer about the use of site visits to monitor grantees, the project officer stated that these could have been useful; however, the project officer was not aware that site visits were an option.

### **Recommendations**

OIG recommends that the Executive Director for Operations:

4. Develop grant specific training requirements for staff who work on grants to include a reasonable period of time (such as 18 months) for completion of the training.
5. Ensure that staff working on grants complete the required training within the specified timeframe identified in response to recommendation 4.

## **D. Grant Files Are Inconsistent and Incomplete**

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NRC grant files need to be complete and uniformly organized to facilitate informed decisionmaking by staff involved in the grant process. However, NRC official grant files are inconsistently organized and often incomplete. This is because agency management has not established standards or requirements for the content and organization of these files. Without timely and easy access to all relevant information on each grant award, NRC decisionmakers cannot always make fully informed decisions about awarding and managing grants.

### **File Requirements**

NRC grant files need to be complete and uniformly organized to facilitate informed decisionmaking by staff involved in the grant process. NRC decisionmakers should have access to all relevant information in order to make fully informed decisions about awarding and managing grants. Specifically, they need access to past performance records, both internal to NRC and from other Federal agencies (e.g., OMB A-133 audit reports<sup>8</sup>); current award agreements, including terms and conditions; and progress reports, both financial and programmatic.

Based on interviews with DC staff, OIG determined that at a minimum, the following items should be reflected in the official grant file:

- **Proposal document** – This document is the grantee's proposed project to meet the grant award.
- **Budget justification** – This document reflects a monetary breakdown of the funds requested to address the proposal.
- **Request for procurement action** – The program office creates a request for procurement action and DC's receipt of this document initiates the awarding phase of the grant process.

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<sup>8</sup> Entities (e.g., a grantee) that expend more than \$500,000 in Federal awards must receive an annual audit in accordance with OMB Circular A-133. These audit reports report on the health of the grantee. Specifically, the audit looks to ensure (1) financial statement information is presented fairly, (2) internal controls are sufficient and (3) compliance with applicable laws, regulations, and provisions of the award. The audit on each grantee is performed by "the cognizant audit agency." The designated cognizant agency for audit is the Federal awarding agency that provides the predominant amount of direct funding to a recipient unless OMB designates a different cognizant agency for audit. NRC is not the cognizant audit agency for any grantee.

- **Evidence of OGC review<sup>9</sup>** – OGC reviews each grant award to ensure the award meets the terms of the grant program and to ensure there are no conflicts of interest.
- **Evidence of SBCR compliance review** – SBCR reviews each grant award to assess that the grantee is in compliance with mandatory civil rights statutes.
- **OMB A-133 audit results** – These audit reports report on the health of the grantee.
- **Summary of the decision to award** – During FYs 2007 and 2008, DC used a memo format to summarize its review during the awarding phase. This document illustrates why a grant can be awarded.
- **Award document** – This document is the agreement that binds NRC and the grantee to the award.
- **Progress reports** - Grant terms and conditions require the grantee to submit two semiannual progress reports that outline (1) financial expenditures and (2) project progress. These reports should be included in the grant files along with evidence that these documents were reviewed to determine progress and expenditures were appropriate.

### **Files Are Inconsistently Organized and Often Incomplete**

NRC official grant files are inconsistently organized and only 1 of 36 files reviewed was complete. NRC's official files are hard copy folders maintained within DC. These files are created when a contract specialist begins the pre-award review process. All documentation supporting the decision to award the grant should be maintained within these files. Additionally, after the grant is awarded, the specialist keeps copies of all modifications to award agreements and any semiannual progress reports submitted by the grantee.

OIG reviewed official grant files for 36 (approximately 29 percent) of 126 grants<sup>10</sup> awarded in FY 2007 and FY 2008 to assess whether they contained key award and monitoring documentation. Only one grant file

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<sup>9</sup> As noted in the Background section of this report, OGC reviews grant proposals valued at more than \$25,000.

<sup>10</sup> NRC awarded 168 grants during FYs 2007 and 2008; however, for purposes of this review, OIG counted the universe as 126 because some grants received funds in both fiscal years and therefore shared the same official file within the Division of Contracts.

reviewed contained all relevant and significant documentation. Table 2 illustrates the criteria used (see pages 13-14) to review the official grant folders and the number of official grant files that contained this documentation.

**Table 2. Official File Review Results**

<b>Contents</b>	<b>Number of Files Containing</b>	<b>Percent</b>
<b><i>Award Phase</i></b>		
Proposal Document	36	100%
Budget Justification	36	100%
Request for Procurement Action	36	100%
OGC Review	36	100%
SBCR Review	34	94.4%
OMB A-133 Audit Results	4	11.1%
Summary of Decision	26	72.2%
Signed Award Document	36	100%
<b><i>Monitoring Phase</i></b>		
Financial Progress Reports and Evidence of Review	22	61.1%
Project Progress Reports and Evidence of Review	21	58.3%

While the official files generally contained all information related to the pre-award process, support for decisions made during this phase was missing in 10 files. Additionally, only four files showed evidence that OMB A-133 audit results were reviewed. Progress reports (and evidence of progress report review) were available in approximately 60 percent of the grant files reviewed.

In addition to the official files, project officers have developed their own files for storing grantee documentation. These files contain award documents and project progress reports. Subsequent to the review of the official DC files, OIG reviewed the associated HR files and found that the latter contained project progress reports and evidence that these reports were reviewed, which had not been included in the official DC file. However, the project officer files did not contain the financial progress report information. Some project officers stated that they do not have access to this information because DC is responsible for reviewing these reports.

**No Standards for File Organization and Content**

Grant files are inconsistently organized and incomplete because NRC management has not established standards or requirements for the



content and organization of these files. Each specialist who is responsible for awarding grants is allowed to organize grant files as they see fit. Furthermore, while the associated branch chiefs review grant files before awarding grants, these reviews are to ensure that all outstanding issues are resolved and grant award documents are accurate. These reviews do not determine if the grant file is complete or uniformly organized. Additionally, after the grant is awarded, no checks are performed to ensure that the grant files contain all related progress reports.

Furthermore, NRC lacks a means to provide access to all grant information to all parties needing this information. The two major players in the competitive grants process, HR and DC, are housed in separate headquarters locations that are not within walking distance of each other, and because the files are maintained in hard copy, there is no easy way to share information.

While steps have been taken to provide electronic access to award documentation, access to and content of these electronic documents is inconsistent. Specifically, a shared drive on NRC's internal network was created to allow HR and DC staff to view electronic copies of grant documentation; however, HR project officers state that they cannot always locate current grant documents in this drive. Additionally, DC has taken steps to upload electronic copies of award and monitoring documents to the Automated Acquisition Management System. However, project officers do not have access to this system and there is no quality assurance steps to ensure all documents are uploaded. Furthermore, one of the Lean Six Sigma goals was to recommend a formal, electronic tracking and reporting system; however, while this issue was addressed during the process, a recommendation was never developed.

### **Decisionmakers Lack Access to All Relevant Information**

Without timely and easy access to all relevant information on each grant award, NRC decisionmakers cannot always make fully informed decisions about awarding and managing grants. When awarding a grant, NRC staff should have access to all information about the grantee and its ability to perform the objectives of the grant. To help in this decision, NRC staff should document that they have reviewed OMB A-133 audit results as these reports show the financial stability of the grantee. Additionally, NRC staff should have access to all progress reports, both financial and project, for past NRC grants as these reports show grantees' past performance and ability to comply with grant objectives and terms and conditions of past awards. Without access to both financial and project progress reports, project officers cannot assess whether project spending appears to align with project progress.

**Recommendations**

OIG recommends that the Executive Director for Operations:

6. Develop a method for sharing up-to-date official file/grant documentation with all involved parties to include a formal electronic tracking and reporting system.
7. Establish requirements for the content and organization of NRC official grant files.
8. Develop a quality assurance process for ensuring official grant files are complete.

## **E. NRC Has Not Issued a Regulation on Debarment and Suspension**

Federal agencies with grant programs are required to issue regulations establishing their policies and procedures for debarment and suspension of irresponsible grantees. NRC has not issued such a regulation because agency officials were unaware of the requirement. Without issuing a regulation, NRC risks non-compliance with Federal requirements and may not be adequately protected if an irresponsible grantee misuses agency grant funds.

### **Debarment and Suspension Requirements**

Executive Order 12549, "Debarment and Suspension," requires Federal agencies to participate in a system for debarment and suspension from programs and activities involving Federal financial assistance, including grants. The purpose of a debarment and suspension system is to protect the public interest by ensuring that the Government conducts business only with responsible entities. Per the executive order, debarment or suspension of a participant in one agency's program means they are barred from working with all other agencies as well. Executive Order 12549 also requires agencies to issue regulations governing their implementation of the order, consistent with guidelines provided by OMB.

Agency regulations concerning debarment and suspension must be issued in 2 CFR, Subtitle B, "Federal Agency Regulations for Grants and Agreements."

### **NRC Has Not Issued a Required Regulation**

While NRC has not issued a regulation in 2 CFR, Subtitle B, establishing the agency's policies and procedures for debarment and suspension, 22 other agencies have issued such a regulation. These agencies include larger entities, such as the Department of Health and Human Services and Department of Defense, and smaller entities, such as the Peace Corps and the Corporation for National and Community Service.

NRC has not issued a regulation on debarment and suspension because agency officials were unaware of the requirement. During the September 14, 2009, audit exit conference, an OGC Associate General Counsel said Executive Order 12549 applies to NRC and that since becoming aware of the matter (through the draft audit report), OGC has begun drafting a regulation.

Without issuing a regulation if the requirement applies, NRC risks non-compliance with Federal requirements and may not be adequately protected if an irresponsible grantee misuses agency grant funds.

**Recommendation**

OIG recommends that the Executive Director for Operations and the General Counsel:

9. Issue a regulation on suspension and debarment.

## **IV. CONCLUSION**

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Due to the more than 36-fold growth in NRC's grant program since FY 2005, a primary agency focus has been on developing the program infrastructure to allow NRC to award grant funds appropriated by Congress in a timely manner. However, it is equally important that NRC maintains proper oversight over grantee use of funds and ensures that these funds are used appropriately and as intended. Although grant oversight is not associated with "substantial involvement" by the Government with the grantee, it is still critical that NRC staff perform adequate oversight to prevent and detect fraud, waste, and abuse in the grants they administer. Until NRC management provides agency staff with guidance and training in grants, the agency lacks assurance that an appropriate level of oversight is being performed over its assistance dollars.

## **V. AGENCY COMMENTS**

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At an exit conference on September 14, 2009, NRC officials agreed with the report contents and provided editorial suggestions, which OIG incorporated as appropriate.

## **VI. CONSOLIDATED LIST OF RECOMMENDATIONS**

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OIG recommends that the Executive Director for Operations:

1. Resolve outstanding Lean Six Sigma issues, including definition of the competitive grant process, roles and responsibilities, development of a shared electronic grant database, and scope of SBCR reviews.
2. Update Management Directive 11.6 to comprehensively address NRC's competitive and noncompetitive grant program, including (a) roles and responsibilities of individuals and offices involved in the grant process, (b) process for awarding grants, and (c) required monitoring by project officers.
3. Issue interim guidance to accomplish the intent of recommendation 2, pending revision of Management Directive 11.6.
4. Develop grant specific training requirements for staff who work on grants to include a reasonable period of time (such as 18 months) for completion of the training.
5. Ensure that staff working on grants complete the required training within the specified timeframe identified in response to recommendation 4.
6. Develop a method for sharing up-to-date official file/grant documentation with all involved parties to include a formal electronic tracking and reporting system.
7. Establish requirements for the content and organization of NRC official grant files.
8. Develop a quality assurance process for ensuring official grant files are complete.

OIG recommends that the Executive Director for Operations and the General Counsel:

9. Issue a regulation on suspension and debarment.

## SCOPE AND METHODOLOGY

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Auditors evaluated NRC's grants management program to determine if NRC had established and implemented an effective system of internal controls.

The audit team reviewed relevant criteria, including, Title 2, *Code of Federal Regulations*, "Grants and Agreements"; the Federal Funding Accountability and Transparency Act of 2006; and the General Accounting Office (now renamed Government Accountability Office) *Standards for Internal Control in the Federal Government*. Additionally, auditors reviewed NRC policies, including Management Directive 11.6, *Financial Assistance Program*. Furthermore, the audit team used the National Procurement Fraud Task Force, Grant Fraud Committee, *A Guide to Grant Oversight and Best Practices for Combating Grant Fraud*, to help identify best practices for managing a grant program.

At headquarters in Rockville, MD, auditors interviewed NRC staff and management from the Division of Contracts, Office of the General Counsel, Office of Human Resources, Office of Nuclear Regulatory Research, and Office of Small Business and Civil Rights to gain an understanding of their roles and responsibilities in the grants management program. Auditors also conducted interviews with Department of Education and National Nuclear Security Administration officials to determine best practices in managing a grants program.

Auditors reviewed a random sample of NRC official files for grants awarded during FY 2007 and FY 2008. Auditors reviewed these files to determine documentation completeness related to the award and monitoring of grants.

This work was conducted from March 2009 through August 2009 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 work was conducted by Steven Zane, Team Leader; Judy Gordon, Quality Assurance Manager; Rebecca Underhill, Audit Manager; and Elaine Kolb, Senior Auditor.



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## BEST PRACTICES

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Auditors developed a list of grant “best practices” based on (1) interviews with Department of Education and National Nuclear Security Administration staff who are involved with managing grants and (2) reviews of documents, including the National Procurement Fraud Task Force White Paper, *A Guide to Grant Oversight and Best Practices for Combating Grant Fraud*. As NRC works to formalize the grant process, the agency should consider incorporating the following best practices:

- Incorporate measurable goals into the grant agreement, then follow up and determine the effectiveness of grantee programs funded. Value added should be considered.
  - As an example, agencies could track the number of degrees granted as the result of financial assistance provided for education.
  - Another example would be to track how agency money is leveraged with private funds.
- Review OMB A-133 results to determine degree of monitoring needed.
- Perform sufficient oversight and monitoring of grantees to ensure the integrity of the grant process.
- Determine need for site visits based on risk associated with grantees. Visit the grantees that need the most attention.
- Develop a policy and procedures manual that takes a lifecycle approach to awarding and managing grants.
- Require Federal grant recipients to certify that statements made in the grant application are true and correct.
- Ensure that grant participants have been properly trained.
  - Grant recipients may find it useful to receive training on detecting and preventing grant fraud.
  - Grant administrators could benefit by receiving training on grants management.

- Investigators and auditors need training to effectively prevent and prosecute fraudulent grant activity.
- Maintain all documentation in the official file.
- Include project officers on the distribution list to receive award documents.
- Raise awareness among agency staff involved in the grant process about the nature of grants. The purpose of a grant is to help the grantee achieve its grant outcome, and not to benefit the granting agency.
- Foster a good working relationship between the program office and the granting official. This promotes a free and open exchange of information and ideas.
- Ensure regular communication among the agency, the grant recipient, and the public to increase awareness of how money is spent.
- Share information in and among agencies to prevent and detect fraud.