



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

May 11, 2001

OFFICE OF THE  
INSPECTOR GENERAL

MEMORANDUM TO:

Jesse L. Funches  
Chief Financial Officer

William D. Travers  
Executive Director for Operations

A handwritten signature in black ink that reads "Stephen D. Dingbaum".

FROM:

Stephen D. Dingbaum  
Assistant Inspector General for Audits

SUBJECT:

OIG REPORT: NRC'S LICENSE FEE DEVELOPMENT  
PROCESS NEEDS IMPROVEMENT (OIG-99-A-01)

Attached is the Office of the Inspector General's (OIG) status of all recommendations associated with the above referenced report. All the recommendations are resolved. Recommendations 1, 2b, 3a, 3b, 3c, and 3d are closed. Additional action is required to close the remaining recommendations, 2a and 2c.

OIG monitors the status of each recommendation using the following classifications:

- ▶ Unresolved -- Either the agency has not responded to the recommendation or disagreement exists regarding actions to be taken to address the deficiency identified in the report.
- ▶ Resolved -- OIG acknowledges that corrective actions have been proposed or initiated, but they are not yet complete. OIG will monitor the corrective actions until they are completed.
- ▶ Closed -- OIG agrees that adequate corrective actions have been implemented to correct the deficiency noted in the report. No further action is necessary.

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

Attachment: As stated

cc: John Craig, OEDO

Audit Report  
NRC'S LICENSE FEE DEVELOPMENT PROCESS NEEDS IMPROVEMENT  
OIG/99A-01

**Recommendation 1:** Using the percent change method for fee calculation only after conducting an annual pro-forma rebaselining analysis. The CFO should develop specific thresholds to determine substantial changes at the fee classification level and use these thresholds in making a decision on which method to use for calculating the annual fees

**CFO Response:** The Commission decided in FY 1999 to rebaseline annual fees every three years versus the five year minimum that was previously established. We plan to use a modified version of the spreadsheet model proposed by PwC [PricewaterhouseCoopers] as an indicator (barometer) as to whether we should consider rebaselining for a particular year. We also plan to provide the Commission, as part of the annual commission paper on fee policy, with preliminary annual fee estimates using both the rebaselining and percent change methods. (This has been accomplished for the FY 1998, FY 1999, and FY 2000 fee rules.) The modified spreadsheet model is intended for internal NRC use only and will not be part of the formal Parts 170/171 fee rule development. My staff is prepared to brief the OIG on this model. We consider this recommendation closed.

**OIG Analysis:** During audit follow-up, we found that although the modified decision-making model developed by PwC was useful, it did not address both factors used in considering rebaselining for a particular year. Specifically, the model does not consider factors to assess if there is a substantial change in the magnitude of the budget allocated to a class of licensee.

However, the additional information provided to the Commission as part of the annual commission paper on fee policy, specifically, Attachment 2, "Comparison of Budget Allocations," of SECY-01-0007, *FY 2001 Proposed Fee Rule*, furnished an analysis allowing one to assess the "magnitude [of change] of the budget allocated to a class of licensees." Providing this additional information allowed the Commission to make an informed decision on whether to rebaseline or use percent change to calculate annual fees. In the future, this information will continue to provide data for informed decision-making.

**Status:** Closed.

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**Recommendation 2a:**     Reevaluating the hourly rate calculation methodology so that the rates 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 each such costs.

**CFO Response:**         The agency is in the process of implementing a cost accounting system. When cost accounting is implemented for the NRC, OCFO will use the cost accounting information as input to review and refine, as appropriate, the existing full cost rate, including identification and assignment/allocation of the direct and indirect budgeted costs.

PwC's report indicates that our current method of developing hourly rates is acceptable under Federal standards, and also presents an alternative model for NRC to consider until the cost accounting system is in place. I plan to use this alternative for hourly rate calculation in the years in which we do not rebaseline.

We will address the definition of generic costs and how they are treated in the fee development in the NRC License Fee Process *General Guidelines and Operating Procedures* described in Recommendation 3a.

**OIG Analysis:**         During audit follow-up, we learned that the cost accounting system has not been sufficiently developed for the CFO to use in refining the existing rate calculation methodology. In addition, the CFO has not developed and documented how cost accounting will be used to refine the rate calculations. OIG will continue to monitor NRC's progress in completing its actions.

**Status:**                 Resolved.

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**Recommendation 2b:** Establish a policy that clearly defines direct resources and how such resources should be treated in fee calculations.

**CFO Response:** Direct resources are a combination of direct full time equivalent (FTEs) and contract costs. The hourly rate for each program is based on the program direct FTE.

Program direct FTEs are primarily those non-supervisory professional staff who perform the principal mission of the agency, e.g. review of applications, conduct of research. Currently, program direct FTEs are primarily in the Nuclear Reactor Safety, Nuclear Materials Safety, Nuclear Waste Safety, and International Nuclear Safety Support strategic arenas. Supervisors, managers, and other staff that do not perform the principal mission are considered indirect FTE. This includes FTE in the four program strategic arenas and in Management and Support and Inspector General strategic arenas who provide administrative, financial, legal, information technology, policy and other support activities.

Program direct costs are primarily those used in performing the principal mission of the agency. The program direct contract costs that have a single beneficiary are recovered from that beneficiary through Part 170 fees. Program direct costs that have more than one beneficiary or support program activities that by policy are specifically excluded from recovery under Part 170 fees (e.g. allegations, contested hearing) are recovered through Part 171 annual fees. Contracts that provide administrative, financial, legal, information technology, and other support activities are considered indirect costs. These definitions and their use in fee development will be described in the NRC License Fee Process *General Guidelines and Operating Procedures*.

**OIG Analysis:** The OCFO developed a policy and procedure manual providing legislative background and guidance for fee development and billing processes. Although the manual needs to be revised, the CFO plans to annually update it. During audit follow-up, we shared some suggestions that should make the revision process easier, and we recommended strengthening areas discussing the CFO's quality assurance practices.

**Status:** **Closed.**

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

**CFO Response:** See status [CFO response] of Recommendation 2a. We consider this recommendation closed. However, we will evaluate this when cost accounting data becomes available.

**OIG Analysis:** Because the actions taken to close this recommendation rely on the implementation of a cost accounting system, this recommendation will continue to be monitored.

**Status:** Resolved.

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**Recommendation 3a and b:** Developing formal criteria and procedures that (a) implement recommendations one and two, (b) describe the fee development process and steps.

**CFO Response:** The NRC License Fee Process *General Guidelines and Operating Procedures* is currently being documented by a contractor, and the contractor's final report is due by September 30, 2000. This document will describe the fee development process including criteria and procedures. This document will be published upon NRC's final review and approval.

**OIG Analysis:** The CFO prepared a policy and procedure manual describing the fee development process and steps. The manual needs to be revised although it is less than one year old. The CFO plans to update it annually.

During audit follow-up, we shared suggestions for easier revising and recommended strengthening areas where CFO's quality assurance practices were mentioned.

**Status:** **Closed.**

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**Recommendation 3c:**      Ensure consistency of fee calculations.

**CFO Response:**            We believe there is consistency in the current fee calculations. The adjustments to the fee model described in Recommendation 3d will enhance that process.

**OIG Analysis:**            Consistency in the fee calculations should occur not only with the fee model adjustments (data entry modifications), but also with the implementation and use of the fee policy and procedure manual. Use of this document should help to ensure that the methodologies have a rational basis and practices are consistent over time, including periods of staff turnover.

**Status:**                      **Closed.**

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**Recommendation 3d:** Provide quality control procedures for fee calculation.

**CFO Response:** We have taken three actions to improve management controls. First, we had PwC modify the fee spreadsheet model to include one entry screen for all model variables. In this manner, the remaining sheets in the model do not need to be accessed, and therefore the likelihood of making errors in the model is greatly reduced. The new entry screen also provides the basis of where required information is to be derived thereby reducing the potential for error. My staff is prepared to brief the OIG on this modification.

Second, NRC's fee development process is being documented as described in response to Recommendation 3a.

Third, the Division of Accounting and Finance has hired an additional fee policy analyst to assist in fee development. The addition of this analyst will allow for more review and oversight of fee documents and provide for additional quality assurance.

We consider this recommendation closed.

**OIG Analysis:** During FY 2000, the CFO hired additional staff to support the fee development process. This improved quality assurance during the FY 2001 fee development.

In addition, the CFO simplified the data entry process for the system used to calculate the hourly rates and annual fees, reducing the potential for entry errors. Although the process was used for the FY 2001 proposed fee rule, staff are refining the new model to further simplify the data entry process.

Furthermore, the fee development process has been documented in the new policy and procedure manual. However, the quality assurance process is not fully described. This process should be further detailed in future revisions of the guidance.

In general, OCFO actions and planned actions indicate a strong interest in strengthening the controls over the fee development process.

**Status:** Closed.