



OFFICE OF THE  
INSPECTOR GENERAL

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

June 2, 2015

MEMORANDUM TO: Maureen E. Wylie  
Chief Financial Officer

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

SUBJECT: STATUS OF RECOMMENDATIONS: AUDIT OF THE U.S.  
NUCLEAR REGULATORY COMMISSION'S INTERNAL  
CONTROLS OVER FEE REVENUE (OIG-15 A-12)

REFERENCE: CHIEF FINANCIAL OFFICER MEMORANDUM DATED  
MAY 6, 2015

Attached is the Office of the Inspector General's (OIG) analysis and status of recommendations 1 – 7 as discussed in the agency's response dated May 6, 2015. Based on this response, recommendation 6 is closed, and recommendations 1, 2, 3, 4, 5, and 7 are resolved. Please provide an updated status of the resolved recommendations by January 31, 2016.

If you have questions or concerns, please call me at 415-5915, or Eric Rivera, Team Leader, at 415-7032.

Attachment: As stated

cc: M. Galloway, OEDO  
B. Pham, OEDO  
H. Rasouli, OEDO  
J. Arildsen, OEDO  
R. Boyer, OEDO  
S. Hudson, OCFO  
EDO\_ACS Distribution Resource  
RidsOcfMailCenter Resource

## **Audit Report**

### **AUDIT OF NRC'S INTERNAL CONTROLS OVER FEE REVENUE OIG-15-A-12**

#### **Status of Recommendations**

Recommendation 1: Establish policies and procedures to centralize the control of TAC setup.

Agency Response Dated  
May 6, 2015:

The staff agrees with the recommendation.

On August 15, 2014, the OCFO announced the "Task Assignment Control Management Project (TMP)" (ML14230A004). The project addresses internal controls with the agency's TAC management program. The key objectives for the project are: (1) Centralize Time and Labor (T&L) Coordination, (2) Centralize Labor Reporting, (3) Centralize Guidance and Training, (4) Centralize Performance Monitoring, and (5) Transition to Authoritative Data Sources.

The OCFO has started the review of agency policies and procedures, reduced TAC inventory, and issued interim guidance to the staff while it completes its comprehensive strategy to improve through the TMP project. To date, the OCFO has issued agency policy and procedures for:

- 07/11/14, Yellow Announcement No. 087, Administrative Codes
- 09/15/14, Memorandum "Fiscal Year (FY) 2015 Budget & Reporting Structure and the T&L Reporting Instructions (Annual Crosswalk, Supervisory Staff Time Reporting, Acquisition Management)
- 09/29/14, Yellow Announcement No. 119, Supervisory Staff Time
- 01/22/15, Yellow Announcement No. 011, International Work Activities
- 02/04/15, Yellow Announcement No. 022, Supervisory Staff Time (Updated)
- 02/18/15, Yellow Announcement No. 027, Training.

In addition, the staff has: (1) reduced and streamlined Corporate/Office Support TACs and centralized

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#### **Status of Recommendations**

##### Recommendation 1 (cont.):

setup/maintenance of all office support TACs; and (2) reviewed TAC inventory for work related to the Office of the Advisory Committee on Reactor Safeguards and the Office of International Programs; defined/published office-wide TAC guidance; and centralized TAC setup/maintenance and T&L Coordination functions with the OCFO.

##### Key Milestones

- |   |             |
|---|-------------|
| • Review/centralize internal office procedures                      | Q3 – FY2015 |
| • Publish agency procedures   | Q4 – FY2015 |
| • Complete long-term training strategy/offer training for employees | Q4 – FY2015 |
| • Implement new TAC structure and procedures                        | Q1 – FY2016 |
| • Update directives   | Q2 – FY2016 |

Estimated Completion Date: March 2016

##### **OIG Analysis:**

The actions proposed by the agency meet the intent of the recommendation. This recommendation will be closed after OIG reviews the revised procedures, training strategy, new TAC structure and procedures, and updated directives that centralize the control of TAC setup.

##### **Status:**

Resolved.

## Audit Report

### AUDIT OF NRC'S INTERNAL CONTROLS OVER FEE REVENUE OIG-15-A-12

#### Status of Recommendations

Recommendation 2: Design and implement internal controls that would allow user access in HRMS to TACs related only to their job functions.

Agency Response Dated  
May 6, 2015:

The staff agrees with the recommendation.

The requirement to limit HRMS user access to TACs related only to their job functions will be incorporated in the business case for the replacement TAC system. Any additional improvements impacting the HRMS system will be addressed during the design and development of the new TAC system. The OCFO will conduct an alternatives analysis to determine the best approach to improving TAC management systemically. Following the analysis, a detailed approach and schedule will be developed. Based upon the system requirements and available funding, the design, build and implementation of the required functionality to meet this recommendation will be finalized, updated, and communicated with the OIG as appropriate.

In the interim, the OCFO will rely on the available reporting tools and enhanced manual internal controls developed in FY2015.

#### Key Milestones

- |  |             |
|--|-------------|
| • Analyze alternative system capabilities          | Q2 – FY2016 |
| • Develop system enhancement approach and schedule | Q2 – FY2016 |
| • Design and build automated internal controls     | TBD         |
| • Implement automated internal controls            | TBD         |

Estimated Completion Date: TBD

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#### **Status of Recommendations**

##### Recommendation 2 (cont.):

**OIG Analysis:** The actions proposed by the agency meet the intent of the recommendation. This recommendation will be closed when OIG has reviewed the updated internal controls that allow user access in HRMS to TACs related only to their job functions.

**Status:** Resolved.

## **Audit Report**

### **AUDIT OF NRC'S INTERNAL CONTROLS OVER FEE REVENUE OIG-15-A-12**

#### **Status of Recommendations**

Recommendation 3: Standardize and link TACs to specific tasks.

Agency Response Dated  
May 6, 2015:

The staff agrees with the recommendation.

The OCFO has completed interviews with each office to understand how they are using TACs in order to support plans to standardize TACs across all business lines. The TMP team will lead efforts to ensure all work activities are defined and coded consistently for time reporting whether (full cost) billable or non- billable. The OCFO will be working with the EDO, business and corporate line leads, and other senior management to define a standard TAC inventory for collecting time that meets legislative or regulatory requirements; meets external reporting requirements from organizations such as the Office of Management and Budget, the Office of Personnel Management, the Department of Justice; and for items of major interest, to the senior leadership or business/corporate leads. Standardization includes plans to significantly reduce the current TAC inventory, simplify time reporting for employees, and improve transparency of charges on full cost fee invoices sent to licensees.

#### Key Milestones

- Define TAC Management Program Q3 – FY2015
- Publish New Standard TAC List and Definitions Q3 – FY2015
- Implement New Standard TAC List Q1 – FY2016

Estimated Completion Date: December 2015

OIG Analysis:

The action proposed meets the intent of the recommendation. OIG will close this recommendation when the agency implements a new standardized TAC list that links to specific tasks.

**Status:**

Resolved.

## Audit Report

### AUDIT OF NRC'S INTERNAL CONTROLS OVER FEE REVENUE OIG-15-A-12

#### Status of Recommendations

Recommendation 4: Design and implement a plan to improve the TAC validation process.

Agency Response Dated  
May 6, 2015:

The staff agrees with the recommendation.

The OCFO plans to reengineer the TAC management process and implement portions of its plan in FY2015. Future enhancements include implementing an improved TAC validation process by the end of FY2016.

#### Key Milestones

- Define TAC Management Program Q3 – FY2015
- Design TAC internal control and validation procedures/integrate with fee billing processes Q3 – FY2015
- Define TAC performance metrics and validation/integrate with other financial processes Q4 – FY2015
- Complete Independent Verification & Validation (IV&V) of internal controls and TAC data validation processes. Q4 – FY2016

Estimated Completion Date: September 2016

OIG Analysis: The actions proposed by the agency meet the intent of the recommendation. This recommendation will be closed when OIG reviews the completed independent TAC validation process.

**Status:** Resolved.

## **Audit Report**

### **AUDIT OF NRC'S INTERNAL CONTROLS OVER FEE REVENUE OIG-15-A-12**

#### **Status of Recommendations**

Recommendation 5: Develop and implement a project manager and resident inspector overhead allocation methodology that will produce accurate, timely, and reliable overhead cost data for invoicing.

Agency Response Dated  
May 6, 2015:

The staff agrees with the recommendation.

In April 2014, the license fee billing business process improvement initiative finalized a list of 46 recommendations to improve various areas of fee billing. One of the recommendations includes changing the methodology for calculating project manager and resident inspector overhead costs by making it a fixed percentage of the direct costs charged to the licensee. The recommendation to simplify the calculation method will produce more accurate, timely, and reliable overhead cost data for invoicing. In addition, this change in calculation also ensures that a licensee's overhead costs are directly proportional to the regulatory services rendered by the NRC. The OCFO performed an analysis of the overhead costs over the last four years to determine the baseline allocation percentage of overhead costs to direct costs. On March 23, 2015, the NRC published the FY2015 proposed fee rule, which includes the proposal to revise the assessment of administrative time for project managers and resident inspectors by assessing overhead costs to each licensee based on the percentage of its total invoice amount. The proposed fee rule is currently out for comment. It is anticipated to be finalized in June 2015, with an effective date in August 2015. If finalized as currently proposed, the new methodology for calculating overhead cost data for invoicing will have a tentative effective date of September 20, 2015, pending analysis of financial system ability and level of effort required to implement the new calculation method.



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#### Status of Recommendations

##### Recommendation 5 (cont.):

##### Key Milestones

- Finalize the proposed FY2015 fee rule Q3 – FY2015
- Assess financial system for ability to change calculation method Q3 – FY2015
- Implement new methodology for calculating overhead Q4 – FY2015
- Distribute invoices with new calculation method to licensees Q1 – FY2016

Estimated Completion Date: January 2016

##### OIG Analysis:

The actions proposed by the agency meet the intent of the recommendation. This recommendation will be closed after OIG reviews the new methodology for calculating accurate, timely, and reliable project manager and resident inspector overhead allocation cost data for invoicing.

##### Status:

Resolved.

## **Audit Report**

### **AUDIT OF NRC'S INTERNAL CONTROLS OVER FEE REVENUE OIG-15-A-12**

#### **Status of Recommendations**

Recommendation 6: Design and implement procedures and processes that provide sufficient contractor information on the validation reports for NRC project managers and resident inspectors to identify and validate the specific tasks performed and related reimbursable contractor costs.

Agency Response Dated  
May 6, 2015:

The staff agrees with the recommendation.

In March 2014, the OCFO began development of a new, more transparent contract cost validation report along with specific procedures for contracting officer representatives (CORs) and license fee coordinators (LFCs) to follow that would ensure improved accuracy of fee-recoverable contract costs. The report and procedure for the CORs were piloted in June 2014 and valuable feedback was obtained and then used to enhance the report and procedure. The new report and procedures went into official use in October 2014 and have proven effective in preventing fee billing contract cost errors.

The new contract cost validation report contains data captured in the Financial Accounting and Integrated Management Information System (FAIMIS) at the payment level and includes specific data elements to assist the CORs with ensuring each payment is accurate for fee billing. Data provided in the report includes: office name, COR name, contract number, task order number, vendor (contractor) name, invoice period start date, invoice period end date, payment disbursement date, payment amount, technical assignment code/inspection report (TAC/IR) number, TAC/IR name (description), docket number, and docket name (description). The validation procedures are logical and comprehensive, and include instructing the CORs to use their payment approval records, contractor invoices, and monthly letter status report (MLSR) documentation to verify the accuracy of the payment for fee billing. In addition, the procedures include a methodical process for capturing error details for the OCFO's use in ensuring necessary corrections are made. The new contract cost validation report is run on a

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#### **Status of Recommendations**

##### Recommendation 6 (cont.):

biweekly basis and posted to SharePoint where all LFCs, CORs, project managers and resident inspectors have access. In addition, the report is posted on a quarterly basis consistent with the quarterly requirement for validation and certification.

In addition to developing the new report and validation procedure, the OCFO has developed a training course/workshop and facilitated numerous sessions at the professional development center (PDC) that provides valuable information about the integral role the CORs play in recovering costs associated with fee-recoverable contracts. It includes information on the different types of fees the agency charges licensees/applicants, the recovery process, general COR responsibilities as they relate to fee recovery that include contractual financial management, invoice and Intragovernmental Payment and Collection System (IPAC) approval and the process of validating fee recoverable contract costs for billing the licensees/applicants.

##### Key Milestones

- Develop and pilot contract cost validation report and procedures Q4 – FY2014
- Implement contract cost validation report and procedures Q1 – FY2015

Note: OCFO will continue to provide training on fee-billable contracts and the process of validating contractor costs for fee billing.

##### OIG Analysis:

OIG reviewed a sample cost validation report and associated procedures as well as the training schedule. This report and procedures, as well as ongoing training, meet the intent of the recommendation. This recommendation is closed.

##### **Status:**

Closed.

## **Audit Report**

### **AUDIT OF NRC'S INTERNAL CONTROLS OVER FEE REVENUE OIG-15-A-12**

#### **Status of Recommendations**

Recommendation 7: Design and implement procedures and processes that provide sufficient contractor information on invoices for licensees and applicants to identify the specific tasks performed and related reimbursable contractor costs.

Agency Response Dated  
May 6, 2015:

The staff agrees with the recommendation, but is constrained by information system capabilities and available contract/task information.

The current method used by most fee-recoverable contractors to communicate to NRC about the specific tasks performed is the Monthly Letter Status Report (MLSR). The MLSR is a contract deliverable that describes the tasks performed during a given period of time, usually monthly, and the associated cost for the work that was performed as well as key individuals who perform work and proprietary billing rates. The MLSR is not a contractual requirement for all commercial contracts, it is only required if it was a specified deliverable in the contract's statement of work. If the MLSR is a required deliverable per the terms of the contract, it is provided to the COR and the contracting officer (CO)/contract specialist (CS), in the Acquisition Management Division (AMD) within the Office of Administration (ADM), who oversee the contract. The AMD maintains a record of all MLSRs, but currently this information is not maintained in one central information system/database. Further, the format for MLSRs was previously at the COR and CO/CS's discretion. Therefore, access and the format of MLSRs are not consistent for all fee-recoverable contracts.

In addition, there is currently no system that captures the specific tasks performed by contractors. When the OCFO processes a (fee recoverable) contract payment that later accumulates for fee billing, it relies on the COR and CO/CS to determine if the charges are valid and the specific tasks performed by the contractor are within the terms and conditions of the contract. The OCFO does not have insight into the specific tasks performed by contractors.

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#### **Status of Recommendations**

##### Recommendation 7 (cont.):

The licensee's invoice provides contract cost details to include the docket, TAC/IR number, TAC/IR name (description) and cost per pay period end date. If the licensee requires more specific information about the contractor costs, the licensee requests substantiating information from OCFO or the project manager who oversees the work at the site (docket). Typically, the project manager and/or COR (program office staff) will utilize the information provided in the MLSR to provide the licensee with a description of the specific work that was performed. Some specific information found in the MLSR, such as hourly rates charged by contractors, are considered proprietary information and are not provided to licensees.

The OCFO has been working with ADM/AMD to formalize a process by which ADM/AMD, OCFO and the affected program office staff coordinate to provide a standardized response to licensee requests for additional level of contract cost detail, beyond what is described above, that is efficient, sound, and meets the licensee needs while protecting proprietary/business sensitive contractor information.

##### Key Milestones:

- Formalize a process to collect and provide detailed contractor cost information to licensees

Estimated Completion Date: September 2015

##### OIG Analysis:

The action proposed by the agency meets the intent of the recommendation. This recommendation will be closed when OIG reviews the documentation related to the process to collect sufficient contractor information on invoices for licensees and applicants to identify the specific tasks performed and related reimbursable contractor costs.

##### **Status:**

Resolved.