



# OFFICE OF THE INSPECTOR GENERAL

U.S. NUCLEAR REGULATORY COMMISSION  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD

## Audit of NRC's Internal Controls Over Fee Revenue

OIG-15-A-12  
March 19, 2015



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

**OFFICE OF THE  
INSPECTOR GENERAL**

March 19, 2015

MEMORANDUM TO: Maureen E. Wylie  
Chief Financial Officer

Mark A. Satorius  
Executive Director for Operations

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

SUBJECT: AUDIT OF NRC'S INTERNAL CONTROLS OVER FEE  
REVENUE (OIG-15-A-12)

Attached is the Office of the Inspector General's (OIG) audit report titled Audit of NRC's Internal Controls Over Fee Revenue.

The report presents the results of the subject audit. Following the February 23, 2015, exit conference, agency staff indicated that they had no formal comments for inclusion in this report.

Please provide information on actions taken or planned on each of the recommendations within 30 days of the date of this memorandum. Actions taken or planned are subject to OIG followup as stated in Management Directive 6.1.

We appreciate the cooperation extended to us by members of your staff during the audit. If you have any questions or comments about our report, please contact me at (301) 415-5915 or Eric Rivera, Team Leader, at (301) 415-7032.

Attachment: As stated



# Office of the Inspector General

U.S. Nuclear Regulatory Commission  
Defense Nuclear Facilities Safety Board

OIG-15-A-12

March 19, 2015

## Results in Brief

### Why We Did This Review

The U.S. Nuclear Regulatory Commission (NRC) is required by law to offset a substantial percent of its budget authority through fees billed to licensees and license applicants.

NRC provides licensing services to agency licensees and license applicants. The agency recovers the costs to provide licensing services by invoicing licensees and applicants for staff time and contractor costs.

Each fiscal year, NRC publishes a schedule of fees in 10 Code of Federal Regulations (CFR) Part 170 for licensing services directly provided to NRC licensees and applicants, and in 10 CFR Part 171 for annual fees billed to identifiable NRC license holders for generic regulatory costs not otherwise recovered through 10 CFR Part 170 fees.

The audit objective was to determine whether NRC has established and implemented an effective system of internal controls over the recordation and reconciliation of fee revenue.

### *Audit of NRC's Internal Controls Over Fee Revenue*

#### What We Found

The agency needs to establish more effective internal controls over the recordation of fee revenue. The procedures to identify and capture fee billable staff time and reimbursable contractor costs are ineffective and inefficient. Also the process for validating the accuracy of the charges is labor intensive, difficult, and challenging. Controls for setting up timekeeping codes and their definitions are inconsistent and not standardized making it difficult for staff to identify the correct code for charging time. In addition, controls to prevent errors in selecting timekeeping codes for charging staff time can be improved.

Similarly, the overhead cost allocation process also needs improvement. The allocation calculation uses data that is unreliable and could produce inaccurate invoices to NRC licensees and applicants.

In addition, NRC validation reports and invoices sent to licensees and license applicants do not have adequate contractor details regarding services provided and related reimbursable costs. Lack of contractor detail in NRC validation reports and invoices sent to licensees and applicants increases the risk of billing errors.

#### What We Recommend

This report makes recommendations to improve internal controls over the recordation of fee revenue.

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## **ABBREVIATIONS AND ACRONYMS**

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10 CFR	Title 10 of the Code of Federal Regulations
COR	Contracting Officer Representative
FAIMIS	Financial Accounting and Integrated Management Information System
FY	Fiscal Year
HRMS	Human Resource Management System
MD	Management Directive
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
PART 170	10 CFR Part 170
PART 171	10 CFR Part 171
RPS	Reactor Program System
TAC	Technical Assignment Control

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## I. BACKGROUND

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The U.S. Nuclear Regulatory Commission (NRC) is an independent agency created by Congress. Its mission is to license and regulate the Nation's civilian use of radioactive materials to protect public health and safety, promote the common defense and security, and protect the environment. NRC regulates commercial nuclear power plants; research, test, and training reactors; nuclear fuel cycle facilities; and the use of radioactive materials in medical, academic, and industrial settings. The agency also regulates the transport, storage, and disposal of radioactive materials and waste, and licenses the export and import of radioactive materials. NRC's FY 2014 Congressional Budget Justification provides the necessary resources for the Nuclear Reactor Safety and Nuclear Materials and Waste Safety Programs to carry out the agency's mission. NRC is required by law to offset a substantial percent of its budget authority through fees billed to licensees and license applicants.

The Omnibus Budget Reconciliation Act of 1990, as amended, requires NRC to annually assess and collect fees totaling approximately 90 percent of its annual budget authority less certain exclusions defined in the act. NRC's budget authority for FYs 2013 and 2014 was \$985.6 million and \$1,055.9 million, respectively. NRC estimated that \$859.6 million for FY 2013 and \$916.7 million for FY 2014 should be recovered from invoiced fees. Approximately 10 percent of the budget authority is not subject to fee recovery. NRC is required to establish a schedule of charges that fairly and equitably assess the fees to license holders and license applicants (licensees and applicants).<sup>1</sup>

Each fiscal year, NRC publishes a schedule of charges in two different parts of Title 10, "Energy," of the Code of Federal Regulations (10 CFR). 10 CFR Part 170<sup>2</sup> (Part 170) sets out fees for licensing services directly provided to NRC licensees and applicants. 10 CFR Part 171<sup>3</sup> (Part 171) sets out annual fees

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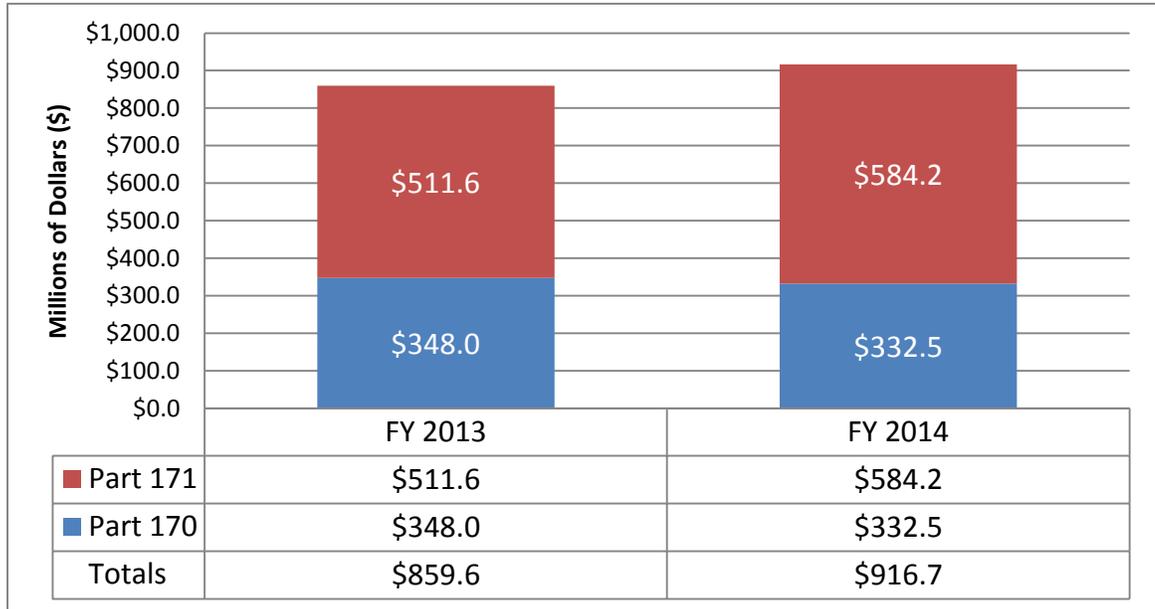
<sup>1</sup> Licensee – one who holds a license issued and regulated by the NRC.  
Applicant – one who has applied for a license that is issued and regulated by the NRC.

<sup>2</sup> Part 170 is titled *Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services Under the Atomic Energy Act Of 1954, as amended*.

<sup>3</sup> Part 171 is titled *Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Materials Licenses, Including Holders of Certificates of Compliance, Registrations, and Quality Assurance Program Approvals and Government Agencies Licensed by the NRC*.

billed to identifiable NRC license holders for generic regulatory costs not otherwise recovered through Part 170 fees (see Table 1).

**Table 1. Estimated Fee Recovery for FYs 2013 and 2014**



Source: Prepared by the Office of the Inspector General (OIG) based on *10 CFR Parts 170 and 171, Revision of Fee Schedules; Fee Recovery for Fiscal Year 2014; Final Rule*.

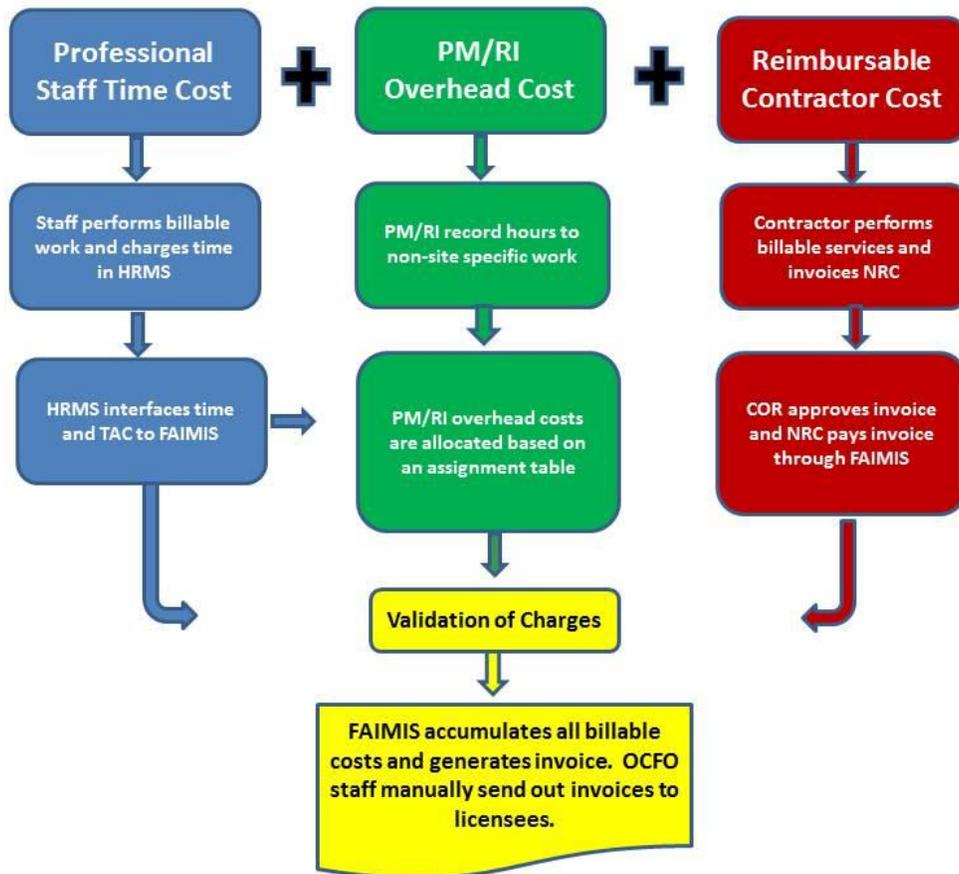
### Part 170 Fee Invoicing

Part 170 fees recover NRC's costs for providing special benefits to identifiable licensees and applicants such as the costs of inspections and application reviews for new licenses and license renewals. For example, these costs include professional staff time for specific inspections and plant- and licensee-specific performance reviews, project manager and resident inspector overhead cost,<sup>4</sup> and reimbursable contractor costs<sup>5</sup> (see Figure 1). Each quarter, the agency's Office of the Chief Financial Officer (OCFO) invoices for Part 170 services to licensees and applicants.

<sup>4</sup> Overhead costs – indirect costs associated with providing services to NRC licensees or applicants.

<sup>5</sup> Reimbursable contractor costs – fee billable costs incurred by NRC to have a contractor perform appropriate contractual support services for a licensee or applicant.

**Figure 1. Part 170 Fees Cost Components Data Flow<sup>6</sup>**



Source: Prepared by OIG with data provided by OCFO.

NRC staff use technical assignment control (TAC) numbers to identify and track employee time including Part 170 billable activities. TACs are set up in the agency's TAC System, a module of the Reactor Program System (RPS),<sup>7</sup> defined as billable or non-billable, and linked to a specific docket number<sup>8</sup> for invoicing. TACs created in RPS interface with the agency's Human Resource Management System (HRMS)<sup>9</sup> and Financial Accounting and Integrated Management

<sup>6</sup> Abbreviation explanations for Figure 1: PM/RI = Project Manager/Resident Inspector; TAC = Technical Assignment Control; HRMS = Human Resource Management System; FAIMIS = Financial Accounting and Integrated Management Information System; COR = Contracting Officer Representative.

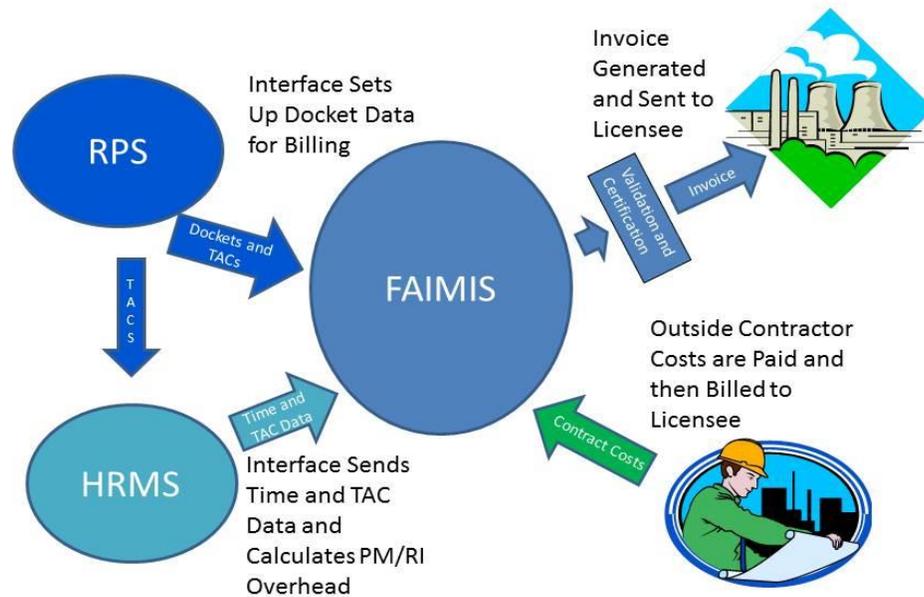
<sup>7</sup> RPS is managed by the Office of Nuclear Reactor Regulation.

<sup>8</sup> Docket numbers identify a specific site.

<sup>9</sup> HRMS is the agency's system for recording employee time and labor data.

Information System (FAIMIS)<sup>10</sup> (see Figure 2). Staff charge direct time to billable TACs when they complete their biweekly timesheets in HRMS. Each quarter, OCFO accumulates the direct staff time charged to billable TACs and prepares invoices using the current hourly rate.<sup>11</sup> For FYs 2013 and 2014, the hourly rates were \$272 and \$279, respectively.

**Figure 2. Invoicing Process**



Source: Prepared by OIG with data from NRC.

Licensing and inspection fees include the full cost of project manager and resident inspector overhead costs with certain exclusions specified in Part 170. Project managers are NRC employees responsible for overseeing projects for licensees and applicants. Resident inspectors are NRC employees assigned to a specific facility and provide major onsite NRC presence for inspection and assessment of licensee performance. Project manager and resident inspector overhead cost is allocated to their assigned docket through a partly automated and partly manual calculation.

<sup>10</sup> FAIMIS is the agency's core financial system and official system of record.

<sup>11</sup> Part 170 states that the full cost fees for professional staff time will be determined at the professional hourly rate in effect at the time the service was provided. NRC calculates the rate annually and publishes it in the Federal Register.

NRC also hires contractors to perform services for licensees and applicants. Contractors submit their invoices to NRC for payment. A COR must approve invoices before payment. NRC pays the contractor invoices and then bills the licensees and applicants for reimbursement of the amount NRC paid to the contractor (see Figure 1).

FAIMIS accumulates charges for each licensee and applicant. OCFO creates a quarterly validation report<sup>12</sup> from FAIMIS of the charges to be invoiced. OCFO sends the report to program and regional offices for validation and certification before invoicing licensees and applicants (see Figure 2).

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## II. OBJECTIVE

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The audit objective was to determine whether NRC has established and implemented an effective system of internal controls over the recordation and reconciliation of fee revenue.

The audit focused on Part 170 fee revenue. Appendix A contains information on the audit scope and methodology.

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## III. FINDINGS

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While NRC generally meets its fee recovery percentages,<sup>13</sup> more effective internal controls would increase efficiency, effectiveness, and transparency of the agency's fee revenue process. Specifically,

- A. TAC internal controls need improvement.
- B. Overhead cost allocation process needs improvement.
- C. Reimbursable contract details are inadequate.

Additionally, OIG observed that reconciliations of revenues are not consistently performed. In the previous report, *Audit of NRC's Process for*

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<sup>12</sup> Validation report - a report for each program and regional office of the accumulated billable hours and contract costs for the past quarter.

<sup>13</sup> NRC is required to recover approximately 90 percent of its budget authority by collecting fees from licensees and applicants.

*Calculating License Fees* (OIG-13-A-02), dated October 24, 2012, OIG recommended that these reconciliations be performed. As noted in an audit followup memorandum dated October 23, 2014, the recommendation has not yet been closed. OCFO estimated that implementation of the recommendation would be complete by September 2015 when OCFO staff finish documenting the new process for annual validation.

## **A. TAC Internal Controls Need Improvement**

Internal controls regarding TAC setup, standardization, HRMS access, and validation need improvement. Federal laws and standards require agencies to maintain internal controls over all aspects of financial management. However, ineffective and inefficient procedures in the TAC process exist because agency management has not centralized control of TACs. Moreover, quarterly validation reports are ineffective. This results in an increased risk for the agency to overbill or underbill NRC licensees and applicants.

### ***What Is Required***

Federal laws and standards require agencies to maintain internal controls over all aspects of financial management. The Federal Managers Financial Integrity Act of 1982 requires that revenues and expenditures applicable to agency operations are properly accounted for and recorded. Also, the Government Accountability Office's *Standards for Internal Control in the Federal Government*<sup>14</sup> states that internal controls should provide reasonable assurance that operations are effective and efficient and financial reporting is reliable.

NRC's Management Directive (MD) 4.6, *License Fee Management Program*, has multiple objectives related to internal controls over fees. These objectives include

- To capture and produce financial information to support assessing fees.
- To ensure that the basis for the fees is complete, accurate, and verifiable.
- To ensure adherence to appropriate management controls over fee-billable costs.

<sup>14</sup> OIG used the November 1999 version. The Government Accountability Office recently released a newer version of these standards September 2013. However, it was not effective during the audit period.

## What Was Found

Internal controls regarding TAC setup, TAC standardization, HRMS access, and validation need improvement.

### TAC Setup Is Inconsistent

There is no consistency in the setup and usage of TACs. TACs are set up by program office staff from different NRC offices. According to agency staff interviewed, each program office follows its own policies and procedures regarding the setup and usage of TACs. Additionally, an agency manager stated that there is no consistency for TAC assignment between program offices or individual projects. Further, as of June 2014, there were 8,246 open TACs accessible to all agency staff. An OCFO senior manager agreed that the setup of TACs is an ongoing problem and OCFO has taken steps to reduce the number of open TACs.

### TAC Standardization Is Limited

TACs have limited standardization or significance. TACs are six characters long but only the first character is standardized, indicating the office where it was created. The other five characters are not standardized and have no significance. These characters are assigned in numeric sequence without regard to the task referenced. Table 2 provides examples of different TACs with identical task titles.

**Table 2. TAC Numbers and Titles**

Row	TAC	Docket	TAC Title	Requesting Office
1	L24870	07106613	Amend COC NO. 6613 For The Model No. 702 Container	Office of Nuclear Material Safety and Safeguards
2	L24927	07106613	Amend COC NO. 6613 For The Model No. 702 Container	Office of Nuclear Material Safety and Safeguards
3	RX0141	05200020	AREVA EPR DC - Review Containment and Ventilation Systems	Office of New Reactors
4	RX0142	05200020	AREVA EPR DC - Review Containment and Ventilation Systems	Office of New Reactors
5	RX0143	05200020	AREVA EPR DC - Review Containment and Ventilation Systems	Office of New Reactors

Source: Prepared by OIG based on information provided by OCFO.

TACs, as shown in Table 2, are not often specific enough to allow staff to readily determine the correct choice. Rows 1 and 2 show two different TACs with the same docket number and the same title. Rows 3 through 5 show consecutive TACs with the same docket number and identical titles.

**TAC HRMS Access Not Controlled**

NRC staff can charge time to any TAC. All agency staff must enter time in HRMS as part of the biweekly payroll process. OIG reviewed the time and labor data entry process and confirmed that time could be charged to any TAC by selecting the specific TAC in HRMS. OCFO staff also identified this as an issue.

**Quarterly Validation Reports Are Voluminous and Ineffective**

OCFO provides a quarterly validation report to program and regional offices for review to validate charges and certify their accuracy. OIG analyzed the report for the third quarter of fiscal year 2013 and found a high volume of transactions for offices to validate. The report contained 4,715 pages with 38,383 lines of data. Additional information about the report is shown in Table 3.

**Table 3. Third Quarter FY 13 Validation Report Statistics**

	Lines	Hours	Dollars
Direct Labor	35,350	305,722	\$83,782,761
PM/RI Overhead	2,495	21,814	\$5,976,970
Contract	538	N/A	\$4,283,668
Totals	<u>38,383</u>		<u>\$94,043,399</u>

Source: OIG summary of OCFO data.

Moreover, the quarterly validation process is difficult and challenging. Agency staff time is approved in HRMS by an approving official, often the employee's supervisor, as part of the biweekly payroll process. However, billable staff time on validation reports must be reviewed and certified by program and regional offices on a quarterly basis. An agency study completed in FY 2014 concluded that the validation report verification process is labor intensive, difficult, and challenging.

### ***Why This Occurred***

TAC procedures are ineffective and inefficient because NRC management has not established procedures to centralize control of TACs or provide an effective validation process. Individual NRC offices have their own established procedures for creating TACs. OCFO has ownership of TAC system data but does not have ownership of TAC creation. OCFO management is taking steps to assume ownership of TAC management, including the TAC setup process and TAC standardization. Further, the agency policy of allowing all staff access to all TACs combined with the large number of TACs available makes it difficult to prevent TAC errors.

The agency completed a study in FY 2014 that includes multiple recommendations to streamline and improve the validation process. While agency management recognizes the need to improve the quarterly validation process, none of the recommendations have been implemented.

### ***Why This Is Important***

Ineffective and inefficient TAC procedures increase the risk that overbilling and underbilling errors will occur on licensee and applicant invoices. For example, during the 2012 financial statement audit, auditors found an error of approximately \$25 million. The error occurred because some billable project manager and resident inspector hours were not billed due to account setup issues. Standardizing TAC definition and use will increase reliability of invoice information and thus improve the quality of cost data to support effective decisionmaking.

### **Recommendations**

OIG recommends that the Chief Financial Officer together with the Executive Director for Operations

1. Establish policies and procedures to centralize the control of TAC setup.
2. Design and implement internal controls that would allow user access in HRMS to TACs related only to their job functions.

3. Standardize and link TACs to specific tasks.
4. Design and implement a plan to improve the TAC validation process.

## **B. Overhead Cost Allocation Process Needs Improvement**

The agency's project manager and resident inspector overhead cost allocation is based on dockets assigned and not on activity or work effort. Additionally, a recent agency study reported that the current process is subject to a high error rate. Federal standards and NRC regulations recommend that cost allocations be based on activity or work effort and require the agency to maintain internal controls over the allocation process. Management has not developed an adequate overhead allocation process related to activity or work effort and the assignment table<sup>15</sup> is not always up-to-date. As a result, the current overhead cost allocation methodology and the unreliable assignment table could produce inaccurate invoices to NRC licensees and applicants.

### ***What Is Required***

Federal standards and NRC-specific regulations require the agency to maintain internal controls over the overhead cost allocation process. According to the Government Accountability Office's *Standards for Internal Control in the Federal Government*, controls are designed to help ensure completeness and accuracy. In addition, Statement of Federal Financial Accounting Standards 4: *Managerial Cost Accounting Standards and Concepts*, requires that cost information supplied to internal and external users should be reliable and useful in making evaluations or decisions. These standards also prefer that overhead costs be allocated on an activity-based approach. Further, Part 170 requires that NRC recoverable costs include the full cost for project managers and resident inspectors assigned to a specific plant or facility, excluding leave time and time spent on generic activities.

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<sup>15</sup> Assignment table – listing of the names of project managers and resident inspectors assigned to each docket.

## ***What Was Found***

The agency's project manager and resident inspector overhead cost allocation is not activity based and the current process is subject to a high error rate. An agency study completed in 2014 identified project manager and resident inspector transactions as the area of greatest risk. The overhead allocation process begins when project managers and resident inspectors enter and assign their hours to TACs within HRMS. Time charged to a TAC with no docket assigned is considered overhead time. Time entered into HRMS is automatically interfaced with FAIMIS and used to calculate project manager and resident inspector overhead costs.

The allocation of overhead costs is calculated by dividing the total overhead hours for each project manager and resident inspector by the number of dockets assigned to that person as reflected in the assignment table. The resulting allocation relies on the accuracy of the assignment table rather than the work effort provided to each docket.

Furthermore, the assignment table listing the project manager and resident inspector's assigned dockets used in the allocation process is unreliable. OIG auditors noted that the assignment table is manually updated and is not always current. OIG auditors saw an example of project manager overhead costs charged to a docket after the project manager had been transferred. The project manager was transferred, but the assignment table was not updated. Thus, the individual's charges were not allocated to the new docket to which the person was assigned.

## ***Why This Occurred***

Agency management's internal controls related to updating the assignment table need improvement. Agency management has not developed a fully automated process to update the assignment table and keep it current prior to calculating the project manager and resident inspector overhead cost allocation.

### ***Why This Is Important***

The current allocation charges do not represent the activity or work effort that a project manager or resident inspector provides to assigned dockets. Moreover, an assignment table with dependencies on outdated information results in a high error rate for project manager and resident inspector overhead cost allocations. In a recent study, the agency noted that the overhead cost allocation process accounted for approximately two-thirds of all the billing errors. Keeping the assignment table current will provide the licensee and applicant with more accurate invoices.

### **Recommendation**

OIG recommends that the Chief Financial Officer together with the Executive Director for Operations

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.

### **C. Reimbursable Contract Details Are Inadequate**

NRC validation reports for project managers and resident inspectors as well as agency invoices do not have adequate contractor details regarding services provided to licensees and applicants and related reimbursable costs. Federal standards and agency guidance provide direction on maintaining adequate information related to reimbursable contractor details. However, the agency has not established a comprehensive process for providing reimbursable contractor details on validation reports for project managers and resident inspectors and on invoices for licensees and applicants. As a result, lack of reimbursable contractor detail in NRC validation reports and agency invoices increases the risk of billing errors.

### ***What Is Required***

Federal standards and agency guidance provide direction on maintaining adequate information related to cost information, including reimbursable contract costs. According to Statements of Federal Financial Accounting Standards 4: *Managerial Cost Accounting Standards and Concepts*, program managers and

resident inspectors should have relevant and reliable information to respond to inquiries relating costs to activities. Additionally, the agency's MD 4.6, *License Fee Management Program*, directs agency office directors and regional administrators to ensure that data supporting quarterly certification of contract costs is complete and accurate.

## ***What Was Found***

NRC validation reports for project managers and resident inspectors and agency invoices sent to licensees and applicants do not have adequate contractor details regarding services provided and related reimbursable costs.

### **Validation Reports**

NRC validation reports sent to agency project managers and resident inspectors for certification do not have adequate details regarding reimbursable contractor costs (see Figure 1 for contract cost data flow). OIG reviewed the third quarter FY 2013 validation report and noted that contract cost information on the report does not provide sufficient details to determine specific work performed by the contractor. For example, a line for contract costs in the validation report has one TAC but no contract number, no description of the work performed, and no COR contact information. One project manager interviewed by OIG stated that contract costs are approved by the COR and not the project manager. The project manager also stated that the validation report is the first opportunity to see all the contract charges for his project. In addition, another project manager interviewed by OIG provided email documentation showing the difficulty he had certifying contract information in the validation reports without adequate supporting documentation.

### **Agency Invoices**

Agency invoices sent to licensees and applicants also lack adequate contractor details regarding services provided and related reimbursable costs. OIG reviewed four licensee or applicant invoices and observed that they did not include contractor names, hours billed, or description of the work performed. OIG inquired of industry representatives about NRC invoices and some commented that NRC invoices lacked contractor details.

### ***Why This Occurred***

NRC validation reports and licensee and applicant invoices lack adequate contractor details because the agency does not provide the information. Ownership of the contract detail, validation process, and licensee and applicant invoicing process is split among offices. Specifically, NRC's Office of Administration is responsible for initial contract processing, program offices are responsible for completing contract validation, and OCFO is responsible for licensee and applicant invoicing. During a briefing with OIG staff, OCFO management agreed that the use of TACs throughout the acquisition and financial systems would make contractor invoice identification and verification easier. Agency management acknowledged the need to work together to improve the flow of contractor invoice details to the validation reports and licensee and applicant invoices.

### ***Why This Is Important***

Lack of contractor detail in NRC validation reports and invoices sent to licensees and applicants increases the risk of billing errors. Without contractor details, it is difficult for project managers and resident inspectors and licensees and applicants to verify the accuracy of contractor costs. A more comprehensive process for providing fee billable contractor details will enhance the controls over the contract billable cost component.

### **Recommendations**

OIG recommends that the Chief Financial Officer together with the Executive Director for Operations

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.
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.

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## **IV. CONSOLIDATED LIST OF RECOMMENDATIONS**

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OIG recommends that the Chief Financial Officer together with the Executive Director for Operations

1. Establish policies and procedures to centralize the control of TAC setup.
2. Design and implement internal controls that would allow user access in HRMS to TACs related only to their job functions.
3. Standardize and link TACs to specific tasks.
4. Design and implement a plan to improve the TAC validation process.
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.
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.
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.

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## **V. AGENCY COMMENTS**

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An exit conference was held with the agency on February 23, 2015. Prior to this meeting, agency management reviewed a discussion draft and provided technical comments at the exit conference that have been incorporated into this report as appropriate. As a result, agency management opted not to provide formal comments for inclusion in this report.

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## OBJECTIVE, SCOPE, AND METHODOLOGY

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### Objective

The audit objective was to determine whether NRC has established and implemented an effective system of internal controls over the recordation and reconciliation of fee revenue.

### Scope

This audit focused on reviewing internal controls over NRC procedures related to the capture of reimbursable costs and invoicing of revenue. OIG analyzed information and developed audit procedures to address specific areas of internal control over fee revenue based on document reviews and interviews with staff knowledgeable about revenue procedures. OIG initially considered all revenue streams including Part 171 and other administrative revenue. OIG determined that the areas of greatest risk related to direct labor costs, project manager and resident inspector overhead, and reimbursable contract costs.

We conducted this performance audit at NRC headquarters in Rockville, Maryland, from December 2013 through January 2015. OIG reviewed and analyzed internal controls related to the audit objectives. Throughout the audit, auditors were aware of the possibility of fraud, waste, and abuse in the program.

### Methodology

To accomplish the audit objectives, OIG reviewed relevant laws, regulations, and guidance, including

- Part 170, *Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services Under the Atomic Energy Act of 1954, as amended.*
- Part 171, *Annual Fees for Reactor Licenses And Fuel Cycle Licenses And Materials Licenses, Including Holders of Certificates of Compliance, Registrations, and Quality Assurance Program Approvals and Government Agencies Licensed by the NRC.*

- 31 United States Code 9701, *Title V of the Independent Offices Appropriations Act of 1952*.
- 42 United States Code 2214, *Pertinent Provisions of the Omnibus Budget Reconciliation Act of 1990, as amended*.
- Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*.
- Government Accountability Office's *Standards for Internal Control in the Federal Government*.

OIG also reviewed agency guidance and documents, including Management Directive 4.6, *License Fee Management Program*. OIG reviewed Statement of Federal Financial Accounting Standards 4: *Managerial Cost Accounting Standards and Concepts*, for guidance on cost accounting requirements.

In addition to reviews of standards and guidance, OIG interviewed NRC headquarters staff to obtain insights on the agency's process for internal controls over fee revenue. These interviews included agency management, staff responsible for TACs, project managers, and OCFO staff responsible for licensee and applicant invoicing. OIG observed the process for creating invoices. OIG reviewed and analyzed the data contained in the validation report. OIG surveyed NRC staff involved in the validation process to gain their insights into the process.

In addition to obtaining the views of internal stakeholders, OIG reached out to industry representatives through the Nuclear Energy Institute and the National Mining Association to gain an understanding of licensee and applicant views on NRC invoicing.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit work was conducted by Eric Rivera, Team Leader; Mary Meier, Audit Manager; Larry Vaught, Senior Auditor; Lindsey Heeszal, Auditor; and Jimmy Wong, Auditor.

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## TO REPORT FRAUD, WASTE, OR ABUSE

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### Please Contact:

Email: [Online Form](#)

Telephone: 1-800-233-3497

TDD 1-800-270-2787

Address: U.S. Nuclear Regulatory Commission  
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## COMMENTS AND SUGGESTIONS

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If you wish to provide comments on this report, please email OIG using this [link](#).

In addition, if you have suggestions for future OIG audits, please provide them using this [link](#).