

June 22, 2006

MEMORANDUM TO: Jesse L. Funches  
Chief Financial Officer

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

SUBJECT: STATUS OF RECOMMENDATIONS: REVIEW OF NRC'S  
LICENSE FEE DEVELOPMENT PROCESS NEEDS  
IMPROVEMENT (OIG-99-A-01)

REFERENCE: CHIEF FINANCIAL OFFICER MEMORANDUM DATED  
MAY 18, 2006

Attached is the Office of the Inspector General's analysis and status of recommendations 2a and 2c as discussed in the agency's response dated May 18, 2006. Based on this response, recommendations 2a and 2c are resolved. Recommendations 1, 2b, 3a, 3b, 3c, and 3d were previously closed. We will make a determination on the status of all resolved recommendations during the audit of NRC's FY 2006 financial statements.

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**  
**NRC's License Fee Development Process Needs Improvement**  
**(OIG-99-A-01)**

**Status of Recommendations**

Recommendation 2a:      Reevaluating the hourly rate calculation methodology so that the rates the NRC develops include the full cost concept as embodied in OMB Circular A-25, User Charges, and SFFAS No.4, Managerial Cost Accounting Standards. The reassessment should define and identify generic costs and explain how to treat such costs.

Recommendation 2c:      Use actual billing data to develop and refine future rate calculations.

Response dated:  
May 18, 2006

The staff has developed the enclosed procedures (Enclosure 1) to: (1) calculate hourly rates using actual cost data from the Cost Accounting System; and (2) compare the results to hourly rates developed using budget data from the same fiscal year (FY), for purposes of incorporating any lessons learned into the budget formulation process. Because the hourly rates established under 10 CFR Part 170 are based on budget data, any changes in the budget resulting from this analysis will be reflected in future Part 170 rates. The staff has utilized these procedures to calculate hourly rates using FY 2005 cost data, and compared the results to hourly rates developed using FY 2005 budget data. The results are provided in Enclosure 2.

As discussed at our January 18 and April 17, 2006, meetings, OCFO plans to use these procedures to calculate cost-based hourly rate, and analyze the differences between cost and budget data each year where there is a five percent or greater difference between the cost-based and the budget-based hourly rates. OCFO will then incorporate lessons learned into the budget formulation process, as appropriate, provided this approach will close the above recommendations.

**Audit Report**  
**NRC's License Fee Development Process Needs Improvement**  
**(OIG-99-A-01)**

**Status of Recommendations**

As demonstrated in Enclosure 2, OCFO has utilized the new procedures to calculate cost-based rates and determine the reasons for differences between the FY 2005 cost and budget data. As discussed at the April 17, 2006, meeting, OCFO will further demonstrate the implementation of these procedures in order to close the recommendations. Specifically, by July 17, 2006, OCFO will provide to the OIG documentation of how the comparison of FY 2005 costs to budget will be used to inform the budget, including any specific changes in assumptions (as appropriate) that will be used in the next budget formulation cycle. We anticipate that this documentation will provide sufficient demonstration of implementation to close the above recommendations this fiscal year.

OIG Analysis:

OIG and R. Navarro & Associates (RNA), OIG's contractor, reviewed the approach described in OCFO's response. Based on the analysis, we concluded that the planned procedures represent a significant and positive step in resolving this issue and moving the agency toward compliance with the guidelines of OMB Circular A-25, *User Charges*. During the audit of the NRC's FY 2006 financial statements, OIG and RNA will evaluate the documentation OCFO expects to provide on July 17, 2006, and make a determination on the status of this resolved recommendation.

In addition, to ensure proper authorization and tracking, please provide a signed and dated copy of the finalized procedures.

**Status:**

Resolved.