OFFICE OF THE INSPECTOR GENERAL

U.S. NUCLEAR REGULATORY COMMISSION

REVIEW OF NRC'S
PART 170 LICENSE FEE
BILLING SYSTEM

OIG/96A-09 September 13, 1996

AUDIT REPORT

UNITED STATES NUCLEAR REGULATORY COMMISSION

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

September 13, 1996

OFFICE OF THE
INSPECTOR GENERAL

MEMORANDUM TO: James M. Taylor
Executive Director for Operations

FROM: for Robert W. Shideler
Thomas J. Barchi
Assistant Inspector General for Audits

SUBJECT: REVIEW OF NRC'S PART 170 LICENSE FEE BILLING SYSTEM

Attached is the Office of the Inspector General's audit report entitled, "Review of NRC's Part 170 License Fee Billing System."

On September 9, 1996, the Deputy Executive Director for Nuclear Materials Safety, Safeguards and Operations support responded to our draft report. He agreed with our recommendations and indicated corrective actions to be taken.

Attachment:
As stated

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REPORT SYNOPSIS

Audits of the U.S. Nuclear Regulatory Commission's (NRC) financial statements for fiscal years 1992 through 1995 disclosed problems with NRC's Part 170 license fee billing system. For example, inspection hours and contractor costs were not always properly billed. Our review of the Part 170 billing system focused on determining the accuracy and reliability of recent license fee billings, the effectiveness of NRC's related management controls, and the causes for certain inspections not being identified and billed in a timely manner.

Our review found that inadequate guidance and training were the primary root causes that contributed to NRC not identifying and billing $8.1 million for inspections in a timely manner. We also believe NRC has not fully resolved this issue. Although our tests of recent billings disclosed that they were generally accurate, some of the same conditions that led to unbilled inspections continue and may result in future billing problems if not corrected. Our report makes three recommendations to address the issues we identified.

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INTRODUCTION

In audits of the U.S. Nuclear Regulatory Commission's (NRC) financial statements for fiscal years (FY) 1992 through 1995, the Office of the Inspector General (OIG) identified problems with NRC's license fee billing system. Fees were not billed timely, contractor costs were not always included on invoices, and inspection hours were not always billed. In our recent audit of NRC's FY 1995 financial statements, for example, we identified an internal control weakness related to certain previously unbilled inspections completed in FYs 1991 through 1995.

As a result of these recurring problems, OIG initiated an in-depth review to determine the reliability of NRC's billing system, including assessing the effectiveness of management controls. We focused on how Title 10, Code of Federal Regulations (10 CFR), Part 170 costs are identified and billed to licensees because historical billing problems were associated with these fees. We expanded our audit to include a root cause analysis of the FY 1991-1995 inspection billing problem because of increased interest from the NRC Chairman and industry in the integrity of the billing system. Appendix I of this report contains additional information on our objectives, scope, and methodology.

BACKGROUND

NRC assesses two types of fees to recover its budget authority. First, under the authority of the Independent Offices Appropriation Act of 1952, as established in Part 170, NRC assesses fees to recover the costs of providing individually identifiable services to specific applicants and licensees. Fees are charged under Part 170 for Reactor and Materials Programs and include both inspection services and licensing actions. Licensing actions include reviews of applications for new licenses and amendments to or renewal of existing licenses. Second, under the authority of the Omnibus Budget Reconciliation Act of 1990, established in 10 CFR Part 171, NRC recovers its remaining budget (less appropriations from the Nuclear Waste Fund) by assessing annual fees for generic and other regulatory services not covered by Part 170. In FY 1995, NRC billed over $139 million for Part 170 services (including about $77 million for inspections) and almost $367 million in Part 171 annual fees.

Within NRC's Office of the Controller (OC), the License Fee and Accounts Receivable Branch (LFARB) is directly responsible for billing and collecting Part 170 as well as Part 171 fees. LFARB is also responsible for developing, implementing, and maintaining internal controls relating to NRC billings and collections.

Activity in the four NRC regional offices and two headquarters program offices (the Office of Nuclear Reactor Regulation (NRR) and the Office of Nuclear Material Safety and Safeguards (NMSS)), provide the basis for most Part 170 billings. These offices use the Regulatory Information Tracking System (RITS) as the primary system for tracking NRC labor hours in support of inspection and licensing activities. Various RITS subsystems and other manual and electronic systems provide data used to compile Part 170 fees, which are billed quarterly to NRC licensees and applicants by LFARB.

The scope of our audit included Part 170 billing activity for the fourth quarter of FY 1995 and the first quarter of FY 1996. We also included the $8.1 million billed in February 1996 for the previously unbilled inspections completed in FYs 1991 through 1995. The following table shows a breakdown of the billings we reviewed:

Part 170 Billings (amounts in millions of dollars)

Period Covered	Description of Billings	Reactor Program	Materials Program	Total
7/95 - 12/95[a]	Inspections	$25.6	$ .9	$26.5
	Licensing Actions	19.2	4.7	23.9
Subtotal		**$44.8**	**$5.6**	**$50.4**
10/90 - 9/95[b]	Billings for Past Inspections	6.7	1.4	8.1
Total		**$51.5**	**$7.0**	**$58.5**

[a]This period covers the 4th quarter of FY 1995 and the 1st quarter of FY 1996
[b]Inspections occurred during this period that were not billed until February 1996

FINDINGS

In our root cause analysis of the inspection billing problem, we found that insufficient guidance coupled with inadequate training were the primary factors that contributed to inspections not being identified and billed in a timely manner. We also determined that NRC has not fully resolved this problem. And while our tests of recent billings disclosed that they were generally accurate, we found that some of the same conditions that allowed unbilled inspections to occur are continuing and could lead to future billing problems.

INADEQUATE GUIDANCE AND LACK OF TRAINING LED TO UNBILLED INSPECTIONS

In February 1996, NRC billed licensees $8.1 million for 333 inspections completed but not billed in FYs 1991 through 1995. For the Materials Program, NRC billed 23 fuel cycle licensees $1.4 million for 90 inspections and, for the Reactor Program, NRC billed 38 power reactor licensees $6.7 million for 243 inspections. NRC traced this inspection billing problem to a RITS subsystem called the Inspection Report Tracking System (IRTS). Basically, NRC's Part 170 billing system relied on program and regional office staff entering inspection Report Sent Dates (actual dates of inspection reports) into a data field in IRTS in a timely manner. If Report Sent Dates were not entered, or if they were entered after the quarterly processing period ended (late postings), hours for those inspections were not billed.

As part of our root cause analysis, we searched for any written guidance or related training establishing the importance and timing of entering Report Sent Dates into IRTS. System user's manuals, available to all staff involved in the billing process, referred to the Report Sent Date field but did not contain any guidance establishing its importance in the fee billing process. Region III staff did provide us with a copy of a March 25, 1992, memorandum from the Director of the Division of Accounting and Finance, OC, to NMSS, NRR, and the regional offices. Although the memorandum concerned SALP[1] reports, it contained the

[1]Systematic Assessment of Licensee Performance (SALP) is an NRC program to collect and evaluate observations and data (including inspections) to assess and better understand the reasons for a licensee's performance.

following statement: "For Part 170 inspection fee billing purposes, the costs for an inspection report are computed after the "Report Sent Date" field is completed in the Inspection Report Tracking System (IRTS)."

The above statement is evidence that the Report Sent Date was important for billing purposes and the distribution list shows the memorandum was circulated to the appropriate program and regional office personnel. While the memorandum expresses a concern about the Report Sent Date field, we were unable to obtain any information about the reason it was issued. No other office brought the memorandum to our attention despite specific requests for such documentation.

Out of the total of 333 inspections, at least 32 inspections were completed after FY 1992 in which Report Sent Dates were not entered into IRTS and at least 131 inspections were completed after FY 1992 in which Report Sent Dates were entered after the end of the processing period. Even Region III, the only office bringing the memorandum to our attention, was not aware of the link between the Report Sent Date and billings and believed that completing another field in IRTS, "Status Code", actually closed an inspection. NMSS believed billings were based on copies of staff hour reports and actual inspection reports that were forwarded to LFARB. NMSS' staff stated that they were not notified that IRTS must contain the Report Sent Date until FY 1994.

As part of our root cause analysis, we also reviewed LFARB and program and regional office billing process procedures and found no details on entering Report Sent Dates into IRTS. Although LFARB staff stated that they were unaware of the late postings problem prior to December 1994, they referred us to their 30-day license fee billing procedures (first released on September 9, 1994). These procedures contained a cautionary note to participating offices that any corrections to RITS data after quarterly fee reports are reviewed by program and regional office staff should be communicated to LFARB for final billing purposes. Region III staff have indicated, however, that they believed "corrections" referred to changes to billable hours in another RITS subsystem and not to information contained in IRTS. Program and regional office staff involved with the billing process told us they were not informed of the reason for the late posting problem. Based on our review of available information, we concluded there was insufficient guidance establishing the importance of entering Report Sent Dates into IRTS.

While other factors, such as communication breakdowns, also contributed to the unbilled inspections problem, we believe that the most significant causes were inadequate fees-related guidance and training stemming from a lack of detailed policies and procedures for the fee billing process. And while NRC has taken corrective measures to avoid future unbilled inspections, we believe that the agency has not fully resolved this issue.

Although NRC billed licensees for 333 previously unbilled inspections completed in FYs 1991 through 1995, no attempt was made to identify unbilled inspections that were completed prior to FY 1991. LFARB told us that the decision to pursue only inspections completed since FY 1991 was based on several factors. These factors included the availability and quality of data, the cost of identifying necessary corrections, and the fact that NRC also pursued a similar billing issue from FY 1991 forward.

We met with representatives from NRC's Office of the General Counsel (OGC) who told us they were not consulted about pursuing unbilled inspections prior to FY 1991. OGC commented on a provision within Part 170 that gives NRC broad discretionary authority to grant exemptions if conditions are appropriate.

THE UNDERLYING CONDITIONS THAT LED TO UNBILLED INSPECTIONS HAVE NOT BEEN CORRECTED

To determine the reliability of the current billing system, we assessed the effectiveness of management controls for NRC's Part 170 license fee billing system. Our assessment included the testing of two statistical samples covering both billed labor hour entries in RITS and labor hour entries on employee time sheets for the fourth quarter of FY 1995 and the first quarter of FY 1996. Sample results showed that error rates on all attributes tested were within tolerable limits.[2]

However, our assessment of NRC's policies, procedures, and training programs revealed some of the same conditions that led to unbilled inspections. One of these conditions involved controls over who was authorized to charge time under Part 170. Our focus was NRC branch chiefs. LFARB staff told us that management personnel, including branch chiefs, should not charge time under Part

[2]Details of our sample are contained in Appendix I.

170 because their labor costs were already recovered in the fees charged to licensees for the activities of inspectors and other technical staff. LFARB told us that they notified program and regional offices of this policy but that no written guidance was available. However, we identified over $70,000 (571 hours) of management time charged to licensing actions and inspections during the two quarters we reviewed.

Of the 571 hours, nine NRR managers charged 403 hours to licensing actions. We determined that NRR did not have a policy specifying who could charge to licensing actions and that NRR staff believed automated billing system controls would prevent such hours from being billed. We found, however, that no such controls existed.

The balance of the 571 hours, 168 hours for two Region IV branch chiefs, were charged to licensees for inspections. This occurred because Region IV staff did not change appropriate system codes when some of their section chiefs became branch chiefs during a reorganization in February 1994. Automated billing system controls (for inspections only) allow a section chief to charge time but do not allow branch chiefs to charge time. Region IV used the section chief code for 10 or 11 branch chiefs until December 1995 when the code was changed to reflect branch chiefs.

In the above cases, we found no written guidance on who could charge time to Part 170 activity. We also found a lack of coordination and communication between LFARB and participating offices. Because the managers' charges may have resulted in over $70,000 of billings that were inconsistent with the intended application of Part 170 fees, we have provided LFARB the details of the charges for appropriate corrective action.

In reviewing NRC's Part 170 license fee billing system and discussing organization, policies, procedures, and practices with staff involved with billings, we also identified the need for a focal point within NRC to ensure that existing fee guidance is updated and provided to all personnel involved in the billing process. For instance, regional personnel expressed concerns that (1) all suggestions for change seem to come from regional offices and not from headquarters, (2) there is a lack of communication between headquarters and the regional offices, (3) headquarters offices do not work together to provide

consistent, overall guidance needed by regional offices, and (4) there is a lack of appropriate training.

We also found that LFARB's policies and procedures manual has not been updated since 1987 (LFARB now has an action item to complete this task). Each program and regional office is producing its own RITS user manual and office instructions related to fee billings without central and formal coordination. Training for license fee issues has been left up to individual offices. For example, during the past five years, NMSS initiated the only formal training for the regional office RITS coordinators. NMSS conducted the training approximately two years ago, but the training related only to the Materials Program, not the larger Reactor Program.

During our review we also learned from the Office of Information Resources Management that NRR is developing a system called the Reactor Program System (RPS) that will replace key RITS subsystems used in the current license fee billing process. While RPS could begin affecting labor hour and inspection report tracking systems before the end of 1996, we found no plans to update management controls for the fee system. We believe that updated policies, procedures, and training must reflect the impact that RPS will have on NRC's Part 170 license fee billing system.

Additionally, we learned that NRC is planning a complete review of the license fee process. However, specific details of the review were not provided.

CONCLUSIONS

Our review was aimed at determining the reliability of NRC's Part 170 license fee billing system by assessing the effectiveness of management controls in place from FY 1991 through FY 1995 (as related to the unbilled inspections problem) and also in a recent billing period. While several factors contributed to FY 1991 - 1995 inspections not being identified and billed in a timely manner, our tests of current billings disclosed that they were generally accurate.

In our root cause analysis of the unbilled inspections problem, we found that insufficient guidance coupled with inadequate training were the primary factors

that contributed to inspections not being identified and billed in a timely manner. The conditions that led to the unbilled inspections remain and need to be corrected to prevent future billing problems. We also determined that NRC has not fully resolved the issue of how to handle pre-FY 1991 unbilled inspections.

RECOMMENDATIONS

We recognize that NRC is planning a comprehensive review of the fee billing process. However, that review will require a lengthy study. In the meantime, NRC will continue to rely on the existing process to bill licensees. Therefore, to improve the process, we recommend that the Executive Director for Operations:

(1) Establish a focal point with responsibility for ensuring that policies, procedures, and training related to license fee billings are updated and provided to appropriate LFARB, program, and regional office staff.

We also recommend that the Office of the Controller and the Office of the General Counsel:

(2) Formally review NRC's decision to pursue only inspections completed since FY 1991 in light of Part 170 requirements. Resolution of this matter, at a minimum, should be documented in NRC's files.

Finally, we recommend that the Office of the Controller:

(3) Take appropriate corrective action on NRC manager charges found to be inconsistent with Part 170 requirements.

AGENCY COMMENTS

On September 9, 1996, the Deputy Executive Director for Nuclear Materials Safety, Safeguards and Operations Support responded to our draft report. He agreed with our three recommendations and addressed corrective actions to more

effectively manage NRC's license fee billing process. We believe these actions will address the intent of our recommendations.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review were to determine the reliability of the U.S. Nuclear Regulatory Commission's (NRC) current system for billing fees under Title 10, Code of Federal Regulations, Part 170. We also expanded our review to identify the root causes for certain previously unbilled inspections completed in fiscal years (FY) 1991 through 1995.

The scope of our review included Part 170 billing activity for the fourth quarter of FY 1995 and the first quarter of FY 1996, excluding outside contractor costs captured by NRC's Technical Assistance Program Support System. Our review included two statistical samples to determine the reliability of selected management controls and accuracy of billings. Our first sample (165 items) covered individual entries in the Regulatory Information Tracking System (RITS) that were subsequently billed to licensees. Attributes tested were existence of an original timesheet, evidence that the employee completed the timesheet, evidence of supervisory review, and that timesheet hours represented billable hours and were in agreement with the billing to a particular licensee.

Our second sample (163 items) covered entire timesheets of selected staff in two NRC program offices and the four regional offices. Attributes tested were the same as in our first sample except that all timesheet hours were reviewed to determine that only billable hours were correctly charged to a licensee. In both samples, we set the acceptable range of quality assurance to ensure that we achieved 95 percent confidence that the error rate for each attribute tested did not exceed 10 percent.

The scope of our review also included 333 inspections that were completed in FYs 1991 through 1995 that had not been billed until February 1996.

To accomplish our objectives, we reviewed policies, procedures, and billing records related to Part 170 fee processing in the Office of the Controller's License Fee and Accounts Receivable Branch; the Office of Nuclear Reactor Regulation; the Office of Nuclear Material Safety and Safeguards; the Office of Nuclear Regulatory Research; the Advisory Committee on Reactor Safeguards; and Regions I, II, III, and IV. We interviewed key NRC personnel from each of the above offices and the Office of Information Resources Management. We also

interviewed personnel from Applied Management Systems, an NRC contractor with important electronic data processing responsibilities related to NRC's fee systems. We reviewed laws and regulations pertaining to Part 170 fees and prior Office of the Inspector General reports on financial audit results pertaining to fiscal years 1992 through 1995. Our review also included reconciling billing data with entries in a major RITS subsystem, the Manpower Management System.

We reviewed NRC's management controls relating to Part 170 fee processing. We conducted our work from March 1996 through July 1996 at NRC Headquarters and the four regional offices in accordance with generally accepted Government auditing standards.

AGENCY COMMENTS ON DRAFT REPORT

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

September 9, 1996

MEMORANDUM TO: Thomas J. Barchi
Assistant Inspector General for Audits

FROM: Hugh L. Thompson, Jr.
Deputy Executive Director for Nuclear Materials Safety, Safeguards and Operations Support

SUBJECT: RESPONSE TO DRAFT REPORT -- REVIEW OF NRC'S PART 170 LICENSE FEE BILLING SYSTEM

This responds to the August 14, 1996, memorandum transmitting the subject draft audit report. With respect to your specific recommendations, the following is submitted:

Recommendation 1

Establish a focal point with responsibility for ensuring that policies, procedures, and training related to license fee billings are updated and provided to appropriate LFARB, program, and regional office staff.

Response

Agree: The focal point for establishing policies and procedures, conducting training and issuing guidance with regard to license fee billings rests with the Office of the Controller -- specifically with the Director, Division of Accounting and Finance, and further redelegated by Management Directive 9.20 to the Chief, License Fee and Accounts Receivable Branch.

I have tasked the Office of the Controller with: 1) developing program office fee procedures consolidating and updating various guidance and procedures that have been provided to the program offices in the past, and 2) updating the internal fee billing procedures. The program office fee procedures are scheduled to be completed by the end of November 1996, and the internal fee billing handbook by the end of June 1997. We will keep your staff advised on the procedures and handbook as drafts are developed. Completion dates: November 30, 1996, and June 30, 1997, respectively.

Recommendation 2

Formally review NRC's decision to pursue only inspections completed since FY 1991 in light of Part 170 requirements. Resolution of this matter, at a minimum, should be documented in NRC's files.

Response

Agree: The Office of the Controller is preparing a justification/exemption paper documenting the decision not to research inspection data prior to the beginning of FY 1991. We will coordinate with the Office of the General Counsel and provide you a copy of the resolution of this matter. Completion date: October 1, 1996.

Thomas J. Barchi -2-

Recommendation 3

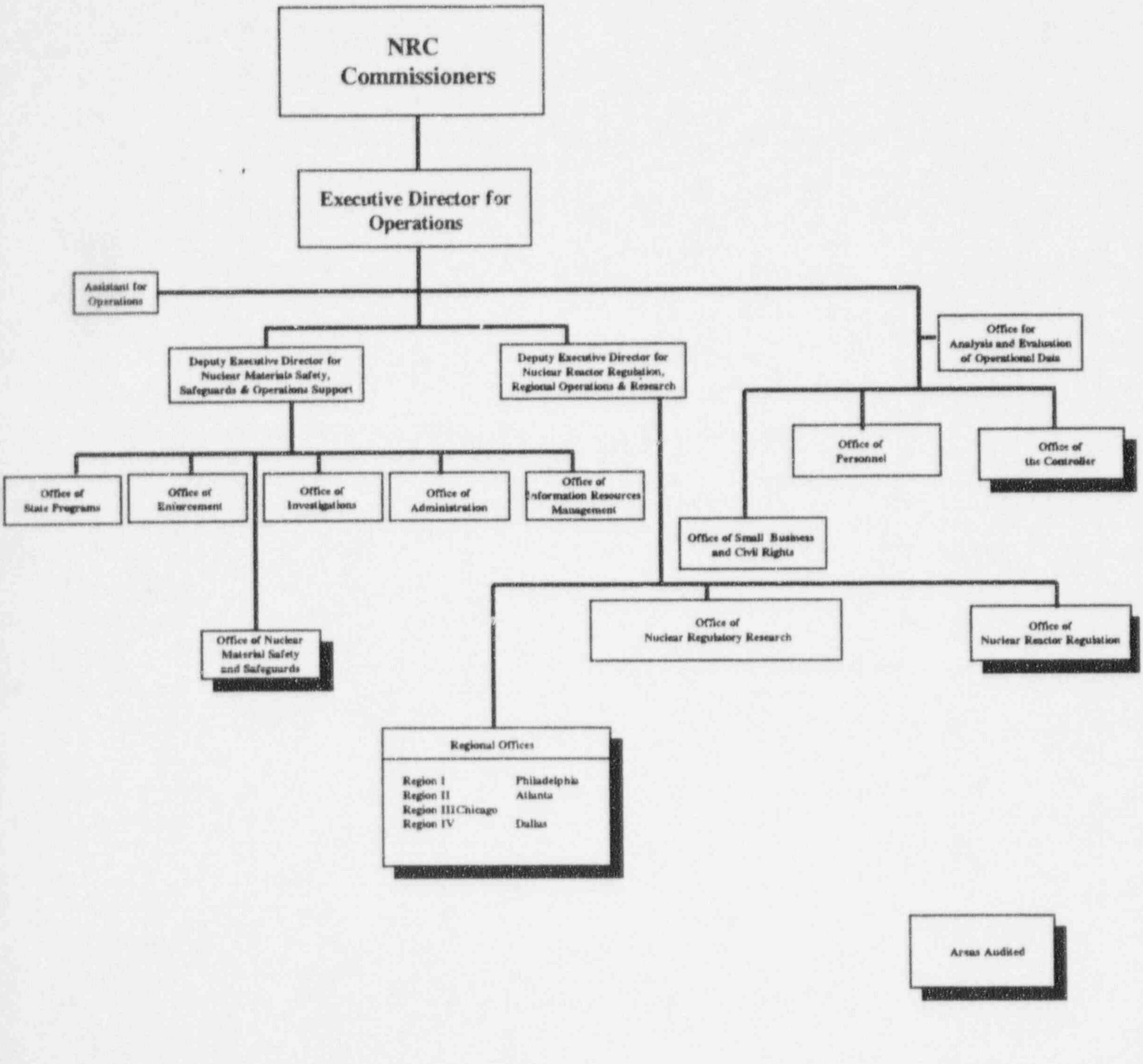
Take appropriate corrective action on NRC manager charges found to be inconsistent with Part 170 requirements.

Response

Agree: Automated system modifications have been requested that will block hours reported by managers from being downloaded to the fee billing systems. Those modifications will be implemented prior to the end of this current fee billing quarte. Completion date: September 30, 1996.

The Office of the Controller is reviewing the data provided by your office and is also sampling additional billing time periods to determine if there are other instances of billable hours reported by managers that should not have been charged under 10 CFR Part 170. Upon completion of that analysis, a determination will be made as to the appropriate course of action. Completion date: December 6, 1996.

U.S. NRC FUNCTIONAL ORGANIZATION CHART



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GLOSSARY: OFFICE OF THE INSPECTOR GENERAL PRODUCTS

INVESTIGATIVE

1. *INVESTIGATIVE REPORT - WHITE COVER*

An Investigative Report documents pertinent facts of a case and describes available evidence relevant to allegations against individuals, including aspects of an allegation not substantiated. Investigative reports do not recommend disciplinary action against individual employees. Investigative reports are sensitive documents and contain information subject to the Privacy Act restrictions. Reports are given to officials and managers who have a need to know in order to properly determine whether administrative action is warranted. The agency is expected to advise the OIG within 90 days of receiving the investigative report as to what disciplinary or other action has been taken in response to investigative report findings.

2. *EVENT INQUIRY - GREEN COVER*

The Event Inquiry is an investigative product that documents the examination of events or agency actions that do not focus specifically on individual misconduct. These reports identify institutional weaknesses that led to or allowed a problem to occur. The agency is requested to advise the OIG of managerial initiatives taken in response to issues identified in these reports but tracking its recommendations is not required.

3. *MANAGEMENT IMPLICATIONS REPORT (MIR) - MEMORANDUM*

MIRs provide a "ROOT CAUSE" analysis sufficient for managers to facilitate correction of problems and to avoid similar issues in the future. Agency tracking of recommendations is not required.

AUDIT

4. *AUDIT REPORT - BLUE COVER*

An Audit Report is the documentation of the review, recommendations, and findings resulting from an objective assessment of a program, function, or activity. Audits follow a defined procedure that allows for agency review and comment on draft audit reports. The audit results are also reported in the OIG's "Semiannual Report" to the Congress. Tracking of audit report recommendations and agency response is required.

5. *SPECIAL EVALUATION REPORT - BURGUNDY COVER*

A Special Evaluation Report documents the results of short-term, limited assessments. It provides an initial, quick response to a question or issue, and data to determine whether an in-depth independent audit should be planned. Agency tracking of recommendations is not required.

REGULATORY

6. *REGULATORY COMMENTARY - BROWN COVER*

Regulatory Commentary is the review of existing and proposed legislation, regulations, and policies so as to assist the agency in preventing and detecting fraud, waste, and abuse in programs and operations. Commentaries cite the IG Act as authority for the review, state the specific law, regulation or policy examined, pertinent background information considered and identifies OIG concerns, observations, and objections. Significant observations regarding action or inaction by the agency are reported in the OIG Semiannual Report to Congress. Each report indicates whether a response is required.