February 17, 2016

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
                    FEBRUARY 8, 2016

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 February 8, 2016. Based on this response, recommendations 5 and 7 are closed and recommendations 1, 2, 3, and 4 remain resolved. Recommendation 6 was previously closed. Please provide an updated status of the resolved recommendations by October 20, 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: F. Brown, OEDO
       B. Pham, OEDO
       H. Rasouli, OEDO
       J. Jolicoeur, OEDO
       S. Hudson, OCFO
       EDO_ACS Distribution Resource
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Audit Report

AUDIT OF NRC'S INTERNAL CONTROLS OVER FEE REVENUE

OIG-15-A-12

Status of Recommendations

<u>Recommendation 1</u>:	Establish policies and procedures to centralize the control of TAC setup.

Agency Response Dated
February 8, 2016:

The staff agrees with the recommendation.

On September 18, 2015, the Office of the Chief Financial Officer (OCFO) issued the final assessment report summarizing the results of the Task Assignment Control (TAC) Management Project (TMP) (ML14230A004). The key objectives for the TMP included centralizing TAC guidance and training. As a result of the TMP assessment, OCFO, in collaboration with the Office of the Executive Director for Operations (OEDO), renamed the TMP to the Cost Accountability Management Project (CAMP) and TAC to Cost Activity Code (CAC) to clarify the purpose and goals of the program (ML15218A463).

The recommendations identified in the assessment are far-reaching and require phased implementation to first establish agency-wide governance, centralize operational support in OCFO, and implement immediate internal controls over the processes with the most significant risks. For this reason, CAMP was restructured to consist of three phases. Phase 1 focused on standardization and centralization of coding for non-fee billable work activities in accordance with the agency's budget structure, along with associated processes and controls. Phase 2 plans to reduce and standardize CACs for fee billable work as described in Part 170 of the Fee Rule as well as centralize governance to OCFO. Phase 3 requires changes to IT systems and development of long-term training solutions.

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Status of Recommendations

Recommendation 1 (cont.):

For key milestones 1, 2 and 5, OCFO began updating and consolidating the agency's policies and procedures including revising Management Directive 10.43, Time and Labor Reporting and issuing interim guidance to the staff. In addition, OCFO has developed an Agency Time and Labor

Policy Coordinator (ATLPC) quick reference guide for the OCFO ATLPCs and Regional Time and Labor Coordinators. To date, the OCFO has issued agency policy and procedures that include:
- 08/04/15, Yellow Announcement No. 098, Time and Labor Reporting for ZG0000 – General Administration (ML15212A704)
- 09/30/15, Yellow Announcement No. 124, New Supervisory and Administrative Assistant Cost Activity Codes (ML15268A105)
- 09/02/15, Interim CAC Guidance was issued for comment to the Offices via Memorandum, "Cost Accountability Program (Formerly Known as Task Assignment Control Management Project) Definitions, Guidance/Criteria, and Phase 1 Implementation Efforts" (ML15218A463)

For key milestone 3, OCFO conducted 11 agency-wide CAC training sessions (ML16019A139) between September 2015 and November 2015. To complete the long-term strategy, OCFO is currently collaborating with OCHCO to offer the training in iLearn.

For key milestone 4, OCFO successfully restructured the non-fee billable CACs during Phase 1 (ML16019A150). Fee billable CACs will be restructured during Phase 2 along with corresponding updates to the policies and procedures.

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Status of Recommendations

Recommendation 1 (cont.):

Key Milestones:

1.	Review/centralize internal office procedures	Q3 – FY 2016
2.	Publish agency procedures	Q4 – FY 2016
3.	Complete long-term training strategy/offer training for employees	Q2 – FY 2016
4.	Implement new TAC structure and procedures	Q4 – FY 2016
5.	Update directives	Q4 – FY 2016

Estimated Completion Date: September 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.

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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
February 8, 2016:
The staff agrees with the recommendation.

For key milestone 1, OCFO is on track to successfully complete the alternatives analysis for the replacement TAC system. We are in the process of finalizing high level requirements and a comparison of alternate solutions. OCFO expects to complete this analysis and identify a recommended solution by the end of Q2 FY2016.

Completion of key milestones 2, 3, and 4 has been delayed due to the restructuring of the CAMP into multiple phases, funding constraints, and other priorities. Additionally:
- For key milestone 2, OCFO will determine an approach and develop a schedule for system replacement and/or enhancements upon completion of the alternative analysis currently underway. The solution may require a new procurement action for contractor support.
- For key milestone 3, the replacement TAC system will include automated controls to the extent possible. OCFO continues to work collaboratively with stakeholders to identify and design mutually acceptable methods of limiting user access to job specific functions. It has not yet been determined whether these controls will reside in HRMS or the TAC replacement system. It is anticipated that the function of assigning specific employees to a CAC, for purposes of defaulting the user timesheet preferences in HRMS will be addressed by the replacement TAC system.

For key milestone 4, OCFO plans to implement the replacement TAC system and update HRMS, as needed, by Q4 2017, to include automated internal controls as appropriate.

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Status of Recommendations

Recommendation 2 (cont.):

        OCFO may also implement other types of internal controls, such as monitoring CAC usage, reporting, etc. to mitigate the risks associated with incorrect time entries. Further analysis is anticipated as CAMP progresses.

Key Milestones:

1.	Analyze alternative system capabilities	Q2 – FY 2016
2.	Develop system enhancement approach and schedule	Q1 – FY 2017
3.	Design and build automated internal controls	Q3 – FY 2017
4.	Implement automated internal controls	Q4 – FY 2017

Estimated Completion Date: September 2017

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.

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Status of Recommendations

<u>Recommendation 3</u>:	Standardize and link TACs to specific tasks.
Agency Response Dated February 8, 2016:	The staff agrees with the recommendation.

During Q4 FY2015, OCFO successfully completed key milestone 1 to define the TAC Management Program through the issuance of the Cost Accountability Program (Formerly Known as Task Assignment Control Management Project) Definitions, Guidance/Criteria, and Phase 1 Implementation Efforts Memorandum dated September 2, 2015 (ML15218A463), which provided new definitions of the TMP, now referred to as CAMP.

For key milestones 2 and 3, OCFO successfully restructured, published and implemented a new standardized non-fee billable CAC list and definitions during Phase 1 of the CAMP (ML16019A150). OCFO plans to establish a new standardized CAC list and definitions for the fee billable CACs during Phase 2 of the CAMP.

<u>Key Milestones</u>

1.	Define TAC Management Program	Q4 – FY2015
2.	Publish New Standard TAC List and Definitions	Q4 – FY2016
3.	Implement New Standard TAC List	Q4 – FY2016

Estimated Completion Date: September 2016

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.

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Status of Recommendations

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

Agency Response Dated
February 8, 2016:   The staff agrees with the recommendation.

During Q4 FY2015, OCFO successfully completed key milestone 1 to define the TAC Management Program through the issuance of the Cost Accountability Program (Formerly Known as Task Assignment Control Management Project) Definitions, Guidance/Criteria, and Phase 1 Implementation Efforts Memorandum dated September 2, 2015 (ML15218A463), which provided new definitions of the TMP, now referred to as CAMP.

The OCFO plans to continue reengineering the CAMP management process and implement portions of its plan in FY2016. Future enhancements include implementing an improved CAC validation process by the end of FY2016.

Key Milestones

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

Estimated Completion Date: September 2016

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Status of Recommendations

<u>Recommendation 4 (cont.)</u>:

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.

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Status of Recommendations

<u>Recommendation 5</u>:	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 February 8, 2016:	The staff agrees with the recommendation.

NRC finalized the FY2015 fee rule with an effective date of August 31, 2015. The FY2015 fee rule includes the revised methodology for assessing administrative time for project managers and resident inspectors by assessing overhead costs to each licensee based on the percentage of its total invoice amount, not including contract costs. The new project manager and resident inspector overhead allocation methodology became effective on September 20, 2015. The agency's financial system was programmed to support the new methodology and was tested to ensure accurate calculation. The first quarterly invoices with the new calculation methodology were generated and mailed to licensees on January 21, 2016. A sample invoice that includes the new allocation methodology is attached.

<u>Key Milestones</u>

1. Finalize the proposed FY2015 fee rule   August 2015
2. Assess financial system for ability to change calculation method   October 2015
3. Implement new methodology for calculating overhead   December 2015
4. Distribute invoices with new calculation method to licensees   January 2016

Estimated Completion Date: January 2016

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Status of Recommendations

Recommendation 5 (cont.):

OIG Analysis: OIG reviewed the FY 2015 fee rule to understand the new
                       overhead allocation methodology. The new methodology
                       ensures that a licensee's overhead costs are proportional to
                       the regulatory services rendered by the NRC. The new
                       methodology is reasonable and will produce accurate, timely,
                       and reliable overhead costs for licensees. OIG reviewed an
                       invoice and confirmed the accuracy of the application of the
                       new overhead methodology. Therefore, this recommendation
                       is closed.

Status: Closed.

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Status of Recommendations

<u>Recommendation 7</u>:	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 contactor costs.
Agency Response Dated February 8, 2016:	The staff agrees with the recommendation.

A process to provide additional information to requesting licensees and applicants on specific tasks performed and related reimbursable contactor costs was developed and implemented by OCFO in coordination with the Office of Administration (ADM) and the Office of General Counsel (OGC) during FY2015. The process was developed and implemented in practice with the response to an inquiry that was received from an NRC licensee, Florida Power and Light Company, which requested additional details to substantiate reimbursable contactor costs associated with an April 2014 invoice issued under 10 CFR Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other regulatory Services under the Atomic Energy Act of 1954, as Amended." NRC completed implementation of this process in July 2015 and will utilize this process for all future license inquiries or requests. A process map is attached and includes specific office responsibilities.

ADM has also agreed to and is now uploading all received contractor Monthly Letter Status Reports (MLSRs) into the Strategic Acquisition System (STAQS) so that this information is now maintained in one central information system/database.

Key Milestones:

1. Formalize a process to collect and provide   July 2015
   detailed contractor cost information to
   licensees

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Status of Recommendations

Recommendation 7 (cont.):

Estimated Completion Date: July 2015

OIG Analysis: OIG reviewed the documentation related to the process and procedures for collecting contractor cost information and providing it to a licensee. The documentation shows a process that can provide detailed contract information to the licensee. The process has been completed for one licensee. Therefore, this recommendation is closed.

Status: Closed.