



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

**OFFICE OF THE
INSPECTOR GENERAL**

September 29, 2011

MEMORANDUM TO: R. William Borchardt
Executive Director for Operations

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

SUBJECT: MEMORANDUM REPORT: AUDIT OF NRC'S INTERNAL
CONTROL OVER HEADQUARTERS FITNESS CENTER
MEMBERSHIP FEES (OIG-11-A-20)

OVERVIEW

At the request of the Office of Human Resources (HR), the Office of the Inspector General (OIG) conducted an audit of the effectiveness of the Nuclear Regulatory Commission's (NRC) internal control over fitness center membership fees at headquarters. OIG determined that effective internal controls are in place over fitness center membership fees. Specifically, the agency recently implemented appropriate actions to resolve self-identified areas of concern. The agency's actions facilitate the handling of fitness center membership fees in an efficient and effective manner.

While effective internal controls over fitness center membership fees are in place, this report conveys three observations that, if implemented, could further enhance administrative functions concerning the fitness center contract and membership fees.

BACKGROUND

NRC offers a physical fitness program as part of its wellness services program for agency employees. The fitness program was established to provide employees a fitness strategy to enhance job performance, decrease absenteeism, and prepare employees to meet the physical requirements of specified positions. This audit focused on the headquarters onsite fitness center (fitness center), which currently has approximately 700 members.

Fitness Center Contract

The agency's current fitness center contract is with Aquila Fitness Consulting Systems, LTD. (contractor), to provide a comprehensive, integrated fitness program for NRC employees. The contractor provides services and personnel necessary to operate the fitness center in the NRC headquarters complex in the Two White Flint North building.

Although this audit focused on headquarters fitness center membership fees, the contract with Aquila has provisions for fitness center membership for NRC employees at the regional offices, Technical Training Center, and remote sites.

NRC Headquarters Fitness Center



Source: OIG

The current contract, effective June 1, 2010, contains a base year and four 1-year option periods. NRC exercised the first option period from June 1, 2011, through May 31, 2012, in the amount of approximately \$331,000. The remaining option periods cover the timeframe from June 1, 2012, through May 31, 2015. The potential contract value, including the base year and four option periods, is approximately \$1.7 million.

Program Administration and Funding

The Office of Human Resources (1) administers and manages NRC's fitness services program, (2) manages the contract for these services, and (3) provides oversight of the headquarters fitness center. These responsibilities have been primarily assigned to an HR project officer. That office has approximately 0.4 full-time equivalents dedicated to administering the fitness center contract.

The fitness center is funded, in part, by membership fees deducted from members' pay. The contractor receives and accounts for membership fees, credits collections against the total contract price for the current year, and bills the agency monthly, reflecting the difference between the total contract price for the year and the fees generated from memberships.

Agency Concerns

During June 2011, NRC staff informed OIG of three self-identified concerns involving fitness center membership fees and discussed the agency's actions to resolve them. Specifically:

Concern Number 1. The HR project officer was responsible for transferring employee payroll deductions, and cash and checks collected by the contractor from an interest bearing account with the Energy Federal Credit Union (EFCU) to the contractor's bank account. The project officer and alternate were the only agency employees with authority to access the EFCU account. This raised concerns over segregation of duties and possible tax consequences.

Agency Resolution. The agency determined that the HR project officer and the contractor were unnecessary third parties to this process. Through a contract modification, the agency changed the payment process so that NRC's payment agent, the Department of Interior National Business Center, processes the payroll deductions and deposits the membership fees directly into a bank account held by the contractor, instead of depositing these membership fees into the EFCU account. As a control, the

National Business Center transmits biweekly reports to the HR project officer, who reconciles this information with the contractor's monthly invoices.

Concern Number 2. The fitness center contract provided NRC employees the option to pay membership fees through biweekly payroll deductions or by cash or check annually, semiannually, or quarterly. As noted above, cash and checks were collected by the contractor and deposited in the EFCU account for transfer to the contractor by the HR project officer.

Agency Resolution. The agency determined that the handling of cash and checks by contractor employees was not a good business practice and there were no checks and balances over this process. Additionally, it was an administrative burden for both the contractor and the HR project officer to ensure that funds were properly controlled and transferred. Through a contract modification, options to pay membership fees by cash or check were eliminated.¹ Now, payroll deduction is the only payment method allowed. Fitness center marketing materials and information on the agency's internal and external Web site were revised to reflect this contract change.

Concern Number 3. In general, employees paid a \$25 initiation fee – by cash or check – to join the fitness center.

Agency Resolution. The agency determined that the contract does not provide for employees to pay a \$25 initiation fee. The agency instructed the contractor to eliminate this fee. The agency's Web site marketing materials were also revised to reflect this change.

OBJECTIVE

The audit objective was to evaluate the effectiveness of NRC's internal control over fitness center membership fees at headquarters.

RESULTS

OIG determined that effective internal controls are in place over fitness center membership fees. However, this report conveys three observations that, if

¹ This contract modification did not change the membership fee amount paid by agency employees.

implemented, could further enhance administrative functions concerning the fitness center contract and membership fees.

Observations for Agency Consideration

- 1. Update NRC Management Directive and Handbook (MD) 10.122, *Employee Assistance and Wellness Services Program*.** MD 10.122 states, "The medical director is the contractor's representative responsible for the coordination, performance, and oversight of all aspects of the agencywide wellness program, including fitness" (emphasis added). The outdated MD 10.122 provision is the result of language in a prior NRC contract which encompassed all NRC health and wellness services.
- 2. Develop written desk procedures for fitness center program management.** Currently, the HR project officer performs tasks related to the management of the fitness center contract such as reconciling monthly contractor invoices with reports produced by the National Business Center to ensure that the agency is billed correctly. However, HR has not developed desk procedures to document the project officer's routine activities.
- 3. Distribute remaining EFCU funds.** HR and the fitness center contractor maintained a joint bank account used to (1) deposit cash and checks collected by the contractor, (2) collect direct deposits from employee payroll deductions, and (3) make transfers to pay the contractor. Because of the changes in fitness center business processes implemented by the agency, this account, which has a balance in excess of \$10,000, is no longer needed. HR froze the account upon identifying the above-listed concerns. Now that the concerns have been resolved, HR should distribute these funds as appropriate, and close the account.

AGENCY COMMENTS

OIG held an exit conference with the agency on September 26, 2011. Prior to this meeting, the agency provided editorial comments which OIG incorporated as appropriate. With respect to the funds remaining in the EFCU account, on September 28, 2011, the agency stated that they transferred the funds to the fitness center contractor and closed the account.

Agency management stated their agreement with the report and observations, and opted not to provide formal comments.

SCOPE AND METHODOLOGY

Scope

This audit was conducted at NRC headquarters from June 2011 through August 2011. The audit focused primarily on reviewing agency concerns and improvement actions surrounding internal controls over membership fees. In addition, agency and bank records associated with the fitness center were analyzed for the period June 2010 through June 2011.

Methodology

OIG reviewed Federal Government guidance applicable to the audit objective, including:

- Title 5 United States Code, Sections 7901, *Health Service Programs*, and 5946, *Membership Fees; Expenses of Attendance at Meetings; Limitations*.
- Federal Acquisition Regulation.
- Two Comptroller General Decisions related to fitness center billings and use of appropriated funds for fitness centers.
- MD 10.122, *Employee Assistance and Wellness Services Program*.

Also, as it related to the audit objective, OIG reviewed:

- The agency's Collective Bargaining Agreement with the National Treasury Employees Union.
- The NRC fitness center contract and amendments, fitness center marketing materials.
- EFCU bank records.
- The NRC internal and external Web sites related to NRC's fitness center.

OIG interviewed HR, Office of Administration, Office of the General Counsel, and contractor officials to obtain their insights into the internal control over headquarters fitness center membership fees and contracting practices.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that the audit is planned and

performed with the objective of obtaining sufficient, appropriate evidence to provide a reasonable basis for any findings and conclusions based on the stated audit objective. OIG believes that the evidence obtained provides a reasonable basis for the report conclusions based on the audit objective. Internal controls related to the audit objective were reviewed and analyzed. Throughout the audit, auditors were aware of the possibility or existence of fraud, waste, or misuse in the program.

The audit work was conducted by Kathleen Stetson, Team Leader; Eric Rivera, Audit Manager; Michael Steinberg, Senior Auditor; and Gail Butler, Analyst.

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