

September 8, 2005

MEMORANDUM TO: Jesse L. Funches
Chief Financial Officer

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

SUBJECT: STATUS OF RECOMMENDATIONS: AUDIT OF THE
NUCLEAR REGULATORY COMMISSION'S FY 2004
FINANCIAL STATEMENTS (OIG-05-A-02)

REFERENCE: CHIEF FINANCIAL OFFICER MEMORANDA DATED
JUNE 27, 2005 AND JUNE 30, 2005

Attached is the Office of the Inspector General's analysis and status of recommendations 2 and 3 as discussed in the agency's responses dated June 27, 2005, and June 30, 2005, respectively. Based on OIG's analysis, recommendations 2 and 3 remain resolved. Recommendations 1, 4, 6, and 7 are also resolved. Please provide an updated status of the resolved recommendations by January 31, 2006.

If you have any questions or concerns, please call me on 415-5915.

Attachments: As stated

cc: William Dean, OEDO
Melinda Malloy, OEDO
Patty Tressler, OEDO

**Audit Report
Audit of the Nuclear Regulatory Commission's
FY 2004 Financial Statements
(OIG-05-A-02)**

Status of Recommendations

Recommendation 2: The Chief Financial Officer (CFO) should develop and implement a remediation plan to enhance the reliability of the current billing system. Additionally, as the CFO considers the system redesign they should identify steps to address systemic issues with the current fee billing system.

Response dated
June 27, 2005:

Attached is our remediation Plan for the Legacy License Fee Billing Systems. The plan describes our approach for overcoming the deficiencies that resulted in the substantial non-compliance identified in the FY 2004 Financial Statement Audit. It includes an assessment of the feasibility of bringing the Legacy License Fee Billing Systems into compliance and the milestones and schedules to replace the License Fee Billing Systems with a compliant system.

OIG Analysis:

R. Navarro & Associates (RNA), OIG's contractor, evaluated the Office of the Chief Financial Officer (OCFO) remediation plan to address the deficiencies in the current fee billing system. Based on the evaluation, RNA concluded that, while they agree with the OCFO decision to seek a replacement solution to improve and more fully automate the fee billing process, they have not received sufficient information to complete an evaluation of progress made toward a solution. Timeliness of the project, which is currently four years from initiation of Phase I to completion of Phase II, is a concern. RNA requested additional information and documentation in order to determine current project status, measure progress, and evaluate the ability to meet the Fee Systems Replacement Project goals in a timely manner. Upon receipt of that information, they will make a more thorough determination of the sufficiency of OCFO's response.

Status: Resolved.

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Status of Recommendations

<u>Recommendation 3:</u>	The CFO should ensure that documented, complete, and reliable quality assurance procedures are prepared for the fee billing process. At a minimum, those procedures should provide for a documented global reconciliation, at each billing cycle, of hours and fees reflected in the FEES to the invoices generated by the PC based fee billing systems.
Response dated June 30, 2005:	We have reviewed and documented our quality assurance procedures for the fee billing process. This includes the attached procedures for a global reconciliation of fee billing each quarter. These global reconciliation procedures document the process to verify and validate hours and fees reflected in the FEES database to the invoices generated by the Fee Billing System.
OIG Analysis:	<p>RNA, OIG's contractor, evaluated the quality assurance procedures and the documentation of the global reconciliation process. Based on the analysis, RNA concluded that the quality control procedures do not provide a sufficient basis for effective quality assurance. Because of the complexity, age, and duality (manual and automated processes) of the legacy fee billing system, an effective quality assurance plan should document all data sources, identify potential pitfalls, and contain specific procedures designed to ensure the completeness and accuracy of the quarterly Part 170 invoices.</p> <p>For example, effective quality assurance procedures should document steps taken to monitor and account for changes made by the program offices to billable hours and costs after certification. Current quality assurance procedures rely mostly upon the experience and knowledge base of key members of the license fee team. An effective, well-documented, and specific quality assurance program should be an integral aspect of the entire billing process and not dependent on particular individuals.</p>

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Status of Recommendations

Additionally, the global reconciliation procedures documented in the response are effective with the issuance of the third quarter FY 2005 invoices, dated July 25, 2005. These procedures are somewhat different from the global reconciliation process used in the previous two quarters. Therefore, RNA will evaluate the revised global reconciliation procedures at year-end.

Status: Resolved.